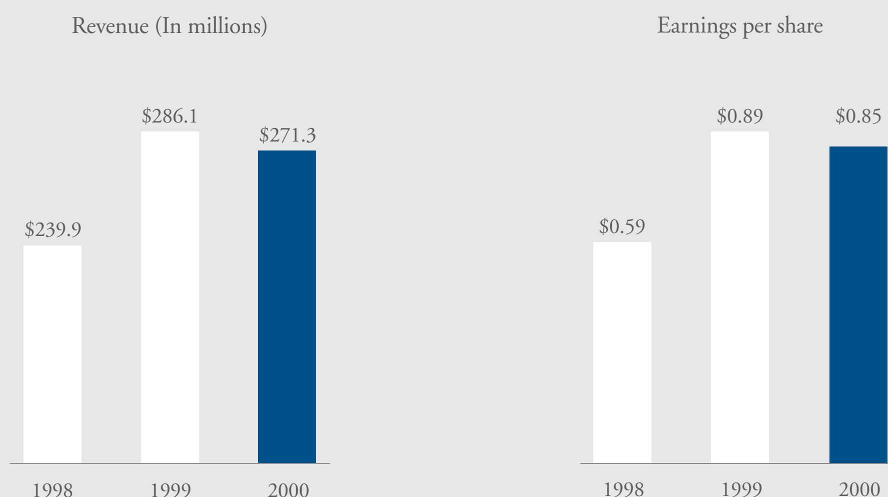
2000 Annual Report

PROGRESS SOFTWARE

Financial Highlights

(In thousands, except per share data)	2000	1999	1998
Revenue	$ 271,347	$ 286,147	$ 239,890
Income from operations	$ 38,695	$ 46,704	$ 30,027
Net income	$ 33,651	$ 34,991	$ 22,758
Diluted earnings per share*	$ 0.85	$ 0.89	$ 0.59
Cash and short-term investments	$ 158,106	$ 158,665	$ 113,999

* *All per share amounts have been restated to reflect the 2-for-1 stock split on January 21, 2000.*



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Corporate Profile

Our Business

Progress Software Corporation (PSC) is a global supplier of products and services for Internet business applications. We offer highly productive development tools, fast and flexible deployment products, and integration products and services that help make Internet applications responsive, reliable, and cost effective.

Business, industry, and government require applications that are responsive, reliable, and cost-efficient — applications that can be built and deployed within an infrastructure that must be as flexible and as dynamic as the markets they serve. Progress Software products and services address these challenges by boosting developer productivity; minimizing the time it takes to realize business benefits; and delivering applications that consistently provide lower total cost of ownership. Progress®-based applications easily evolve as business evolves, take advantage of new technologies, and put management back in control of their businesses.

Our Mission

To deliver superior software products and services that empower our partners and customers to dramatically improve their development, deployment, integration and management of quality applications worldwide.

Our Products and Services

PSC offers several product lines. Our Progress® product line, which includes ProVision® Plus, the Progress® RDBMS, and the Progress® Open AppServer,™ is an integrated, component-based visual development and deployment environment for Internet enterprise and global-class business applications.

Our Progress® SonicMQ™ product is the leading E-Business Messaging (EBM) implementation based on the Java Message Service (JMS) standard. SonicMQ is highly scalable, standards-based Internet middleware that enables the guaranteed and secure exchange of business data among applications across distributed enterprises or between companies participating in B2B exchanges. SonicMQ provides the performance and scalability needed for businesses participating in high impact Web or Internet-enabled trading initiatives.

Professional services from our worldwide consulting, education and technical support organizations allow users of Progress-based applications to move more quickly to a total, integrated, Web-enabled solution.

Our NuSphere subsidiary provides products and services to the open source software market.

Our Markets

PSC sells products and services worldwide to organizations that develop and use mission-critical business applications. Over 50% of our worldwide revenue is realized in partnership with more than 2,000 Independent Software Vendors (ISVs) and Application Service Providers (ASPs) who market Internet-enabled applications that utilize our technology. Our ISVs and ASPs deliver annually more than $5 billion in Internet and networked business applications and services, across markets such as manufacturing, distribution, retail, and health care. We also provide products and services directly to the Information Technology (IT) organizations of businesses and governments. Over 30,000 organizations across 100 countries — including 60% of the Fortune 100 — rely on Progress-based applications operating at more than 100,000 locations around the world.

Our Sonic MQ product has enabled strategic partnerships with other major technology vendors, such as Commerce One, IONA Technologies, Software AG, GE's Global eXchange Services, and Bluestone/Hewlett-Packard.

CEO's Letter: To Our Employees, Customers and Shareholders:

After the explosion of activity that defined much of 1999, many companies spent the greater part of 2000 regrouping after Y2K expenditures, completing the implementation of their new infrastructures and making plans to address the impact of the Internet and the new economy.

During this difficult year for much of the software industry, our company's financial results did not meet our original expectations. Notwithstanding the challenges facing our company and the technology market as a whole, PSC was able to strike a balance between investing in new products and markets while maintaining strong profitability for the sixteenth consecutive year (excluding the impact of non-recurring acquisition charges in 1997).

By offering flexible, enabling technologies and programs, and educational events, PSC's vision and execution have enabled ISVs and end users to thrive in this climate of continual change.

There is an increasing demand to "Webify" legacy systems, while preserving the investments in existing packaged applications and infrastructure. Our historical strengths as a technology provider for packaged business applications, coupled with the flexibility of our recent Internet-enabling product offerings ensure that applications based on our technologies can meet existing requirements and extend easily to support business-to-business (B2B) enablement and the needs of customers, suppliers and partners wanting to utilize the Web to make contact or conduct business.

New Business Models Demand New Responses

Software-by-Subscription

In the year 2000 more companies realized the benefit of "renting" applications from Application Service Providers (ASPs). After successfully launching hundreds of our ISVs into this market in 1999 with our ASPEN™ (ASP ENablement) initiative, we have continued to support many in moving their traditional packaged applications to the ASP model. Leveraging input from the ASPEN Program members, Progress Software has gained further insight, skills and technology to allow for flexible integration with other packaged applications.

Progress® SonicMQ™

1999's introduction of Progress® SonicMQ,™ an E-Business Messaging Server based on the Java Message Service (JMS) standard, represented the first standalone Internet messaging server from a major software vendor. SonicMQ quickly has become the *de facto* JMS standard for vendors and end users alike, and was honored with several major industry awards in 2000 including: Java Pro Magazine's Readers Choice Award for Best Java Messaging Tool; Best Java Middleware from attendees at the SIGS Conference for Java Development; and a World Class Award from Java Developer's Journal.

Future Proof™ Architecture

PSC's commitment to open standards and our Universal Application Architecture™ (UAA) has proven effective as companies search for easier application integration, both among their internal applications and data sources and across the Internet for B2B integration. In anticipation of market trends toward even higher levels of integration, PSC has extended the concept of UAA to play a critical role in the creation of emerging portal models, such B2B trading exchanges, ASP application sites, content portals, business process sites and others.

Progress® Version 9.1B introduced in 2000 the Internet Component Framework (ICF). Through the use of business application and service components, the ICF provides improved productivity, reduced cost of ownership, unlimited extensibility, and an easier way to adopt new technologies without significantly re-architecting applications.

Professional Services

Our Professional Services group continues to play a key role in helping ISVs adapt their applications to take advantage of emerging Internet-based business opportunities.

As the needs of our partners and customers evolve, so will our service offerings — ensuring that Progress Software customers can accelerate the evolution of their business applications.

Building on Traditional Strengths

The Progress® Enterprise RDBMS

As e-businesses and others become more aware of the need for solid support "behind the clicks," Progress® products continue to shine. According to Gartner/ Dataquest, our RDBMS has maintained its lead as the world's number one embedded database for the third consecutive year. RDBMS customers have further benefited from new enhancements, which have more than doubled the number of potential concurrent users, increased support for database sizes to the double-digit petabyte range, and increased linear scalability and raw performance with patent-pending technology.

In 2000, Version 9.1 of the Progress database achieved a peak performance rate of one billion transactions per day. Even with this level of performance, the Progress RDBMS still offers the lowest total cost of ownership over a five-year period compared to competing products from Microsoft and Oracle.

Progress® Version 9.1B

Progress® Version 9.1B makes it even easier for Progress developers to take advantage of new economy opportunities via enhanced Web and messaging functionality.

New in Version 9.1B, the Progress® WebClient™ enables deployment of thin client, Progress-based applications over the Web, minimizing network traffic and the need to maintain application software on the client. Leveraging existing GUI client code, WebClient provides rich and robust user interface and a scalable, high-performance architecture.

Taking "Future Proof™" Even Further

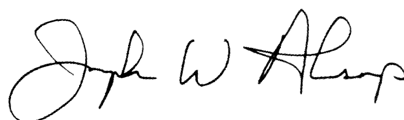
Three years ago, Progress Software introduced the concept of "Future Proof" business applications and outlined a product roadmap to reflect our commitment to this concept.

As yesterday's future becomes today's reality, we continue to invest in products, standards and technologies that anticipate market trends and provide business advantage to our partners and customers.

Our commitment to offering a standards-based path for building and deploying functionally rich, distributed, integrated multi-tier applications is the foundation for the future success of our customers. In addition to protecting the business application investments of our ISVs and end-user customers, we are enabling them to leverage opportunities emerging in the new world of subscription-model business portals and B2B functionality.

We remain steadfast in our commitment to assisting our partners and customers in building and deploying the world's best Internet business applications.

On behalf of the employees and management team at Progress Software Corporation,



Joseph W. Alsop
Chief Executive Officer
January 20, 2001

Helping Our Customers Move Ahead

Since its inception, Progress Software Corporation (PSC) has designed and built reliable software products and services that let developers take advantage of emerging technologies in the development, deployment, integration and management of robust applications, and was among the first to offer technologies for e-business applications. PSC enables businesses to become Internet-ready with speed and efficiency. Organizations need to move data, link applications, and effectively connect customers, partners and suppliers. PSC's products not only address these needs, but also are designed specifically to prepare businesses for technology's inevitable changes with flexible, standards-based software and architecture.

Global Class Business Solutions

More than 100,000 end user sites around the world and more than 2,000 ISVs rely on Progress®-based technology to give them an edge in their respective markets. Many began their relationship with PSC by automating back-office functions, resulting in more than 5,000 packaged applications. When it became advantageous to integrate these back-office applications with Web catalogs and electronic storefronts, supply chain communications, and customer service applications, PSC provided Web-enabling software and a highly flexible architecture to Future Proof™ the technology investments of our ISVs and end users.

Today, as a growing number of companies face the challenges of networking business functions, and integrating internal applications and connecting them to their customers, suppliers, and partners, PSC provides an environment designed for universal connectivity, the Universal Application Architecture™. UAA defines a multitier Internet ready software environment with the flexibility to allow for connectivity between any client, any data source, any application, and any business.

Any Client, Any Data Source, Any Application, Any Business

Today's professional application developers must meet the Internet challenge and reap the rewards, or risk obsolescence. They must develop, deploy, and manage business applications that integrate with other applications to take advantage of the emerging opportunity created by the demand for B2B connectivity.

To accomplish this, they must link existing data and applications, including applications that may not have been originally designed for interoperability, using standards-based integration and messaging technologies. Older applications must also

be integrated. New applications must be built so that core business systems can utilize existing technologies, exchange information with any cooperating applications, communicate with any business at any location; and be poised for the future — ready to integrate tomorrow's most promising technologies. PSC technology continues to deliver what our customers need to meet these objectives.

New Opportunities — New Demands

The Internet's coming of age has raised new possibilities and greater expectations for B2B interaction. Until recently, most organizations have used the Internet primarily to connect with end-user customers (business-to-consumer, or B2C).

The past year, however, has witnessed the debut of vital new models for commerce, such as industry-specific procurement sites — of which the auto industry's pioneering Covisint exchange and the home building industry's BuildNet are well-known examples. In addition to these B2B trading exchanges/business portals, corporate customers increasingly seek Web-based access to what used to be traditional back-office business services, such as order status and logistics.

In FY2000, there were approximately 350 recognized B2B portals serving as examples of this kind of innovation. According to IDC, that number is expected to grow to 5,000 by the year 2005, servicing businesses of all sizes in any location.

For our customers, these developments mean dramatically increased demand for flexible yet reliable connectivity, 24x7 availability, and excellent response times under fluctuating loads. Business applications must connect and coordinate an unpredictable number of transactions seamlessly, on-time and on-demand, within the enterprise or across multiple businesses that may be geographically dispersed.

Progress® SonicMQ™

The 1999 introduction of Progress® SonicMQ,™ our fast, flexible, scalable E-Business Messaging Server,™ signaled an aggressive move to serve new and existing customers. As one of the first products of its kind, SonicMQ remains the only standards-based Internet messaging server that fully complies with Sun Microsystem's Java® Messaging Service (JMS), Worldwide Web Consortium (W3C) and eXtensible Markup Language (XML) specifications, and does so while meeting the most demanding performance requirements of e-business.

"The ASP model makes perfect sense for us. As a major corporation, we could have installed and run the ILS application in-house, but subscribing to it with Wilke/Thornton's ASP service cut the deployment time, expense and hassle immensely, all of which dramatically impact our bottom line and customer service goals."

– Jeff Hagan, director of consumer services for General Mills,

customer of Progress Software ASP: Wilke/Thornton Inc.

Progress SonicMQ 3.0 is the latest generation of our award-winning E-Business Messaging Server for the reliable transport and exchange of business-critical data over the Internet. SonicMQ 3.0 is the only messaging product that can deliver the scalability, performance and reliability required for B2B connectivity.

E-business applications bring together a number of variables that make the integration and exchange of business-critical data a highly complex endeavor. SonicMQ 3.0 introduces Dynamic Routing Architecture (DRA), a major advance over previous generations of messaging products, and lays the foundation for meeting tomorrow's e-business connectivity requirements.

This new architecture is designed for high-throughput e-business integration by providing:

- *Massive Scalability*
- *End-to-End Security*
- *Real-Time Performance*
- *24x7 Availability*
- *Guaranteed Reliability*
- *Connectivity and Standards*

Build, Buy, or Subscribe

PSC enables developers to deliver sophisticated business applications however they choose. This means complex application functionality is available to a broader group of businesses, including those that have not traditionally been able to cost justify large-scale IT investments. This "build, buy, or subscribe" strategy means that an organization can use PSC technologies to quickly and efficiently build or customize application functionality that is easy to deploy, maintain, and enhance for a competitive edge. Alternatively, businesses can buy one or more of the 5,000 packaged applications commercially available from our global community of ISVs. Lastly, businesses can obtain applications as a business service from Application Service Providers (ASPs) by *subscribing* over the Internet rather than purchasing, installing, and maintaining applications.

Software-by-Subscription Gathers Momentum

The ASP market continued to expand in FY2000. Forrester Research estimates the application rental market will be more than $11.3 billion by the year 2003. PSC's ASP-Enablement (ASPEN™) Program offers the technology, services, and partnerships that support the leadership of our ISVs in this rapidly growing marketplace.

Smaller businesses can now afford to subscribe to applications that provide richer, more sophisticated functionality, allowing them the opportunity to better compete in the global marketplace. Larger businesses are also taking advantage of the flexibility and ease-of-implementation that the ASP model affords them.

ASPEN™ Helps Our ISVs Expand into New Markets

Through our ASPEN Program, PSC is supporting our ISVs in the emerging ASP space. In FY2000, we assisted more than 100 Progress ISVs in expanding their business opportunities and staking their claim in this new market.

ASPs enjoy distinct advantages when their applications use PSC technology because of its low total cost of ownership, its scalability, and its Future Proof™ flexibility. Our technology enables ISVs to build Web-accessible applications that offer both rich, standalone functionality and flexible, online enterprise-to-enterprise communications.

Progress continues to supply ISVs in the ASPEN Program with new strategies and best practices to help them build even deeper relationships with their users. Many of our ISVs have partnered with other software providers to bundle separately developed applications into suites to better serve common users, leading to further business opportunities and new revenue streams.

The ASP model means that any business, even small- and medium-sized enterprises, can benefit from best-of-breed packaged applications. The ASP option avoids the capital investment of the hardware, software infrastructure, and applications, not to mention the scarce and expensive IT resources required for in-house support. Using browsers or other thin-client access such as Progress® WebClient,™ ASP users gain quick and cost-effective access to high-performance business applications.

Used By Sixty Percent of the Global Fortune 100

In FY2000, PSC ISV's collectively generated over $5 billion in product and services revenue. Six out of ten companies listed in Fortune magazine's Global 100 are users of Progress-based applications.

Blue-chip organizations around the world continue to entrust their critical business operations to applications based on PSC technology. In doing so, they join the ranks of prominent companies such as Cannondale Corporation, EarthLink,

Inc., Foxwoods Resort Casino (owned and operated by the Mashantucket Pequot Tribal Nation), General Mills, Holiday Autos International, State Insurance Limited, Sherwin Williams and Banco Central de Honduras.

This past year, Progress Software added some of the premier e-business pioneers to our client roster. Global e-commerce leaders Commerce One and GE Global eXchange Services, e-service provider Hewlett-Packard Company, the construction industry's supply chain synchronizer, BuildNet.com, online and wireless consumer financial services company Juniper Financial, and online wine retailer, wine.com, were among the many category leaders to announce relationships with Progress Software in FY2000.

Traditional Progress Strengths Assume "Mission-Critical" Status in e-Business

With the increasing use of the Internet to manage transactions among organizations, customers, suppliers, and partners, Web-readiness has become a business imperative. Emerging standards such as XML and JMS have made it possible to handle the most complex B2B communications far more flexibly and economically than ever before. PSC recognized these emerging standards as complementary to the commitment to Future Proof software and moved aggressively to support them.

Standards-Based Technology

PSC not only supports but is proactive in developing the standards for openness and interoperability. During the past year, we announced product initiatives in support of the Java™ 2 Platform/Enterprise Edition (J2EE™) specification, added XML-supporting enhancements across all PSC products, and added JMS connectivity to our 4GL and RDBMS product set, in addition to pioneering the first standalone commercial implementation of JMS from a major software vendor.

We are an active participant in most major and emerging industry standards, including the NCITS L2 Codes and Character Sets standards group; the W3C, including the XML subcommittees; the Unicode Consortium; the Object Management Group (OMG); the ASP Industry Consortium (ASPIC); ASP-Konsortium; the Enterprise Integration Council; CommerceNet; the Universal Description, Discovery and Integration Project (UDDI); and on the boards that set the latest Enterprise JavaBeans™ (EJB™) and JMS standards and specifications.

"We are particularly excited by Progress initiatives on two fronts: the e-commerce enhancements, and the ASPEN Program, which is providing us with business partners who can assist us in deploying our product in new markets."

– Nick Russell, Associate Director – GBST Holdings Pty. Ltd.

"WebSpeed and Progress RDBMS gave us a fast and reliable foundation on which to build our Web-based system. They enabled us to provide customers with rapid rollout of new features and changes."

- Mike Dodier, Executive VP & Partner, Bac-Tech Systems Inc.

Productivity

For companies interested in building or customizing applications, development products from PSC allow developers to dramatically reduce time-to-market as they create, test, deploy, and update applications. Progress-based applications remain easy to install, use, customize, maintain, and update.

Flexibility

Applications built with PSC technology can operate efficiently on all popular hardware platforms and operating systems, providing end users with broad deployment choices. Progress-based applications can exchange information, transactions, and data with any other application — within an enterprise or across the world.

New products provide enhancements that allow existing applications to leverage emerging technologies while protecting application investments. PSC technologies are designed to make applications Future Proof by partitioning the business logic from the user interface, able to be deployed as Internet applications, GUI applications, or even character applications. Our standards-based development initiatives provide the best insurance for the long-term superiority of Progress-based applications.

Scalability

As companies expand or acquire other companies, their applications must support an influx of new users. And when businesses offer application access over Extranets or the Internet, those applications must be ready for unpredictable fluctuations in user access — responding consistently, regardless of traffic. The Progress® RDBMS™ has demonstrated linear scalability up to ten thousand concurrent users. As a result, companies can remain confident that, as they grow and move to the Internet, their Progress-based applications will accommodate the sudden increases in usage with the same fast and reliable response.

Lowest Cost of Ownership

Progress-based applications are simple to deploy, rarely require a dedicated administrator, and are well known for a relatively small footprint, all of which minimize both the human and hardware resources needed to support the application. Maintenance and updates can be performed while the database and application remain online. According to customers, Progress applications "just work," offering an exceptionally low total cost of ownership.

Future Proof™ Products

PSC continues to deliver:

- **Intuitive application development products** that empower developers to deliver high-quality applications — faster and more efficiently.
- **Reliable, high-performance application deployment products** such as application servers, essential to distributed computing, extended application lifecycles, and Internet migration; and the reliable Progress RDBMS, renowned for its small footprint and low cost of ownership while maintaining outstanding scalability and performance.
- **Worldclass B2B and integration tools** such as SonicMQ; which has demonstrated itself to be the industry leading E-Business Messaging Server that allows both for B2B messaging and application integration, and has benchmarked superior performance over its competitors.
- **Standards-based products** which allow applications to leverage industry-wide, agreed-upon standards that enhance flexibility, enabling users to gain the benefits of emerging technologies while mitigating the associated hurdles and challenges.

Products for Application Development

Progress® ProVision® Plus

Developers today require an easy-to-use integrated toolset that enables them to develop code once and deliver the application to the end user in their preferred user interface: Internet browsers, GUI client/server, Java clients, or character terminals. The integrated development environment of Progress® ProVision® Plus, through Progress® AppBuilder™ and Progress® WebSpeed® Workshop, provides the ability to straightforwardly develop applications to deploy on any topology — Internet, client/server, multi-tier, or host-based — as well as for all respective user interfaces. The power of Progress WebSpeed technology gives developers the fastest way to build e-commerce applications, whether that means Internet-based communications with customers and other businesses or browser-based access to the organization's internal applications. Among ProVision Plus's recent advances is the ability to build multilingual applications that enable users from anywhere in the world to access key business applications — each in their own language — for the truly global enterprise.

Internet Component Framework

Progress® Version 9.1B, the latest release of the Progress Application Development Environment (ADE), introduced the Internet Component Framework (ICF), including SmartBusinessObjects™ and the connectors and adapters to facilitate accessing them. Through the use of these business application and service components, the ICF provides improved productivity, reduced cost of ownership, unlimited extensibility, and an easier way to incorporate new technologies without significantly re-architecting applications.

Products for Application Deployment

Progress® WebClient™

The Progress® WebClient enables deployment of thin client, Progress®-based applications over the Web, minimizing network traffic and the need to maintain application software on the client. By leveraging existing GUI client code, WebClient provides a rich, robust user interface with scalability and, high-performance, while retaining full GUI functionality. In addition, the Progress® Open AppServer™ uses HTTP tunneling and security to communicate with all the 4GL clients through firewalls that otherwise often restrict application access over the Internet.

Application Servers

Application servers form a middle tier between the database and the user interface. Because these servers offer pre-built code and services that handle common application and network functions, developers can more efficiently create business applications for a multi-tier architecture. Companies using Progress application servers benefit from the improved performance of a multi-tier architecture and find that their applications easily integrate with other applications, both within and outside the organization.

Progress® OpenAppServer™

Progress® Open AppServer™ makes it possible to deploy scalable, high-performance applications that can flexibly integrate both existing applications as well as current and future technologies. With the Open AppServer, developers build and deliver open and scalable Web, Internet, and networked multi-tiered applications — making it possible for virtually any data source, any business logic, and any client to communicate seamlessly. The Progress Open AppServer has consistently increased its scalability and reliability, recently adding such capabilities as asynchronous processing, XML integration, and support for dynamic queries.

“I am very impressed with the WebClient. It knocks the socks off the alternatives, for building a thin-client UI.”

– Anthony Swindells, Group IT Director, – MIP Holdings (Pty) Ltd

Progress® RDBMS™

The Progress RDBMS database remains the leading embedded database in the world according to market research firm Gartner/Dataquest. Professional application developers find its proven performance, reliability, small resource footprint, portability and linear scalability allow them to deliver compelling applications that meet the needs of a highly diverse set of customers, from small offices to very large enterprises. Designed specifically for online transaction processing applications, the Progress RDBMS runs so smoothly that customers frequently cite no need for a full-time database administrator. Recent advances include dramatic performance improvements. The RDBMS successfully processed real-world transactions at a peak performance rate of one billion transactions per day under real-world conditions. Our patent-pending Concurrent Commit Lock Protocol increases parallelism within the storage engine, significantly improving scalability. The Progress RDBMS continues to expand concurrent user support, and effective support for up to petabyte-sized databases, so that the only limitations to growth are in the underlying hardware platform not the database software.

DataServers

Progress DataServers offer ISVs who have developed applications for the Progress RDBMS the opportunity to extend their markets by supporting other databases, including Oracle, Microsoft SQLServer, and IBM DB2/400.

Products for Application Integration

SonicMQ Deployment

The SonicMQ E-Business Messaging Server provides highly scalable, standards-based Internet middleware that enables the guaranteed and secure delivery of business data between applications across the distributed enterprise or between companies for B2B exchange.

Services to Enable Future Proof Application

Professional Services

From installation and configuration through customization and integration, customers rely on services to guarantee successful implementation, ongoing enhancement, and global technical support for their leading-edge applications. That's precisely what customers and ISVs get from PSC Professional Services: a total business solution, with support available around the clock.

PSC's Consulting Services organization offers highly skilled project management, custom development, programming, implementation, Internet services, migration

services and more, particularly in Internet-enabling Progress-based applications. Progress Education Services deliver programs that answer the challenges commonly faced by our customers, enabling developers to reduce development cycles and time to market. Progress Technical Support offers timely, reliable and cost-efficient assistance, on a global basis. Progress's ASPEN Services provides a comprehensive solution to the business and technical challenges related to ASP enablement.

Education Service - PSC's online course catalog allows developers to browse the complete schedule of courses that provide expert training for all PSC products. Courses range in scope from those for new PSC students to those for the most advanced developers and database administrators.

Technical Support - Customers rely on PSC Technical Support for immediate access to support solutions that span the development lifecycle. Resources provided here include 24x7 support assistance, access to technical updates, online Internet access, and knowledge sharing among customers and PSC experts.

ASPEN Services - The ASPEN program provides a comprehensive approach to the business and technical challenges related to ASP enablement. ASPEN Services cover assessment, planning, development, deployment, support, and enable any Progress ISV to deliver an ASP solution to their customers. The ASPEN program has affiliations with several global hosting providers to deploy ASP applications.

A Perspective on Tomorrow

As new technologies appear, evolve, and mature, it is more important than ever for developers to work with a partner who can help navigate the coming decades with confidence, foresight, and proven execution. PSC's Future Proof technologies and timely initiatives have helped boost and extend our lead in the quickly growing Internet business application marketplace.

Looking ahead, ever-narrowing market segments serving highly specialized niches will create increased demand for interoperability. Explosive Internet adoption will reinforce the need for ultra-reliable infrastructures to handle vast numbers of transactions. New business models will turn yesterday's competitors into tomorrow's partners as technological divides fall by the wayside.

PSC looks forward to this open and exciting future, and renews its commitment to furthering the interests of our customers, partners, employees and shareholders.

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Selected Consolidated Financial Data

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and related notes:

(In thousands, except per share data)	Year Ended November 30,				
	2000	1999	1998	1997	1996
Statement of Operations Data:					
Revenue:					
Software licenses	$109,218	$131,499	$113,312	$ 95,579	$ 93,178
Maintenance and services	162,129	154,648	126,578	92,735	83,512
Total revenue	271,347	286,147	239,890	188,314	176,690
Costs and expenses:					
Cost of revenue	62,702	68,133	56,038	41,238	38,539
Sales and marketing	102,163	104,809	96,832	87,570	87,830
Product development	39,034	38,339	30,154	26,991	23,951
General and administrative	28,753	28,162	26,839	23,202	21,909
Non-recurring charges	–	–	–	11,537	–
Total costs and expenses	232,652	239,443	209,863	190,538	172,229
Income (loss) from operations	38,695	46,704	30,027	(2,224)*	4,461
Other income, net	10,792	4,739	3,941	5,356	3,869
Income before provision for income taxes	49,487	51,443	33,968	3,132*	8,330
Provision for income taxes	15,836	16,452	11,210	4,739	2,833
Net income (loss)	$ 33,651	$ 34,991	$ 22,758	$ (1,607)*	$ 5,497
Basic earnings (loss) per share	$0.94	$1.01	$0.66	$(0.04)*	$0.14
Weighted average shares outstanding (basic)	35,661	34,488	34,458	36,336	38,468
Diluted earnings (loss) per share	$0.85	$0.89	$0.59	$(0.04)*	$0.14
Weighted average shares outstanding (diluted)	39,472	39,212	38,560	36,336	39,666
Balance Sheet Data:					
Cash and short-term investments	$158,106	$158,665	$113,999	$ 93,485	$ 97,323
Working capital	117,680	111,616	69,188	67,760	84,207
Total assets	278,805	256,554	206,708	171,733	173,188
Long-term debt, including current portion	–	–	–	–	122
Shareholders' equity	166,813	142,311	102,693	96,439	113,793

* Includes non-recurring acquisition charges of $11.5 million or $0.31 per diluted share. Excluding these non-recurring items, net income would have been $9.7 million or $0.27 per diluted share.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement

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 including E-Business messaging, 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 professional services 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 Company develops, markets and supports application development, deployment and integration software. Its core product line, Progress, is composed primarily of Progress ProVision, Progress RDBMS, Progress WebSpeed, Progress Open AppServer and Progress DataServers. In October 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 E-Business messaging server, in December 1999 and shipped the latest release, Progress SonicMQ 3.0, in December 2000. Software license revenue over the years has been generated primarily from internally developed products. Geographic expansion in overseas markets has been achieved through a combination of establishing new offices in new markets and the acquisition of the Progress-related assets of certain distributors.

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	
	Year Ended November 30,			2000 Compared to 1999	1999 Compared to 1998
	2000	1999	1998		
Revenue:					
Software licenses	40%	46%	47%	(17)%	16%
Maintenance and services	60	54	53	5	22
Total revenue	100	100	100	(5)	19
Costs and expenses:					
Cost of software licenses	4	5	4	(26)	31
Cost of maintenance and services	19	19	19	(4)	20
Sales and marketing	38	37	41	(3)	8
Product development	14	13	13	2	27
General and administrative	11	10	11	2	5
Total costs and expenses	86	84	88	(3)	14
Income from operations	14	16	12	(17)	56
Other income, net	4	2	2	128	20
Income before provision for income taxes	18	18	14	(4)	51
Provision for income taxes	6	6	5	(4)	47
Net income	12%	12%	9%	(4)	54

Fiscal 2000 Compared to Fiscal 1999

The Company's total revenue decreased 5% from $286.1 million in fiscal 1999 to $271.3 million in fiscal 2000. Total revenue would have increased by 1% in fiscal 2000 from fiscal 1999 if exchange rates had been constant in fiscal 2000 as compared to the exchange rates in effect in fiscal 1999.

Software license revenue decreased 17% from $131.5 million in fiscal 1999 to $109.2 million in fiscal 2000. The decrease in software license revenue in fiscal 2000 was primarily due to a decline in revenue from Independent Software Vendors (ISVs), companies who have written software applications utilizing Progress Software technology and who resell the Company's products in conjunction with the sale of their applications. In particular, software license revenue from ISVs focused in the enterprise resource planning or ERP sector was down significantly on a global basis. In addition, the Company's license revenue was adversely affected by the strong U.S. dollar, especially relative to the euro. The decrease in license revenue was also affected by a purchasing slowdown around the beginning of the year 2000.

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 was 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 5% from $154.6 million in fiscal 1999 to $162.1 million in fiscal 2000. The increase in maintenance and services revenue was primarily the result of growth in the Company's installed customer base and renewal of maintenance contracts, partially offset by a small decline in consulting revenue. The decline in consulting revenue, after several years of high growth, was primarily due to delays in new engagements, fewer projects as a result of lower license revenue and a slower overall market, especially from the ERP sector, for professional services in fiscal 2000 as compared to fiscal 1999.

Total revenue generated in markets outside North America decreased 5% from $175.0 million in fiscal 1999 to $165.8 million in fiscal 2000 and represented 61% of total revenue in fiscal 2000, the same percentage as in fiscal 1999. Total revenue generated in markets outside North America would have represented 63% of total revenue in fiscal 2000 if exchange rates had been constant in fiscal 2000 as compared to the exchange rates in effect in fiscal 1999.

Total revenue was down in all regions, except Asia Pacific. Fiscal 2000 percentage revenue declines from fiscal 1999 were 6% in Europe, Middle East and Africa (EMEA), 9% in Latin America and 5% in North America. Revenue in the Asia Pacific region increased 6% in fiscal 2000 as compared to fiscal 1999. Reported revenue from EMEA was impacted the most significantly of any region by the strong U.S. dollar in fiscal 2000. Revenue from EMEA would have increased 5% in fiscal 2000 if exchange rates had been constant in fiscal 2000 as compared to the exchange rates in effect in fiscal 1999.

The Company is planning for total revenue growth in fiscal 2001 of around 10%, with more of the growth occurring in the second half of the year. The Company's expectation for revenue growth in fiscal 2001 is based on an expected stabilization of revenue from the ISV channel, the Company's plans to generate additional software license and service revenue by focusing more of its selling efforts on the end-user community, continued growth of new products, continued health of the global economy and no further strengthening of the U.S dollar. However, there can be no assurance that the Company will be successful in achieving its forecasts and plans or that other factors will not negatively impact its revenue.

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 26% from $13.2 million in fiscal 1999 to $9.8 million in fiscal 2000 and decreased as a percentage of software license revenue from 10% to 9%. The dollar and percentage decreases were due to lower software license revenue volume and lower documentation costs, partially offset by higher royalty expense for products and technologies licensed from third parties. Cost of software licenses as a percentage of software license revenue varies depending upon the relative product mix in a given period.

Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services decreased 4% from $54.9 million in fiscal 1999 to $52.9 million in fiscal 2000 and 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 while the related technical support costs decreased due to lower headcount. The dollar decrease was also due to lower headcount in the professional services group and decreased usage of third-party contractors for service engagements. The Company decreased its technical support, education, and consulting staff from 373 at the end of fiscal 1999 to 338 at the end of fiscal 2000.

Sales and marketing expenses decreased 3% from $104.8 million in fiscal 1999 to $102.2 million in fiscal 2000, but increased as a percentage of total revenue from 37% to 38%. The dollar decrease in sales and marketing expenses was due to a decrease in the level of discretionary marketing spending for trade shows, advertising campaigns, direct mail solicitations and other events and lower amounts for incentive compensation, partially offset by an increase in headcount in the sales, sales support and marketing staff. The headcount increase was primarily to support expansion of international operations and new products. Worldwide sales and marketing headcount increased from 519 at the end of fiscal 1999 to 575 at the end of fiscal 2000.

Product development expenses increased 2% from $38.3 million in fiscal 1999 to $39.0 million in fiscal 2000 and increased as a percentage of total revenue from 13% to 14%. The dollar and percentage increases were primarily due to a slight increase in headcount to support continued new product development efforts. The major product development efforts in fiscal 2000 primarily related to the development of new products such as Progress SonicMQ and the next version of the Company's principal product line, Progress Version 9.1. The product development staff increased from 242 at the end of fiscal 1999 to 249 at the end of fiscal 2000.

The Company capitalized $0.5 million of software development costs in each of fiscal 1999 and fiscal 2000 in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" (SFAS 86). The amounts capitalized represented 1% of total product development costs in each year. Capitalized software costs are amortized over the estimated life of the product (generally four years) in an amount equal to the greater of the amount computed using the ratio of current revenue to total expected revenue in the product's life or straight-line and amounts amortized are included in cost of software licenses.

General and administrative expenses include the costs of the finance, human resources, legal, information systems and administrative departments of the Company and amortization of goodwill. General and administrative expenses increased 2% from $28.2 million in fiscal 1999 to $28.8 million in fiscal 2000 and increased as a percentage of total revenue from 10% to 11%. The dollar and percentage increases in general and administrative expenses were primarily due to higher staff levels and higher amounts for amortization of goodwill, partially offset by lower amounts for bad debt expense. The Company increased its administrative staff from 205 at the end of fiscal 1999 to 215 at the end of fiscal 2000.

Income from operations decreased as a percentage of total revenue from 16% in fiscal 1999 to 14% in fiscal 2000. The dollar decrease and the decrease in operating income as a percentage of revenue was primarily due to lower than expected revenue during the year. This decrease was mitigated to some extent by the Company's efforts to manage costs and expenses as expected revenue did not materialize. International operations contributed 56% of the total operating income in fiscal 2000 versus 53% in fiscal 1999. The Company is planning to increase operating income in fiscal 2001 at approximately the same rate of growth as revenue.

Other income increased 128% from $4.7 million in fiscal 1999 to $10.8 million in fiscal 2000. The increase was primarily due to foreign currency gains in fiscal 2000 as compared to foreign currency losses in fiscal 1999 and higher interest income. The foreign currency gain in fiscal 2000 related primarily to gains from the Company's foreign currency hedging programs. The increase in interest income in fiscal 2000 as compared to fiscal 1999 was due to higher interest rates and higher average cash balances.

The effective tax rate was 32% in fiscal 2000, the same as in fiscal 1999. See Note 7 of Notes to Consolidated Financial Statements. The Company expects its effective tax rate to decrease to approximately 31% in fiscal 2001.

Fiscal 1999 Compared to Fiscal 1998

The Company's total revenue increased 19% from $239.9 million in fiscal 1998 to $286.1 million in fiscal 1999. Total revenue would have increased by 23% in fiscal 1999 from fiscal 1998 if exchange rates had been constant in fiscal 1999 as compared to the exchange rates in effect in fiscal 1998.

Software license revenue increased 16% from $113.3 million in fiscal 1998 to $131.5 million in fiscal 1999. The increase in software license revenue was attributable to greater acceptance of the Company's products, including Progress Version 8 and Progress Version 9, the Company's flagship development and deployment product set, and, to a lesser extent, new Internet–focused products such as Progress WebSpeed and Progress Apptivity. Progress Version 9 was released in December 1998. The Company also experienced an increase in sales to ISVs. The increase in sales to ISVs was primarily due to greater deployment revenue from database, application server, dataservers and reporting tools products.

Maintenance and services revenue increased 22% from $126.6 million in fiscal 1998 to $154.6 million in fiscal 1999. The increase in maintenance and services revenue 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 increased 28% from $137.0 million in fiscal 1998 to $175.0 million in fiscal 1999 and represented 61% of total revenue in fiscal 1999 as compared to 57% in fiscal 1998. Revenue growth was strong in all regions outside of North America in fiscal 1999 with growth rates of 27% in EMEA, 28% in Latin America and 30% in Asia Pacific. Revenue in North America increased 8% in fiscal 1999 as compared to fiscal 1998. The decrease in the growth rate in North America from fiscal 1998 was primarily due to a slowdown in revenue from certain ISVs, especially in the ERP sector, and a slowdown in consulting. Total revenue generated in markets outside North America would have represented 62% of total revenue in fiscal 1999 if exchange rates had been constant in fiscal 1999 as compared to the exchange rates in effect in fiscal 1998.

Cost of software licenses increased 31% from $10.1 million in fiscal 1998 to $13.2 million in fiscal 1999 and increased as a percentage of software license revenue from 9% to 10%. The dollar and percentage increases were due to an increase in documentation costs and higher royalty expense for products and technologies licensed from third parties.

Cost of maintenance and services increased 20% from $46.0 million in fiscal 1998 to $54.9 million in fiscal 1999, but remained 36% of maintenance and services revenue in each year. The dollar increase was due primarily to an increase in the technical support, consulting and education staff and related expenses and greater usage of third-party contractors to fulfill demand for consulting services in fiscal 1999 as compared to fiscal 1998. The Company increased its technical support, education, and consulting staff from 282 at the end of fiscal 1998 to 373 at the end of fiscal 1999.

Sales and marketing expenses increased 8% from $96.8 million in fiscal 1998 to $104.8 million in fiscal 1999, but decreased as a percentage of total revenue from 41% to 37%. The percentage decrease was due to increased productivity from the Company's sales and marketing efforts. The dollar increase in sales and marketing expenses was due to an increase in headcount in the sales, sales support and marketing staff and an increase in the level of discretionary marketing spending for trade shows, advertising campaigns, direct mail solicitations and other events. The headcount increase was primarily to support international growth and new products. Worldwide sales and marketing headcount increased from 476 at the end of fiscal 1998 to 519 at the end of fiscal 1999.

Product development expenses increased 27% from $30.2 million in fiscal 1998 to $38.3 million in fiscal 1999 and remained approximately the same percentage of total revenue at 13%. The dollar increase was primarily due to an increase in average compensation costs as well as increased headcount to support continued new product development efforts. The major product development efforts in fiscal 1999 primarily related to the development of new products such as Progress SonicMQ and the next versions of the Company's various product lines, including Progress Version 9.1 and Progress Apptivity. The product development staff increased from 225 at the end of fiscal 1998 to 242 at the end of fiscal 1999.

The Company capitalized $2.0 million of software development costs in fiscal 1998 and $0.5 million in fiscal 1999 in accordance with SFAS 86. The amounts capitalized represented 6% of total product development costs in fiscal 1998 and 1% in fiscal 1999. The decrease in the percentage capitalized in fiscal 1999 was due to the stages of completion of the Company's various development projects.

General and administrative expenses increased 5% from $26.8 million in fiscal 1998 to $28.2 million in fiscal 1999, but decreased as a percentage of total revenue from 11% to 10% due to expense control. The dollar increase in general and administrative expenses was primarily due to higher staff levels and average personnel costs, partially offset by lower amounts for bad debt expense and amortization of goodwill. The Company increased its administrative staff from 191 at the end of fiscal 1998 to 205 at the end of fiscal 1999.

Income from operations increased as a percentage of total revenue from 12% in fiscal 1998 to 16% in fiscal 1999. The increase in operating income as a percentage of revenue was due to continued expense control over selling, marketing and administrative expenses and improved sales productivity, especially overseas. International operations contributed 53% of the total operating income in fiscal 1999 versus 32% in fiscal 1998.

Other income increased 20% from $3.9 million in fiscal 1998 to $4.7 million in fiscal 1999. The increase in fiscal 1999 as compared to fiscal 1998 was primarily due to an increase in interest income from higher average cash balances and a smaller foreign currency exchange loss.

The effective tax rate was 32% in fiscal 1999 compared to 33% in fiscal 1998. The decrease in the effective tax rate in fiscal 1999 from fiscal 1998 was primarily due to a decrease in taxes on foreign sourced income in excess of the U.S. federal tax rate.

Liquidity and Capital Resources

At the end of fiscal 2000, the Company's cash and short-term investments totaled $158.1 million. The decrease in the balance of $0.6 million since the end of fiscal 1999 resulted from capital expenditures, the purchase of the Company's headquarters building and common stock repurchases, partially offset by cash generated from operations and proceeds from stock issuances under the stock purchase plan and exercises of stock options.

In fiscal years 2000, 1999 and 1998, the Company generated $43.1 million, $61.1 million and $58.5 million, respectively, in cash from operations. The decrease in cash generated from operations in fiscal 2000 as compared to fiscal 1999 was due to lower net income, the timing of payments related to accounts payable and other accrued liabilities and a smaller increase in the deferred revenue balance. The increase in accounts receivable in fiscal years 1999 and 1998 was primarily due to an increased revenue base. The increase in accounts receivable in fiscal 2000 was due to slower collections and the timing and mix of revenue within the period. As a result, accounts receivable days sales outstanding increased to 67 days at the end of fiscal 2000, as compared to 55 days and 53 days at the end of fiscal years 1999 and 1998, respectively.

In fiscal years 2000, 1999 and 1998, the Company purchased $27.3 million, $9.3 million and $10.0 million, respectively, of property and equipment. The amount for fiscal 2000 included the purchase of the land and building of the Company's principal facility in Bedford, Massachusetts for $15.7 million. The remaining amounts for fiscal 2000 and the amounts for fiscal years 1999 and 1998 consisted primarily of computer equipment and software, furniture and fixtures and leasehold improvements. The level of the remaining 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.

In fiscal years 2000, 1999 and 1998, the Company purchased and retired 1,087,942 shares, 2,042,238 shares and 3,500,970 shares, respectively, of its common stock for $17.3 million, $24.8 million and $33.2 million, respectively. 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. At November 30, 2000, approximately 9,600,000 shares of common stock remained available for repurchase under this authorization.

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 is being amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest year presented, the effect on the consolidated financial statements would not have been significant.

In March 2000, the Company acquired all of the remaining shares in its joint venture in Japan for $0.1 million. The purchase price was allocated to goodwill and is being amortized over a five-year period.

In December 1997, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in Brazil for $5.0 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 is being 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 significant.

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 Pronouncements

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 adoption of SFAS 133 will not have a material effect on the Company's consolidated financial position or results of operations.

In December 1999, The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" (SAB 101), which summarizes certain of the SEC's views in applying U.S. generally accepted accounting principles to revenue recognition in financial statements. SAB 101, as amended, must be adopted no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. In October 2000, the SEC issued guidance concerning the application of SAB 101 to particular transactions. The Company will adopt SAB 101 in the fourth quarter of fiscal 2001. The adoption of SAB 101 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

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.

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. Based on a hypothetical ten percent adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive instruments, and cash flows are immaterial, although the actual effects may differ materially from the hypothetical analysis.

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 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. Based on a hypothetical ten percent adverse movement in all foreign currency exchange rates, the Company's revenue would be adversely effected by approximately 6% and the Company's net income would be adversely affected by approximately 15% (excluding any offsetting positive impact from the Company's ongoing hedging programs), although the actual effects may differ materially from the hypothetical analysis.

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.

Fluctuations in Revenue and Quarterly Results

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, the growth rates of certain market segments including E-Business messaging, 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.

Products

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.

The Company hopes that Progress SonicMQ and other new products and services will contribute positively to the Company's future results. The market for E-Business messaging products, other Internet business-to-business products and application integration software is highly competitive. Many potential customers have made significant investments in proprietary or internally developed systems and would incur significant costs in switching to third-party products. 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.

Rapid Technological Change

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.

Distribution Channels and New Markets

Future results also depend upon the Company's continued successful distribution of its products through its 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. During fiscal 2000, revenue from the ISV channel decreased as compared to the previous year. If this negative revenue trend were to continue in fiscal 2001, the Company's business and operating results would be adversely affected. Any other adverse effect on the ISVs' business related to competition, pricing and other factors could also have a material adverse effect on the Company's business, 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.

In June 2000, the Company announced the formation of NuSphere, a company focused on the open source database market. NuSphere has and continues to develop a set of products and services for the MySQL open source database. The success of an open source business model, which gives customers the right to freely copy and distribute software, is unproven. Few open source software products have gained widespread commercial acceptance partly due to the lack of viable open source industry participants to offer adequate service and support on a long-term basis. In addition, open source vendors are not able to provide industry standard warranties and indemnities for their products, since these products have been developed largely by independent parties over whom open source vendors exercise no control or supervision. 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.

Competition

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. The marketplace for 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 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 better 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.

International Operations

Approximately 58% of the Company's total revenue in fiscal 2000 and in fiscal 1999 was attributable to international sales made through its subsidiaries. Because a majority 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 U.S. 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.

Hiring and Retention of Employees

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.

Intellectual Property and Proprietary Rights

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.

Third-Party Technology

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.

Stock Price Volatility

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.

Consolidated Balance Sheets

(In thousands, except share data)	November 30,	
	2000	1999
Assets		
Current assets:		
Cash and equivalents	$ 90,722	$ 81,651
Short-term investments	67,384	77,014
Accounts receivable (less allowances of $7,144 in 2000 and $7,259 in 1999)	49,429	47,952
Other current assets	12,303	9,406
Deferred income taxes	9,834	9,836
Total current assets	229,672	225,859
Property and equipment, net	37,427	20,594
Capitalized software costs, net	2,037	3,155
Other assets	9,669	6,946
Total	$278,805	$256,554
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 11,010	$ 14,041
Accrued compensation and related taxes	18,747	24,344
Income taxes payable	11,348	8,723
Other accrued liabilities	9,821	8,962
Deferred revenue	61,066	58,173
Total current liabilities	111,992	114,243
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized, 1,000,000 shares; issued, none		
Common stock, $.01 par value, and additional paid-in capital; authorized, 100,000,000 shares in 2000 and 75,000,000 shares in 1999; issued and outstanding, 35,315,288 shares in 2000 and 35,552,862 shares in 1999	38,082	40,491
Retained earnings	131,896	103,904
Accumulated other comprehensive loss	(3,165)	(2,084)
Total shareholders' equity	166,813	142,311
Total	$278,805	$256,554

See notes to consolidated financial statements.

Consolidated Statements of Operations

(In thousands, except per share data)	Year Ended November 30,		
	2000	1999	1998
Revenue:			
Software licenses	$109,218	$131,499	$113,312
Maintenance and services	162,129	154,648	126,578
Total revenue	271,347	286,147	239,890
Costs and expenses:			
Cost of software licenses	9,798	13,188	10,085
Cost of maintenance and services	52,904	54,945	45,953
Sales and marketing	102,163	104,809	96,832
Product development	39,034	38,339	30,154
General and administrative	28,753	28,162	26,839
Total costs and expenses	232,652	239,443	209,863
Income from operations	38,695	46,704	30,027
Other income (expense):			
Interest income	8,073	5,054	4,529
Foreign currency gain (loss)	2,783	(374)	(632)
Minority interest	–	155	113
Other expense	(64)	(96)	(69)
Total other income, net	10,792	4,739	3,941
Income before provision for income taxes	49,487	51,443	33,968
Provision for income taxes	15,836	16,452	11,210
Net income	$ 33,651	$ 34,991	$ 22,758
Basic earnings per share	$0.94	$1.01	$0.66
Weighted average shares outstanding (basic)	35,661	34,488	34,458
Diluted earnings per share	$0.85	$0.89	$0.59
Weighted average shares outstanding (diluted)	39,472	39,212	38,560

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(In thousands)	Comprehensive Income	Common Stock and Additional Paid-in Capital: Number of Shares	Common Stock and Additional Paid-in Capital: Amount	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance, December 1, 1997		35,436	$26,019	$ 70,673	$ (253)	$ 96,439
Exercise of employee stock options		2,126	11,159			11,159
Issuance of stock under ESPP		120	919			919
Repurchase of common stock		(3,501)	(23,901)	(9,316)		(33,217)
Tax benefits from stock plans			4,770			4,770
Unrealized gains on investments	$ 258				258	258
Translation adjustments	(393)				(393)	(393)
Net income	22,758			22,758		22,758
Comprehensive income	$22,623					
Balance, November 30, 1998		34,181	18,966	84,115	(388)	102,693
Exercise of employee stock options		3,197	18,541			18,541
Issuance of stock under ESPP		217	2,070			2,070
Repurchase of common stock		(2,042)	(9,626)	(15,202)		(24,828)
Stock option compensation			81			81
Tax benefits from stock plans			10,459			10,459
Unrealized losses on investments	$ (699)				(699)	(699)
Translation adjustments	(997)				(997)	(997)
Net income	34,991			34,991		34,991
Comprehensive income	$33,295					
Balance, November 30, 1999		35,553	40,491	103,904	(2,084)	142,311
Exercise of employee stock options		552	3,947			3,947
Issuance of stock under ESPP		298	3,162			3,162
Repurchase of common stock		(1,088)	(11,612)	(5,659)		(17,271)
Stock option compensation			77			77
Tax benefits from stock plans			2,017			2,017
Unrealized gains on investments	$ 78				78	78
Translation adjustments	(1,159)				(1,159)	(1,159)
Net income	33,651			33,651		33,651
Comprehensive income	$32,570					
Balance, November 30, 2000		35,315	$38,082	$131,896	$(3,165)	$166,813

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended November 30,		
	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 33,651	$ 34,991	$ 22,758
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	9,946	10,641	10,750
Allowances for accounts receivable	1,495	2,098	3,617
Amortization of capitalized software costs	1,644	2,101	1,771
Amortization of intangible assets	739	586	1,032
Deferred income taxes	(308)	(2,013)	(4,834)
Minority interest in subsidiary	–	(155)	(113)
Other non-cash charges	439	81	–
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(6,470)	(12,458)	(8,702)
Other current assets	(2,977)	(311)	(2,326)
Accounts payable and accrued expenses	(6,123)	5,258	8,854
Income taxes payable	4,280	8,905	8,609
Deferred revenue	6,750	11,331	17,062
Total adjustments	9,415	26,064	35,720
Net cash provided by operating activities	43,066	61,055	58,478
Cash flows from investing activities:			
Purchases of investments available for sale	(63,608)	(59,606)	(57,025)
Maturities of investments available for sale	73,316	45,631	47,033
Sales of investments available for sale	–	–	440
Purchase of property and equipment	(27,301)	(9,331)	(10,038)
Capitalized software costs	(525)	(514)	(1,968)
Acquisitions, net of cash acquired	(2,100)	–	(5,000)
Increase in other non-current assets	(1,767)	(578)	(24)
Net cash used for investing activities	(21,985)	(24,398)	(26,582)
Cash flows from financing activities:			
Proceeds from issuance of common stock	7,109	20,611	12,078
Repurchase of common stock	(17,271)	(24,828)	(33,217)
Net cash used for financing activities	(10,162)	(4,217)	(21,139)
Effect of exchange rate changes on cash	(1,848)	(944)	(53)
Net increase in cash and equivalents	9,071	31,496	10,704
Cash and equivalents, beginning of year	81,651	50,155	39,451
Cash and equivalents, end of year	$ 90,722	$ 81,651	$ 50,155

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

The Company

Progress Software Corporation (the Company) is a global supplier of products and services for business applications deployed in an Internet or multi-tiered environment. The Company develops, markets and distributes application development, deployment and integration software to business, industry and government worldwide. The Company also provides consulting, education and support to its customers through its worldwide professional services organization.

Accounting Principles

The consolidated financial statements and accompanying notes have been prepared in conformity with generally accepted accounting principles in the United States of America.

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 the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated.

Foreign Currency Translation

For foreign operations with the local currency as the functional currency, assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Income and expense items are translated at average rates of exchange prevailing during each period. Translation adjustments are accumulated in a separate component of shareholders' equity.

For foreign operations with the U.S. dollar as the functional currency, monetary assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Nonmonetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Income and expense items are translated at average rates of exchange prevailing during each period. Translation adjustments are recognized currently as a component of foreign currency gain or loss.

The Company enters into foreign exchange option contracts which are designated as effective hedges on certain transactions in selected foreign currencies. The purpose of the Company's foreign exposure management policies and practices is to attempt to minimize the impact of exchange rate fluctuations on the Company's results of operations. The option contracts are structured such that the cost to the Company cannot exceed the premium paid for such contracts. Premiums are recognized ratably over the contract period as a component

of foreign currency gain or loss. Increases and decreases in market value gains on such contracts are recognized in income in the same period as the underlying transactions as a component of foreign currency gain or loss. The notional principal amount of outstanding foreign exchange option contracts at November 30, 2000 was $51.2 million. Unrealized market value gains on such contracts were immaterial at November 30, 2000. Major U.S. multinational banks are counterparties to the option contracts.

Revenue Recognition

Revenue is recognized when earned. The Company accounts for revenue in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) 97-2, "Software Revenue Recognition" and SOP 98-9, "Modification to SOP 97-2 With Respect to Certain Transactions."

Software license revenue is recognized upon shipment of the product provided that the license fee is fixed and determinable, persuasive evidence of an arrangement exists and collection is probable. Software licenses sold together with maintenance and/or consulting services are generally recognized upon shipment using the residual method, provided that the above criteria have been met. If payment of the software license fees is dependent upon the performance of the consulting services and the consulting services are essential to the functionality of the licensed software, then both the software license and consulting fees are recognized under the percentage-of-completion method of contract accounting.

Maintenance revenue is deferred and recognized ratably over the term of the agreement. Revenue from services, primarily consulting and customer education, is generally recognized as the related services are performed.

Cash Equivalents and Short-Term Investments

Cash equivalents include short-term, highly liquid investments purchased with remaining maturities of three months or less. Short-term investments, which consist primarily of municipal and U.S. Treasury obligations and corporate debt securities purchased with remaining maturities of more than three months, are classified as investments available for sale and stated at fair value. Aggregate unrealized holding gains and losses are included as a component of accumulated other comprehensive income (loss) in shareholders' equity.

Supplemental Cash Flow Information

In fiscal years 2000, 1999 and 1998, the Company paid $10.9 million, $9.5 million and $7.2 million in income taxes, respectively. The Company had the following noncash activities: income tax benefit from employees' exercise of stock options of $2.0 million, $10.5 million and $4.8 million in fiscal years 2000, 1999 and 1998, respectively.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, short-term investments and trade receivables. The Company has cash investment policies which, among other things, limit investments to investment-grade securities. The Company performs ongoing credit evaluations of its customers and the risk with respect to trade receivables is further mitigated by the diversity, both by geography and by industry, of its customer base.

Fair Value of Financial Instruments

The carrying amount of cash, accounts receivable and accounts payable approximates fair value due to the short-term nature of these instruments. The fair value of investments available for sale is based on current market value (Note 3).

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives (three to thirty-nine years) of the related assets or the remaining terms of leases, whichever is shorter.

Capitalization of Software Costs

The Company capitalizes certain internally generated software development costs after technological feasibility of the product has been established. Capitalized software costs also include amounts paid for purchased software which has reached technological feasibility. Such costs are amortized over the estimated life of the product (generally four years) in an amount equal to the greater of the amount computed using the ratio of current revenue to total expected revenue in the product's life or straight-line. The Company periodically compares the unamortized costs of capitalized software to the expected future revenues for the products. If the unamortized costs exceed the expected future net realizable value, the excess amount is written off. Accumulated amortization was approximately $10.6 million and $9.0 million at November 30, 2000 and 1999, respectively.

Intangible Assets

Intangible assets, included in other assets, primarily represent goodwill and are recorded at cost. Such costs are amortized over periods ranging from three to seven years. Accumulated amortization was approximately $1.8 million and $1.1 million at November 30, 2000 and 1999, respectively.

Investment in Related Party

The Company has a 7% ownership stake, on a fully-diluted basis, in EasyAsk, Inc., a privately-held software company whose president is on the board of directors of the Company. The investment in EasyAsk, Inc., accounted for using the cost method, approximated $1.3 million and $0.8 million at November 30, 2000 and 1999, respectively, and is included in other assets.

Stock-Based Compensation Plans

The Company accounts for its stock option plans and its employee stock purchase plan in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). In accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company provides additional pro forma disclosures (Note 5). In March 2000, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation: An Interpretation of APB No. 25" (FIN 44). The adoption of FIN 44 did not have a material effect on the Company's consolidated financial position or results of operations.

Income Taxes

The Company provides for deferred income taxes resulting from temporary differences between financial and taxable income. Such differences arise primarily from depreciation, accruals, deferred revenue, capitalized software costs, tax loss carryforwards and allowances for accounts receivable. No provision for U.S. income taxes has been made for the undistributed earnings of non-U.S. subsidiaries, as these earnings have been permanently reinvested or would be principally offset by foreign tax credits. Cumulative undistributed foreign earnings were approximately $24.6 million at November 30, 2000.

Earnings Per Share

Basic earnings per share is computed using the weighted average number of common shares outstanding. Diluted earnings per share is computed using the weighted average number of common shares outstanding plus the effect of outstanding stock options using the treasury stock method. Earnings per share for all years presented herein have been restated to reflect the stock split (Note 5).

Comprehensive Income

The components of comprehensive income include unrealized gains and losses on investments and foreign currency translation adjustments. Accumulated foreign currency translation losses, net of taxes, were approximately $3.1 million and $1.9 million at November 30, 2000 and 1999, respectively. Accumulated unrealized losses on short-term investments, net of taxes, were approximately $0.1 million and $0.2 million at November 30, 2000 and 1999, respectively.

New Accounting Pronouncements

In June 1998, the 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 adoption of SFAS 133 will not have a material effect on the Company's consolidated financial position or results of operations.

In December 1999, The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements" (SAB 101), which summarizes certain of the SEC's views in applying U.S. generally accepted accounting principles to revenue recognition in financial statements. SAB 101, as amended, must be adopted no later than the fourth fiscal quarter of fiscal years beginning after December 15, 1999. In October 2000, the SEC issued guidance concerning the application of SAB 101 to particular transactions. The Company will adopt SAB 101 in the fourth quarter of fiscal 2001. The adoption of SAB 101 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Note 2: Business Combinations

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 is being amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest year presented, the effect on the consolidated financial statements would not have been significant.

In March 2000, the Company acquired all of the remaining shares in its joint venture in Japan for $0.1 million. The purchase price was allocated to goodwill and is being amortized over a five-year period.

In December 1997, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in Brazil for $5.0 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 is being amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest year presented, the effect on the consolidated financial statements would not have been significant.

Note 3: Cash and Short-Term Investments

A summary of the Company's investments available for sale by major security type (including $61.8 million classified as cash equivalents) at November 30, 2000 was as follows:

(In thousands)

Security Type:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 62,573	–	–	$ 62,573
Obligations of states and political subdivisions	57,492	$50	$(234)	57,308
U.S. government obligations	9,257	3	(1)	9,259
Total	$129,322	$53	$(235)	$129,140

The fair value of debt securities at November 30, 2000, by contractual maturity, was as follows:

(In thousands)

Due in one year or less	$ 90,475
Due after one year	38,665
Total	$129,140

A summary of the Company's investments available for sale by major security type (including $46.0 million classified as cash equivalents) at November 30, 1999 was as follows:

(In thousands) Security Type:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 56,460	–	–	$ 56,460
Obligations of states and political subdivisions	59,841	$55	$(326)	59,570
U.S. government obligations	7,051	5	(36)	7,020
Total	$123,352	$60	$(362)	$123,050

Note 4: Property and Equipment

Property and equipment consisted of the following:

(In thousands)	November 30, 2000	1999
Computer equipment and software	$58,304	$52,686
Land, building and leasehold improvements	26,625	9,891
Furniture and fixtures	6,736	6,295
Total	91,665	68,872
Less accumulated depreciation and amortization	54,238	48,278
Property and equipment, net	$37,427	$20,594

In October 2000, the Company purchased the land and building of its principal facility in Bedford, Massachusetts for $15.7 million.

Note 5: Shareholders' Equity

Preferred Stock

The 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, preference and voting rights. At November 30, 2000, the Board of Directors has not authorized any series of preferred stock.

Common Stock

On December 17, 1999, the Board of Directors approved a two-for-one common stock split in the form of a stock dividend. Shareholders received one additional share for each share held. The distribution was made on January 21, 2000 to shareholders of record at the close of business on January 7, 2000. All share and per share amounts have been restated to reflect the stock split.

In fiscal years 2000, 1999 and 1998, the Company purchased and retired 1,087,942 shares, 2,042,238 shares and 3,500,970 shares, respectively, of its common stock for $17.3 million, $24.8 million and $33.2 million, respectively.

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 stock purchase plans. At November 30, 2000, approximately 9,600,000 shares of common stock remained available for repurchase under this authorization.

Stock Options

The Company has three stock option plans: the 1992 Incentive and Non-qualified Stock Option Plan (1992 Plan), the 1994 Stock Incentive Plan (1994 Plan) and the 1997 Stock Incentive Plan (1997 Plan), collectively, the Plans. The Plans permit the granting of stock awards to officers, members of the Board of Directors, employees and consultants. Awards under the 1994 and 1997 Plans may include stock options (both incentive and non-qualified), grants of conditioned stock, unrestricted grants of stock, grants of stock contingent upon the attainment of performance goals and stock appreciation rights. No awards other than incentive and non-qualified stock options were granted under the Plans in fiscal years 2000, 1999 and 1998.

In April 2000 and in April 1999, the shareholders of the Company adopted and approved increases in the number of shares of common stock authorized for issuance under the 1997 Plan in the amount of 2,500,000 and 3,000,000 shares, respectively. A total of 19,540,000 shares are issuable under the Plans, of which approximately 4,441,000 shares were available for grant at November 30, 2000.

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

(In thousands, except per share data)	Number of Shares	Weighted Average Exercise Price Per Share
Options outstanding, December 1, 1997	9,078	$5.36
Granted	3,196	7.72
Exercised	(2,126)	5.25
Canceled	(428)	4.92
Options outstanding, November 30, 1998	9,720	6.17
Granted	2,560	12.43
Exercised	(3,197)	5.80
Canceled	(1,175)	7.24
Options outstanding, November 30, 1999	7,908	8.19
Granted	2,472	15.04
Exercised	(552)	7.14
Canceled	(1,296)	10.08
Options outstanding, November 30, 2000	8,532	$9.95

At the end of fiscal years 2000, 1999 and 1998, the Company had 3,952,000 shares, 2,854,000 shares and 3,808,000 shares subject to exercisable options, respectively, with weighted average exercise prices of $7.82, $6.66 and $5.81 per share, respectively.

For various exercise price ranges, characteristics of outstanding stock options at November 30, 2000 were as follows:

(In thousands, except per share data)	Options Outstanding		
Range of Exercise Price:	Number of Shares	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price
$10.22-11.67	3	3.55	$ 0.88
$14.50-16.23	2,146	5.00	5.17
$16.54-17.23	1,829	5.86	7.19
$19.00-12.19	2,232	9.18	11.19
$12.81-14.94	1,392	8.27	12.85
$16.69-19.25	930	9.20	19.16
$10.22-19.25	8,532	7.27	$ 9.95

(In thousands, except per share data)	Options Exercisable	
Range of Exercise Price:	Number of Shares	Weighted Average Exercise Price
$10.22-11.67	3	$ 0.88
$14.50-16.23	1,687	5.18
$16.54-17.23	1,172	7.20
$19.00-12.19	532	10.64
$12.81-14.94	420	12.88
$16.69-19.25	138	19.17
$10.22-19.25	3,952	$ 7.82

Employee Stock Purchase Plan

The 1991 Employee Stock Purchase Plan (ESPP), as amended in April 1998, permits eligible employees to purchase up to a maximum of 1,500,000 shares of common stock of the Company at 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. During fiscal years 2000, 1999 and 1998, 297,973 shares, 217,002 shares and 120,412 shares, respectively, were issued with weighted average purchase prices of $10.61, $9.54 and $7.63 per share, respectively, under the ESPP. At November 30, 2000, approximately 413,000 shares were available and reserved for issuance under the ESPP.

Pro Forma Disclosures

The pro forma disclosures are required to be determined as if the Company had accounted for its stock-based compensation arrangements granted subsequent to November 30, 1995 under the fair value method of SFAS 123. The fair value of options and ESPP shares granted in fiscal years 2000, 1999 and 1998 reported below has been estimated at the date of grant using a Black-Scholes option valuation model with the following ranges of assumptions:

	Year Ended November 30,		
	2000	1999	1998
Stock Purchase Plan:			
Expected volatility	42.5-61.7%	35.1-65.0%	29.2-44.1%
Risk-free interest rate	4.2-6.2%	4.1-5.4%	5.0-5.2%
Expected life in years	1.6	1.1	0.6
Expected dividend yield	None	None	None
Stock Options:			
Expected volatility	47.5-49.7%	46.5-47.5%	43.2-45.6%
Risk-free interest rate	5.9-6.8%	4.5-6.2%	4.7-5.7%
Expected life in years	6.0	6.0	6.5
Expected dividend yield	None	None	None

For purposes of the pro forma disclosure, the estimated fair value of options is amortized to expense over the vesting period. Had compensation costs for options and ESPP shares been determined based on the Black-Scholes option valuation model as prescribed by SFAS 123, pro forma net income and pro forma diluted earnings per share would have been:

(In thousands, except per share data)	Year Ended November 30,		
	2000	1999	1998
Pro forma net income	$27,870	$31,072	$20,870
Pro forma diluted earnings per share	$0.71	$0.79	$0.54

Based on the above assumptions, the weighted average estimated fair value of options granted in fiscal years 2000, 1999 and 1998 was $8.58, $6.59 and $4.03 per share, respectively. The weighted average estimated fair value for shares issued under the ESPP in fiscal years 2000, 1999 and 1998 was $6.01, $4.43 and $3.08 per share, respectively.

Note 6: Retirement Plan

The Company maintains 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 $1.8 million, $2.5 million and $2.4 million for fiscal years 2000, 1999 and 1998, respectively.

Note 7: Income Taxes

The components of pretax income were as follows:

(In thousands)	Year Ended November 30,		
	2000	1999	1998
United States	$38,847	$37,527	$29,236
Non-U.S.	10,640	13,916	4,732
Total	$49,487	$51,443	$33,968

The provisions for income taxes were comprised of the following:

(In thousands)	Year Ended November 30,		
	2000	1999	1998
Current:			
Federal	$ 9,942	$11,571	$11,419
State	1,996	2,109	2,015
Foreign	4,206	4,785	2,610
Total current	16,144	18,465	16,044
Deferred:			
Federal	(254)	(1,902)	(3,448)
State	(50)	(378)	(684)
Foreign	(4)	267	(702)
Total deferred	(308)	(2,013)	(4,834)
Total	$15,836	$16,452	$11,210

The tax effects of significant items comprising the Company's deferred taxes were as follows:

(In thousands)	November 30,	
	2000	1999
Deferred tax liabilities:		
Capitalized software costs	$ (250)	$ (589)
Total deferred tax liabilities	(250)	(589)
Deferred tax assets:		
Accounts receivable	2,435	2,713
Depreciation and amortization	2,550	2,559
Other current assets	1,010	1,044
Accrued compensation	1,141	699
Deferred revenue	2,660	2,657
Tax loss carryforwards	1,489	1,982
Accrued liabilities and other	2,921	2,272
Total deferred tax assets	14,206	13,926
Valuation allowance	(886)	(1,211)
Total	$13,070	$12,126

The valuation allowance applies to deferred tax assets, primarily net operating loss carryforwards, in certain foreign jurisdictions where realization is not assured. The change in the valuation allowance of $0.3 million and $0.1 million in fiscal years 2000 and 1999, respectively, primarily related to tax loss carryforwards. There was no change in the valuation allowance in fiscal 1998. Noncurrent deferred taxes of $3.2 million and $2.3 million were included in other assets at November 30, 2000 and 1999, respectively.

The Company has foreign net operating loss carryforwards of $2.3 million expiring on various dates through 2006 and $2.0 million which can be carried forward indefinitely.

A reconciliation of the U.S. federal statutory rate to the effective tax rate was as follows:

	Year Ended November 30,		
	2000	1999	1998
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
Non-U.S	0.3	1.7	4.3
Foreign sales corporation	(3.6)	(4.5)	(4.5)
Research credits	(0.6)	(1.2)	(2.9)
State income taxes, net	2.5	2.2	2.5
Tax-exempt interest	(2.0)	(1.6)	(2.0)
Other	0.4	0.4	0.6
Total	32.0%	32.0%	33.0%

Note 8: Operating Leases

The Company leases certain facilities and equipment under noncancelable operating lease arrangements. Future minimum rental payments at November 30, 2000 under these leases are as follows:

(In thousands)

2001	$ 7,618
2002	5,898
2003	3,679
2004	2,802
2005	1,713
Thereafter	4,923
Total	$26,633

Total rent expense under all operating leases was approximately $7.2 million, $7.4 million and $7.0 million for fiscal years 2000, 1999 and 1998, respectively.

Note 9: Litigation

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.

Note 10: Business Segment and International Operations

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

The Company's revenues are derived from licensing its products, and from related services, which consist of maintenance and consulting and education. Information relating to product and service revenue from external customers is as follows:

(In thousands)	Year Ended November 30,		
	2000	1999	1998
Licenses	$109,218	$131,499	$113,312
Maintenance	113,760	104,230	83,613
Consulting and education	48,369	50,418	42,965
Total	$271,347	$286,147	$239,890

Revenue attributed to North America includes shipments to customers in the United States and Canada and licensing to certain multinational organizations. Revenue from Europe, Middle East and Africa (EMEA), Latin America and Asia Pacific includes shipments to customers in each region, not including certain multinational organizations, plus export shipments into each region that are billed from the United States. Information relating to revenue from external customers from different geographical areas is as follows:

(In thousands)	Year Ended November 30,		
	2000	1999	1998
North America	$105,504	$111,081	$102,893
EMEA	120,265	128,012	100,507
Latin America	26,081	28,577	22,269
Asia Pacific	19,497	18,477	14,221
Total	$271,347	$286,147	$239,890

Revenue from the United Kingdom totaled $34.2 million, $34.0 million and $24.0 million for fiscal years 2000, 1999 and 1998, respectively. No other country outside of the United States exceeded 10% of the Company's consolidated total revenue in any year presented. Long-lived assets totaled $34.4 million, $18.1 million and $20.6 million in the United States and $6.9 million, $7.2 million and $7.7 million outside of the United States for fiscal years 2000, 1999 and 1998, respectively. No individual country outside of the United States exceeded 10% of the Company's consolidated long-lived assets.

Independent Auditors' Report

Deloitte & Touche

To the Board of Directors and Shareholders of Progress Software Corporation:

We have audited the accompanying consolidated balance sheets of Progress Software Corporation and its subsidiaries as of November 30, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended November 30, 2000. 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 auditing standards generally accepted in the United States of America. 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 its subsidiaries as of November 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Boston, Massachusetts
December 19, 2000

Selected Quarterly Financial Data (unaudited)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2000				
Revenue	$72,131	$67,400	$65,409	$66,407
Income from operations	11,646	11,057	7,104	8,888
Net income	9,068	9,591	6,932	8,060
Diluted earnings per share	0.22	0.24	0.18	0.21
1999				
Revenue	$67,145	$70,750	$70,159	$78,093
Income from operations	9,655	10,385	10,616	16,048
Net income	7,097	7,840	8,277	11,777
Diluted earnings per share	0.18	0.20	0.22	0.30

Note: All per share amounts have been restated to reflect the two-for-one stock split on January 21, 2000.

Market for Registrant's Common Equity and Related Shareholder Matters

The following table sets forth, for the periods indicated, the range of high and low trade prices for the Company's common stock as reported by the Nasdaq Stock Market. The Company's common stock is traded under the Nasdaq symbol "PRGS."

	Year Ended November 30,			
	2000		1999	
	High	Low	High	Low
First Quarter	$30.75	$18.56	$19.19	$12.38
Second Quarter	27.00	14.88	17.63	9.94
Third Quarter	19.13	10.94	16.88	12.10
Fourth Quarter	17.00	11.25	21.25	13.94

Note: All share prices have been restated to reflect the two-for-one stock split on January 21, 2000.

The Company has not declared or paid cash dividends on its common stock and does not plan to pay cash dividends to its shareholders in the near future. As of December 31, 2000, the Company's common stock was held by approximately 5,000 shareholders of record or through nominee or street name accounts with brokers.

Corporate Information

Corporate Officers

Joseph W. Alsop
Chief Executive Officer

Lorne J. Cooper
President NuSphere

David G. Ireland
President, the Progress Company

Richard D. Reidy
Senior Vice President, Products

Norman R. Robertson
Senior Vice President, Finance and Administration and
Chief Financial Officer

Joseph A. Andrews
Vice President, Human Resources

David H. Benton, Jr.
Vice President and Corporate Controller

James D. Freedman
Vice President and General Counsel

Gregory J. O'Connor
Vice President, Sonic Software

Peter G. Sliwkowski
Vice President, Progress Products

Directors

Joseph W. Alsop
Chief Executive Officer, Progress Software Corporation

Larry R. Harris
President, EasyAsk, Inc.

Roger J. Heinen, Jr.
Director, various companies

Michael L. Mark
Director, various companies

Arthur J. Marks
General Partner, New Enterprise Associates

Scott A. McGregor
Senior Vice President, Philips Semiconductors, Inc.

Amram Rasiel
Director, various companies

Form 10-K and Other Investor Information

A copy of the Company's Form 10-K filed with the Securities and Exchange Commission and copies of the Quarterly Reports may be obtained without charge by calling +1 781 280-4450 or upon written request to:

Investor Relations
Progress Software Corporation
14 Oak Park
Bedford, Massachusetts 01730
E-mail: finance-info@progress.com
http://www.progress.com

Common Stock
Common stock of Progress Software Corporation trades on the Nasdaq Stock Market under the symbol "PRGS."

Annual Meeting of Shareholders of the Company will be held at 10:00 a.m. on April 20, 2001 at:
Progress Software Corporation
14 Oak Park
Bedford, Massachusetts 01730

Independent Auditors
Deloitte & Touche LLP
Boston, Massachusetts

Legal Counsel
Foley, Hoag & Eliot LLP
Boston, Massachusetts

Transfer Agent and Registrar
EquiServe–Boston EquiServe Division
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Argentina
Buenos Aires

Australia
Brisbane
Melbourne (Malvern East)
Sydney (Pymble)

Austria
Vienna (Voesendorf)

Barbados
Bridgetown *(Regional Business Systems)*

Belgium
Brussels (Vilvoorde)

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Sao Paulo

Bulgaria
Sofia *(CTC)*

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Unionville, Ontario
Montreal, Quebec

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Santiago

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Hong Kong

Colombia
Bogota

Costa Rica
San Jose *(Reinsa)*

Croatia
Varazdin *(Infodesign)*

Cyprus
Nicosia *(4th GL Prodata)*

Czech Republic
Prague

Denmark
Copenhagen (Ballerup)

Ecuador
Quito *(Unisysdata)*
Guayaquil *(Prosoft)*

El Salvador
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Estonia
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Athens *(Singular)*

Guatemala
Guatemala City
(Soluciones de Centro America)

Honduras
Tegucigalpa *(Prosoft S. de R.L. de C.V.)*

Hungary
Budapest *(Online, Ltd.)*

Iceland
Reykjavik *(Taeknival)*

India
New Delhi *(JK Technosoft)*

Indonesia
Jakarta *(PT Programa Reka Piranti)*

Israel
Tel Aviv *(Moding Ltd.,* Netanya)

Italy
Milan

Japan
Tokyo

Korea
Seoul *(C & C Enterprise Co.)*

Lithuania
Vilnius *(EnsBaltic Amadeus)*

Malaysia
Kuala Lumpur

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Mexico City
Monterrey

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Capelle a/d IJssel

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Auckland *(Team Progress)*

Nigeria
Lagos *(Inlaks Computers)*

Norway
Oslo (Billingstadsletta)

Pakistan
Karachi
(Alrashid Microcomputers)

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Panama City
(Original Software & Consult, Inc.)

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Lima *(Icomred)*

Philippines
Manila *(First Technologies Phils. Inc.)*

Poland
Warsaw

Portugal
Lisbon *(ENS, Leca de Palmeira)*

Puerto Rico
San Juan *(Computer Distributors, Inc.)*
Hato Rey *(West Indies & Grey)*

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Bucharest *(Crescendo)*

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St. Petersburg *(CSBI)*

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Riyadh *(Saudico Electronics System)*

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Taipei *(Ivan Information Technology Company)*

Thailand
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Tunisia
Tunis *(Discovery Informatiques)*

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Novi Sad *(Microsys d.o.o.)*

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