SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the Quarterly Period Ended August 31, 2000

OR

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File Number: 0-19417

PROGRESS SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and, (2) has been subject to such filing requirements for the past 90 days:

Yes X No

As of October 10, 2000, there were 35,499,000 shares of the Registrant's Common Stock, $.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2000

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROGRESS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	August 31, 2000	November 30, 1999
ASSETS		
Current assets:		
Cash and equivalents	$ 93,257	$ 81,651
Short-term investments	79,670	77,014
Accounts receivable (less allowances of $7,040 in 2000 and $7,259 in 1999)	43,967	47,952
Other current assets	14,291	9,406
Deferred income taxes	10,787	9,836
Total current assets	241,972	225,859
Property and equipment-net	22,492	20,594
Capitalized software costs-net	2,406	3,155
Other assets	9,477	6,946
Total	$ 276,347	$ 256,554
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,537	$ 14,041
Accrued compensation and related taxes	17,011	24,344
Income taxes payable	11,525	8,723
Other current liabilities	9,556	8,962
Deferred revenue	63,679	58,173
Total current liabilities	110,308	114,243
Commitments and contingent liabilities Shareholders' equity:		
Preferred stock, $.01 par value; authorized, 1,000 shares; issued, none	--	--
Common stock and additional paid in capital, $.01 par value; authorized, 100,000 shares in 2000 and 75,000 in 1999; issued 35,796 in 2000 and 35,553 shares in 1999	43,107	40,491
Retained earnings	125,694	103,904
Accumulated other comprehensive loss	(2,762)	(2,084)
Total shareholders' equity	166,039	142,311
Total	$ 276,347	$ 256,554

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended August 31, 2000	Three Months Ended August 31, 1999	Nine Months Ended August 31, 2000	Nine Months Ended August 31, 1999
Revenue:				
Software licenses	$ 23,466	$ 31,219	$ 82,838	$ 96,472
Maintenance and services	41,943	38,940	122,102	111,582
Total revenue	65,409	70,159	204,940	208,054
Costs and expenses:				
Cost of software licenses	2,453	3,583	7,493	9,829
Cost of maintenance and services	12,998	14,704	40,648	40,415
Sales and marketing	25,534	24,330	75,452	77,244
Product development	9,979	9,596	29,784	28,785
General and administrative	7,341	7,330	21,756	21,125
Total costs and expenses	58,305	59,543	175,133	177,398
Income from operations	7,104	10,616	29,807	30,656
Other income (expense):				
Interest income	2,114	1,170	5,962	3,574
Foreign currency gain (loss)	1,035	338	1,928	(211)
Minority interest	--	36	--	130
Other income (expense)	(58)	13	(63)	(10)
Total other income	3,091	1,557	7,827	3,483
Income before provision for income taxes	10,195	12,173	37,634	34,139
Provision for income taxes	3,263	3,896	12,043	10,925
Net income	$ 6,932	$ 8,277	$ 25,591	$ 23,214
Basic earnings per share	$ 0.19	$ 0.24	$ 0.72	$ 0.68
Weighted average shares (basic)	35,725	33,928	35,711	34,336
Diluted earnings per share	$ 0.18	$ 0.22	$ 0.64	$ 0.59
Weighted average shares (diluted)	38,885	38,336	39,863	39,114

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended August 31,	
	2000	1999
Cash flows from operating activities:		
Net income	$ 25,591	$ 23,214
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	7,306	8,094
Amortization of capitalized software costs	1,274	1,613
Amortization of intangible assets	555	443
Deferred income taxes	(1,032)	(480)
Minority interest	--	(130)
Other noncash charges	285	45
Changes in operating assets and liabilities:		
Accounts receivable	1,261	(472)
Other current assets	(5,562)	(456)
Accounts payable and accrued expenses	(10,893)	(3,923)
Income taxes payable	4,973	3,322
Deferred revenue	8,491	6,370
Total adjustments	6,658	14,426
Net cash provided by operating activities	32,249	37,640
Cash flows from investing activities:		
Purchases of investments available for sale	(52,850)	(40,304)
Maturities of investments available for sale	50,268	42,335
Purchases of property and equipment	(9,686)	(6,423)
Capitalized software costs	(525)	(281)
Acquisition of distributor	(2,100)	--
Increase in other noncurrent assets	(1,257)	(1,621)
Net cash used for investing activities	(16,150)	(6,294)
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,719	11,195
Repurchase of common stock	(8,787)	(23,843)
Net cash used for financing activities	(3,068)	(12,648)
Effect of exchange rate changes on cash	(1,425)	393
Net increase in cash and equivalents	11,606	19,091
Cash and equivalents, beginning of period	81,651	50,155
Cash and equivalents, end of period	$ 93,257	$ 69,246
Supplemental disclosure of noncash financing activities:		
Income tax benefit from employees' exercise of stock options	$ 1,806	$ 5,195

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Progress Software Corporation (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report and Form 10-K for the fiscal year ended November 30, 1999.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the audited financial statements, and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full fiscal year.

All share and per share information reflects the impact of the two-for-one stock split which was effective on January 21, 2000.

The Company operates in a single segment consisting of the development, marketing and support of application development, deployment and management software.

2. Income Taxes

The Company provides for income taxes at the end of each interim period based on the estimated effective tax rate for the full fiscal year. Cumulative adjustments to the tax provision are recorded in the interim period in which a change in the estimated annual effective rate is determined.

3. Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the treasury stock method.

4. Comprehensive Income

Comprehensive income includes foreign currency translation gains and losses, net of tax, and unrealized gains and losses on equity securities, net of tax, that have been previously excluded from net income and reflected instead in shareholders' equity. The following tables set forth the calculation of comprehensive income on an interim basis:

	Three Months Ended August 31,	
	2000	1999
Net income	$6,932	$8,277
Foreign currency translation adjustments	162	(246)
Unrealized holding gains (losses) on investments	380	(361)
Total comprehensive income	$7,474	$7,670

	Nine Months Ended August 31,	
	2000	1999
Net income	$25,591	$23,214
Foreign currency translation adjustments	(752)	(797)
Unrealized holding gains (losses) on investments	74	(701)
Total comprehensive income	$24,913	$21,716

5. Acquisition

In January 2000, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in South Africa for $2.1 million. The acquisition was accounted for as a purchase, and accordingly, the results of operations are included in the Company's operating results from the date of acquisition. The purchase price was allocated primarily to goodwill, which will be amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest period presented, the effect on the consolidated financial statements would not have been material.

6. New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which establishes standards for derivative instruments and hedging activities. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met and that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Company will adopt SFAS 133 in the first quarter of fiscal 2001. The Company does not expect the adoption of SFAS 133 to have a material effect on the Company's consolidated financial position or results of operations.

7. Subsequent Event

On October 12, 2000, the Company purchased its principal administrative, sales, support, marketing and product development facility in Bedford, Massachusetts for $15.7 million in cash.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. From time to time, information provided by the Company or statements made by its directors, officers or employees may contain "forward-looking" information which involves risks and uncertainties. Actual future results may differ materially. Statements indicating that the Company "expects," "estimates," "believes," "is planning" or "plans to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors which could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors are described in greater detail below under the heading "Factors That May Affect Future Results" and include, but are not limited to, the receipt and shipment of new orders, the timely release of enhancements to the Company's products, the growth rates of certain market segments, the positioning of the Company's products in those market segments, market acceptance of the application service provider distribution model, variations in the demand for customer service and technical support, pricing pressures and the competitive environment in the software industry, business and consumer use of the Internet, and the Company's ability to penetrate international markets and manage its international operations. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that the Company has identified all possible issues which the Company might face.

RESULTS OF OPERATIONS

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

	Percentage of Total Revenue				Period-to-Period Change	
	Three Months Ended		Nine Months Ended			
	Aug 31, 2000	Aug 31, 1999	Aug 31, 2000	Aug 31, 1999	Three Month Period	Nine Month Period
Revenue:						
Software licenses	36%	44%	40%	46%	(25)%	(14)%
Maintenance and services	64	56	60	54	8	9
Total revenue	100	100	100	100	(7)	(1)
Costs and expenses:						
Cost of software licenses	4	5	4	5	(32)	(24)
Cost of maintenance and services	20	21	20	19	(12)	1
Sales and marketing	39	35	37	37	5	(2)
Product development	15	14	14	14	4	3
General and administrative	11	10	11	10	0	3
Total costs and expenses	89	85	86	85	(2)	(1)
Income from operations	11	15	14	15	(33)	(3)
Other income	5	2	4	1	99	125
Income before provision for income taxes	16	17	18	16	(16)	10
Provision for income taxes	5	5	6	5	(16)	10
Net income	11%	12%	12%	11%	(16)%	10%

The Company's total revenue decreased 7% from $70.2 million in the third quarter of fiscal 1999 to $65.4 million in the third quarter of fiscal 2000. The Company's total revenue decreased 1% from $208.1 million in the first nine months of fiscal 1999 to $204.9 million in the first nine months of fiscal 2000. Software license revenue decreased 25% from $31.2 million in the third quarter of fiscal 1999 to

$23.5 million in the third quarter of fiscal 2000. Software license revenue decreased 14% from $96.5 million in the first nine months of fiscal 1999 to $82.8 million in the first nine months of fiscal 2000.

The decrease in software license revenue in the third quarter and in the first nine months of fiscal 2000 was due to a slowdown in revenue from Independent Software Vendors (ISVs), especially those in the enterprise resource planning or ERP sector. In addition, the Company's license revenue was adversely affected by the strong dollar, especially relative to the Euro. The decrease in license revenue for the first nine months was also affected by a shift in the buying patterns of customers due to a purchasing slowdown around the millenium changeover. Software license revenue from development products, such as Progress ProVision, and most deployment products, including Progress RDBMS, decreased year over year. Partially offsetting the decline in license revenue from these product groups were significantly increased license revenue from Internet-focused products, primarily Progress WebSpeed and to a lesser extent Progress SonicMQ. However, these products currently represent a small percentage of total software license revenue.

Maintenance and services revenue increased 8% from $38.9 million in the third quarter of fiscal 1999 to $41.9 million in the third quarter of fiscal 2000. Maintenance and services revenue increased 9% from $111.6 million in the first nine months of fiscal 1999 to $122.1 million in the first nine months of fiscal 2000. The increase in maintenance and services revenue in the third quarter was primarily due to growth in the Company's installed customer base and renewal of maintenance contracts. The increase in maintenance and services revenue in the first nine months of fiscal 2000 as compared to fiscal 1999 was primarily the result of growth in the Company's installed customer base, renewal of maintenance contracts and increased consulting revenue.

Total revenue generated in markets outside North America decreased 8% from $41.2 million in the third quarter of fiscal 1999 to $38.0 million in the third quarter of fiscal 2000. Such revenue represented 58% of total revenue in the third quarter of fiscal 2000 as compared to 59% of total revenue in the third quarter of fiscal 1999. Total revenue generated in markets outside North America would have represented 60% of total revenue in the third quarter of fiscal 2000 if exchange rates had been constant as compared to the exchange rates in effect in the third quarter of fiscal 1999. On a constant currency basis, total revenue in the third quarter of fiscal 2000 would have decreased by 3% as compared to the third quarter of fiscal 1999, versus the 7% decrease reported.

Total revenue generated in markets outside North America increased 1% from $124.3 million in the first nine months of fiscal 1999 to $124.9 million in the first nine months of fiscal 2000. Such revenue represented 60% of total revenue in the first nine months of fiscal 2000 and in the first nine months of fiscal 1999. Total revenue generated in markets outside North America would have represented 63% of total revenue in the first nine months of fiscal 2000 if exchange rates had been constant as compared to the exchange rates in effect in the first nine months of fiscal 1999. On a constant currency basis, total revenue would have increased by 3% versus the 1% decrease reported in the first nine months of fiscal 2000.

Cost of software licenses consists primarily of cost of product media, documentation, duplication, packaging, royalties and amortization of capitalized software costs. Cost of software licenses decreased 32% from $3.6 million in the third quarter of fiscal 1999 to $2.5 million in the third quarter of fiscal 2000 and decreased as a percentage of software license revenue from 11% to 10%. Cost of software licenses decreased 24% from $9.8 million in the first nine months of fiscal 1999 to $7.5 million in the first nine months of fiscal 2000 and decreased as a percentage of software license revenue from 10% to 9%. The dollar and percentage decreases were primarily due to lower documentation and media costs and, to a lesser extent, lower amortization expense from previously capitalized software costs.

Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services decreased 12% from $14.7 million in the third quarter of fiscal 1999 to $13.0 million in the third quarter of fiscal 2000 and decreased as a percentage of maintenance and services revenue from 38% to 31%. Cost of maintenance and services increased 1% from $40.4 million in the first nine months of fiscal 1999 to $40.6 million in the first nine months of 2000, but decreased as a percentage of maintenance and services revenue from 36% to 33%. The margin percentage improvement in fiscal 2000 as compared to fiscal 1999 was primarily due to maintenance revenue increasing at a faster rate than the related support costs, which are relatively fixed in the short-term, and, to a lesser extent, a slight improvement in service margins. The dollar decrease in the third quarter of fiscal 2000 was due to lower consulting expenses from outside contractors proportionate with decreased revenue associated with such resources. The dollar increase in the first nine months of fiscal 2000 as compared to the first nine months of fiscal 1999 was primarily due to slightly higher headcount, partially offset by lower usage of third party consulting contractors.

Sales and marketing expenses increased 5% from $24.3 million in the third quarter of fiscal 1999 to $25.5 million in the third quarter of fiscal 2000 and increased as a percentage of total revenue from 35% to 39%. Sales and marketing expenses decreased 2% from $77.2 million in the first nine months of fiscal 1999 to $75.5 million in the first nine months of fiscal 2000, but remained the same percentage of total revenue in each period. The dollar and percentage increase in the third quarter of fiscal 2000 as compared to the third quarter of fiscal 1999 was primarily due to marketing and show expenses associated with the Company's user conference in June 2000. The user conference in fiscal 1999 was held in the second quarter. The dollar decrease in the first nine months of fiscal 2000 was due to a reduction in marketing programs as compared to the level in the first nine months of fiscal 1999. The amount of discretionary marketing expenses can vary from period to period depending on the timing of significant trade shows, advertising campaigns and direct mail solicitations. An increase in personnel and related expenses from slightly higher headcount partially offset the marketing program decreases in the first nine months of fiscal 2000 as compared to the first nine months of fiscal 1999.

Product development expenses increased 4% from $9.6 million in the third quarter of fiscal 1999 to $10.0 million in the third quarter of fiscal 2000 and increased as a percentage of total revenue from 14% to 15%. Product development expenses increased 3% from $28.8 million in the first nine months of fiscal 1999 to $29.8 million in the first nine months of fiscal 2000 and remained the same percentage of total revenue in each period. The increase in expenses in the third quarter and first nine months was primarily due to slightly higher headcount. Major product development efforts in the first nine months of fiscal 2000 primarily related to the development of the next versions of the Company's various product lines, including Progress Version 9 and Progress SonicMQ. Capitalized software costs were 0% of total product development spending in the third quarter of fiscal 2000 versus 1% in the third quarter of fiscal 1999. Capitalized software costs represented 2% of total product development spending in the first nine months of fiscal 2000 versus 1% in the first nine months of fiscal 1999. The variation in the percentage of capitalized software costs is due to the timing and stage of development of significant projects that qualify for capitalization under the Company's software capitalization policy.

General and administrative expenses include the costs of the finance, human resources, legal, information systems and administrative departments of the Company. General and administrative expenses were approximately the same in the third quarter of fiscal 1999 and in the third quarter of fiscal 2000, but increased as a percentage of total revenue from 10% to 11%. General and administrative expenses increased 3% from $21.1 million in the first nine months of fiscal 1999 to $21.8 million in the first nine months of fiscal 2000 and increased as a percentage of total revenue from 10% to 11%. The increase in general and administrative expenses was primarily due to an increase in headcount due to growth in the Company's overseas operations.

Other income increased 99% from $1.6 million in the third quarter of fiscal 1999 to $3.1 million in the third quarter of fiscal 2000 and increased 125% from $3.5 million in the first nine months of fiscal 1999 to $7.8 million in the first nine months of fiscal 2000. The increase in each period was primarily due to an increase in interest income from higher average cash balances and from higher interest rates and foreign exchange gains under the Company's hedging programs.

The Company's effective tax rate was 32% in each period of fiscal 1999 and fiscal 2000 and was based upon the estimated effective tax rate for the full fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

At the end of the third quarter of fiscal 2000, the Company's cash and short-term investments totaled $172.9 million. The increase in the balance of $14.3 million since the end of fiscal 1999 resulted from cash generated from operations and proceeds from stock issuances under the Company's stock purchase plan and exercise of stock options, partially offset by common stock repurchases and capital expenditures.

The Company generated $32.2 million in cash from operations in the first nine months of fiscal 2000 as compared to $37.6 million in the first nine months of fiscal 1999. The decrease was primarily due to the timing of payments and accrued expenses and an increase in other current assets, primarily from prepaid user conference expenses and prepaid royalties, partially offset by higher net income and increases in deferred revenue. The Company's accounts receivable days sales outstanding (DSO) was 60 days at the end of the third quarter of fiscal 2000 as compared to 66 days at the end of the second quarter of fiscal 2000 and 55 days at the end of fiscal 1999. The Company targets a DSO range of 55 to 75 days.

The Company purchased $9.7 million of property and equipment in the first nine months of fiscal 2000 and $6.4 million in the first nine months of fiscal 1999. The purchases consisted primarily of computer equipment and software, furniture and fixtures and leasehold improvements. The level of property and equipment purchases resulted primarily from continued growth of the business and replacement of older equipment. The Company financed these purchases primarily from cash generated from operations.

On October 12, 2000, the Company purchased its principal administrative, sales, support, marketing and product development facility in Bedford, Massachusetts for $15.7 million in cash. The Company financed this purchase from cash generated from operations.

The Company purchased and retired 454,100 shares of its common stock for $8.8 million in the first nine months of fiscal 2000 as compared to 1,976,472 shares for $23.8 million in the first nine months of fiscal 1999. The Company financed these purchases primarily from cash generated from operations.

In September 2000, the Board of Directors authorized, for the period October 1, 2000 through September 30, 2001, the purchase of up to 10,000,000 shares of the Company's common stock, at such times when the Company deems such purchases to be an effective use of cash. Shares that are repurchased may be used for various purposes including the issuance of shares pursuant to the Company's stock option and purchase plans.

In January 2000, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in South Africa for $2.1 million. The acquisition was accounted for as a purchase, and accordingly, the results of operations are included in the Company's operating results from the date of acquisition. The purchase price was allocated primarily to goodwill, which will be amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest period presented, the effect on the consolidated financial statements would not have been material. The Company financed this acquisition primarily from cash generated from operations.

The Company is 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 legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company believes that existing cash balances together with funds generated from operations will be sufficient to finance the Company's operations and meet its foreseeable cash requirements (including planned capital expenditures, lease commitments and other long-term obligations) through at least the next twelve months.

NEW ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which establishes standards for derivative instruments and hedging activities. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met and that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS 133, as amended, is effective for fiscal years beginning after June 15, 2000. The Company will adopt SFAS 133 in the first quarter of fiscal 2001. The Company does not expect the adoption of SFAS 133 to have a material effect on the Company's consolidated financial position or results of operations.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company operates in a rapidly changing environment that involves certain risks and uncertainties, some of which are beyond the Company's control. The following discussion highlights some of these risks.

The Company may experience significant fluctuations in future quarterly operating results that may be caused by many factors. Some of these factors include changes in demand for the Company's products, introduction, enhancement or announcement of products by the Company and its competitors, market acceptance of new products, size and timing of significant orders, budgeting cycles of customers, mix of distribution channels, mix of products and services sold, mix of international and North American revenues, fluctuations in currency exchange rates, changes in the level of operating expenses, changes in the Company's sales incentive plans, customer order deferrals in anticipation of new products announced by the Company or its competitors and general economic conditions. Revenue forecasting is uncertain, in large part, because the Company generally ships its products shortly after receipt of orders. Most of the Company's expenses are relatively fixed, including costs of personnel and facilities, and are not easily reduced. Thus, an unexpected reduction in the Company's revenue, or a decrease in the rate of growth of such revenue, would have a material adverse effect on the profitability of the Company.

The Company develops, markets and supports application development, deployment and management software. Its core product line, Progress, is composed primarily of Progress ProVision, Progress RDBMS, Progress WebSpeed, Progress Open AppServer and Progress DataServers. In March 2000, the Company began shipping the latest major enhancement to the Progress product line, Progress Version 9.1. The Company began commercial shipments of Progress SonicMQ, an Internet messaging server, in December 1999. The Company believes that the Progress product set and Progress SonicMQ have features and functionality that enable the Company to compete effectively with other vendors of application development products, but ongoing enhancements to these product lines will be required to enable the Company to maintain its competitive position. There can be no assurance that the Company will be successful in developing and marketing enhancements to its products on a timely basis, or that the enhancements will adequately address the changing needs of the marketplace. Delays in the release of enhancements could have a material adverse effect on the Company's business, financial condition and operating results.

The Company has derived most of its revenue from its core product line, Progress, and other products that complement Progress and are generally licensed only in conjunction with Progress. Accordingly, the Company's future results depend on continued market acceptance of Progress and any factor adversely affecting the market for Progress could have a material adverse effect on the Company's business and its financial results.

Future results also depend upon the Company's continued successful distribution of its products through its Independent Software Vendor (ISV) channel and may be impacted by downward pressure on pricing, which may not be offset by increases in volume. ISVs utilize technology from the Company to create their applications and resell the Company's products along with their own applications. Any adverse effect on their business related to competition, pricing and other factors could have a material adverse effect on the Company's business, financial condition and operating results.

The Company experiences significant competition from a variety of sources with respect to the marketing and distribution of its products. Many of these competitors have greater financial, marketing or technical resources than the Company and may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than can the Company. Increased competition could make it more difficult for the Company to maintain its market presence.

In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their ability to deliver products that address the needs of the Company's prospective customers. Current and potential competitors also may be more successful than the Company in having their products or technologies widely accepted. There can be no assurance that the Company will be able to compete successfully against current and future competitors and its failure to do so could have a material adverse effect upon the Company's business, prospects, financial condition and operating results.

The Company expects to devote significant resources to enable its ISVs to move their applications to the Internet and the Application Service Provider (ASP) distribution model by providing a combination of technology, professional services and partnerships. The ASP distribution model enables ISVs to rent their business applications to end-user organizations over the Internet or through other thin-client technologies. The ASP market is new and evolving. There can be no assurance that the ASP model will become a viable market for business applications or that the Company will be successful in penetrating this new market.

The Company hopes that Progress SonicMQ and other new products and services will contribute positively to the Company's future results. The market for Internet transaction processing products and other Internet business-to-business products is highly competitive. Global e-commerce and online exchange of information on the Internet and other similar open wide area networks continue to evolve. There can be no assurance that the Company's products will be successful in penetrating these new and evolving markets.

Overlaying the risks associated with the Company's existing products and enhancements are ongoing technological developments and rapid changes in customer requirements. The Company's future success will depend upon its ability to develop and introduce in a timely manner new products that take advantage of technological advances and respond to new customer requirements. The Company is currently developing new products intended to help organizations meet the future needs of application developers. The development of new products is increasingly complex and uncertain, which increases the risk of delays. There can be no assurance that the Company will be successful in developing new products incorporating new technology on a timely basis, or that its new products will adequately address the changing needs of the marketplace. The marketplace for these new products is intensely competitive and characterized by low barriers to entry. As a result, new competitors possessing technological, marketing or other competitive advantages may emerge and rapidly acquire market share.

In June 2000, the Company announced the formation of NuSphere, a company focused on the open source database market. NuSphere intends to create a set of products and services for the MySQL open source database. There can be no assurance that NuSphere will be successful in building a sustainable business model or that MySQL will attain sufficient market acceptance to support such a business.

International sales through subsidiaries represented over 50% of the Company's total revenue in the first nine months of fiscal 2000. Because a substantial portion of the Company's total revenue is derived from such international operations which are primarily conducted in foreign currencies, changes in the value of these foreign currencies relative to the United States dollar may affect the Company's results of operations and financial position. The Company engages in certain currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on the Company's results of operations. However, there can be no assurance that such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. If for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, the Company's business could be adversely affected.

Other potential risks inherent in the Company's international business generally include longer payment cycles, greater difficulties in accounts receivable collection, unexpected changes in regulatory requirements, export restrictions, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, political instability, reduced protection for intellectual property rights in some countries, seasonal reductions in business activity during the summer months in Europe and certain other parts of the world and potentially adverse tax consequences. Any one of these factors could adversely impact the success of the Company's international operations. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international operations, and, consequently, on the Company's business, financial condition and operating results.

The Company's future success will depend in large part upon its ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for such personnel in the software industry is intense. There can be no assurance that the Company will continue to be successful in attracting and retaining the personnel it requires to successfully develop new and enhanced products and to continue to grow and operate profitably.

The Company's success is heavily dependent upon its proprietary software technology. The Company relies principally on a combination of contract provisions and copyright, trademark, patent and trade secret laws to protect its proprietary technology. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate to prevent misappropriation of its technology or independent development by others of similar technology.

In addition, litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Although the Company believes that its products and technology do not infringe on any existing proprietary rights of others, there can be no assurance that third parties will not assert infringement claims in the future. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition and operating results.

The Company also utilizes certain technology which it licenses from third parties, including software which is integrated with internally developed software and used in the Company's products to perform key functions. There can be no assurance that functionally similar technology will continue to be available on commercially reasonable terms in the future.

The market price of the Company's common stock, like that of other technology companies, is highly volatile and is subject to wide fluctuations in response to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. The Company's stock price may also be affected by broader market trends unrelated to the Company's performance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to a variety of risks, including changes in interest rates affecting the return on its investments and foreign currency fluctuations. The Company has established policies and procedures to manage its exposure to fluctuations in interest rates and foreign currency exchange.

The Company's exposure to market rate risk for changes in interest rates relates to the Company's investment portfolio. The Company has not used derivative financial instruments in its investment portfolio. The Company places its investments with high quality issuers and has policies limiting, among other things, the amount of credit exposure to any one issuer. The Company limits default risk by purchasing only investment-grade securities. The Company's investments are all fixed-rate instruments. In addition, the Company has classified all its debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk.

The Company has entered into foreign exchange option and forward contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific) against fluctuations in exchange rates. The Company has not entered into foreign exchange option and forward contracts for speculative or trading purposes. The Company's accounting policies for these contracts are based on the Company's designation of the contracts as hedging transactions. The criteria the Company uses for designating a contract as a hedge include the contract's effectiveness in risk reduction and matching of derivative instruments to the underlying transactions. Market value increases and decreases on the foreign exchange option and forward contracts are recognized in income in the same period as gains and losses on the underlying transactions. The Company operates in certain countries where there are limited forward currency exchange markets and thus the Company has unhedged transaction exposures in these currencies. The Company generally does not hedge the net assets of its international subsidiaries.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits
27.1 - Financial Data Schedule (EDGAR Version Only)

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended August 31, 2000.

SIGNATURES

Pursuant to the requirements 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.

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated:October 12, 2000

/s/ Joseph W. Alsop

Joseph W. Alsop
President
(Principal Executive Officer)

Dated:October 12, 2000

/s/ Norman R. Robertson

Norman R. Robertson
Vice President, Finance and Administration
and Chief Financial Officer
(Principal Financial Officer)

Dated:October 12, 2000

/s/ David H. Benton, Jr.

David H. Benton, Jr.
Vice President and Corporate Controller
(Principal Accounting Officer)

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTAINED IN THE COMPANY'S FORM 10-Q
FOR THE THREE MONTHS ENDING AUGUST 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY
REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
NOV-30-2000
DEC-01-1999
AUG-31-2000
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276,347
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