SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the Fiscal Year Ended November 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For The Transaction Period From To

Commission File Number: 0-19417
PROGRESS SOFTWARE CORPORATION
(Exact name of registrant as specified in its charter)

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

14 OAK PARK
BEDFORD, MASSACHUSETTS 01730
(Address of principal executive offices)
TELEPHONE NUMBER: (781) 280-4000

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

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

Common Stock $.01 par value
Title of each class

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

Yes X No ____

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

As of February 14, 2000, there were 35,693,816 shares outstanding of the registrant's common stock, $.01 par value. As of that date, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $615,694,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended November 30, 1999 are incorporated by reference into Parts I and II.

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 20, 2000 are incorporated by reference into Part III.

PART I

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. From time to time, information provided by the Company or statements made by its directors, officers or employees may contain "forward-looking" information which involves risks and uncertainties. Actual future results may differ materially. Statements indicating that the Company "expects," "estimates," "believes," "is planning" or "plans to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors which could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors are described in greater detail in the 1999 Annual Report to Shareholders under the heading "Factors That May Affect Future Results" and include, but are not limited to, the receipt and shipment of new orders, the timely release of enhancements to the Company's products, the growth rates of certain market segments, the positioning of the Company's products in those market segments, market acceptance of the application service provider distribution model, variations in the demand for customer service and technical support, pricing pressures and the competitive environment in the software industry, business and consumer use of the Internet, and the Company's ability to penetrate international markets and manage its international operations. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that the Company has identified all possible issues which the Company might face.

ITEM 1. BUSINESS

Progress Software Corporation ("PSC" or the "Company") is a global supplier of application development, deployment and management technology, Internet and intranet enabling technologies and support services to business, industry and government. To compete in a volatile, global, technology-driven economy, businesses need applications built and deployed within an architecture that is as flexible as fast-changing markets demand. The Company's software products and services address these challenges by increasing developer productivity, by delivering applications with a low total cost of ownership and by enhancing performance and availability. The Company's products include application servers, databases, development tools and application management products for Internet/Web, extranet and intranet applications as well as for client/server and host/terminal applications.

PSC offers several product lines. The Progress product line is an integrated, component-based visual development environment for building and deploying multi-tier, enterprise-class business applications. The Company's other product lines enable the development and deployment of distributed, multi-tier Java Internet business applications, and make it easy to measure, monitor and manage Internet, intranet and extranet solutions. To provide customers with the benefits of a total solution, PSC offers professional services from its worldwide consulting, education and technical support organizations.

PSC sells software products and services worldwide to organizations that develop and use mission-critical enterprise business applications. More than half of the Company's worldwide revenue is realized in partnership with Independent Software Vendors ("ISVs") who market applications that utilize the Company's technology. These ISVs sell Internet and networked business applications across diverse markets such as manufacturing, distribution, retail and health care. PSC also sells software products and services to the Information Technology ("IT") organizations of businesses and governments. The Company operates throughout North America, Latin America, Europe, Middle East, Africa ("EMEA") and the Asia/Pacific region through a network of subsidiaries and independent distributors.

Progress and WebSpeed are registered trademarks of PSC. Apptivity, ProVision, ProVision Plus, Open AppServer, SmartObjects, AppBuilder, SonicMQ, SmartAdapters, "Future Proof", IPQoS, IPAccounting and ASPEN are trademarks of PSC. All other trademarks or trade names appearing in this Form 10-K are the property of their respective owners.

BUSINESS STRATEGY

The Company was founded in 1981 to develop and market application development and deployment software. Its business strategy has been developed in response to user needs for application development tools that enable the rapid development and deployment of business-critical applications regardless of the computing environment. The Company's mission today is to deliver superior software products and services that empower its partners and customers to dramatically improve their development and deployment of quality applications worldwide. This mission encompasses the following strategic points:

- Rapid Application Development The Company's development tools and technologies are designed to be easy-to-use, intuitive, highly visual and component-based. This allows the Company's products and services to improve the productivity of developers in creating and maintaining complex applications.

- Application Deployment Flexibility The Company's products allow deployment across all major computing and networked environments: Internet/Web, client/server and host/terminal. The Progress Open AppServer and the Progress Apptivity Application Server provide "n-tier" computing support in order to improve application performance. The Company designs its products to operate across a broad range of midrange systems, workstations and PCs. The Company believes that application developers need the flexibility to deploy their applications across hardware, operating system platforms, databases and user interfaces that may be different from those on which their applications are originally developed. In addition, end-users need the flexibility to continue to use applications with minimal re-programming, even as they modify or upgrade their computing environments.

- Future Proof Business Applications A major focus for the Company is protecting the business application investments of its customers, making their applications "Future Proof." The Company's latest product releases offer a standards-based path for building and deploying functionally rich, distributed multi-tier applications.

- "Buy, Build, Subscribe" The Company enables sophisticated business applications to be bought, built or acquired as a service. As a result, 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 strategy means that an organization can take advantage of three options in accessing business applications. When packaged functionality does not already exist, or when a company seeks to out-distance the competition with unique capabilities that go beyond the offerings of any commercial software package, organizations 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. Organizations can also buy commercially available applications from an ISV, thus gaining standard or customizable functionality for immediate business benefit. A third option is also emerging: businesses can now access complex applications as a service from Application Service Providers ("ASPs"), and thus subscribe to applications over the Internet or other wide-area networks, rather than licensing software.

- Balanced Distribution The Company chose at an early stage to implement both direct and indirect channels of distribution to broaden its geographic reach, accelerate its sales expansion and leverage its sales force. The Company sells to both ISVs and to IT departments of corporations and government agencies. ISVs develop end-user applications for resale, and both IT customers and ISVs generally license additional deployment copies of the Company's products to run applications. To minimize channel conflict, PSC neither develops application software for distribution nor plans to do so in the future.

- Recurring Revenue The Company's distribution and pricing strategies are intended to generate recurring revenue. The sale of a development system can lead to follow-on sales as ISVs license additional copies of the Company's development and deployment products upon successful distribution of their applications, or as end-users deploy such applications within their organizations or upgrade their systems.

- Worldwide Market The Company has emphasized international sales through its subsidiaries and a network of independent distributors. Approximately 61% of the Company's revenue was derived from customers outside of North America in fiscal 1999.

- Customer Service The Company has made a strategic commitment to customer service. The Company believes that rapid changes in technology require not only continuous product enhancement but also a strong customer service effort to encourage product usage and maintain customer satisfaction. The Company provides a variety of technical support and service options under its annual maintenance programs, including an option for 24 hour, 7 day a week service. The Company also offers an extensive selection of training courses and on-site consulting services.

PROGRESS SOFTWARE PRODUCTS

The Company continues to deliver on its traditional strengths with intuitive development tools that empower developers to deliver high-quality applications -- faster and more productively. The Company delivers reliable, high-performance deployment products -- such as application servers, databases and Internet messaging servers -- that are essential to successful use of the application, result in low total cost of ownership and extend application lifecycles. The Company also has products that ensure overall network and application quality through measuring, monitoring and management. All Progress product lines are designed to continually integrate open standards while delivering high levels of performance.

The Company's core product line consists of Progress ProVision Plus, Progress WebSpeed, Progress RDBMS, Progress Open AppServer and Progress DataServers. The Progress product line provides a high degree of portability across a wide range of computing and networked environments while affording developers the flexibility to build applications on a range of database management products. The Company began shipping Progress Version 9, the latest major release of the Company's flagship product line of application development and deployment products, in December 1998.

DEVELOPMENT TECHNOLOGIES

PROGRESS PROVISION PLUS

Progress ProVision Plus is a programming environment that provides developers with a "visual road map" for developing and deploying complex enterprise applications. Progress ProVision Plus contains a set of integrated, graphical development tools that support a range of development approaches, including structured, procedural, event-driven and object approaches. Progress ProVision Plus is an Integrated Development Environment for developing and managing enterprise applications, whether they are web-based, client/server or distributed. Progress ProVision Plus lets developers share common business logic among a variety of clients, simplifying the creation and management of enterprise applications.

Developers can create all the required components for mission-critical, enterprise applications using Progress ProVision Plus. The product's tight integration with the Progress RDBMS allows developers to build a single, central repository that not only describes the database definitions but the application defaults and business rules as well. The Progress 4GL allows developers to build application business logic quickly and efficiently. Progress ProVision Plus also includes Progress SmartObjects, which makes creating attractive and effective graphical user interfaces fast and easy.

Progress ProVision Plus delivers one of the most comprehensive 4GL development and deployment toolsets in the industry. Based on the combined technologies of Progress ProVision and Progress WebSpeed Workshop, Progress ProVision Plus ensures that development efforts can be reused for greater efficiency. The Company also offers Progress ProVision and Progress WebSpeed Workshop as standalone products. Progress WebSpeed Workshop supports a component development paradigm that allows developers to create and share business logic across web and client/server applications. Developers can define and reuse SmartObjects in web and client/server applications, offering code inheritance, encapsulation and other object-oriented development features. Progress ProVision Plus provides common tools for web-based and client/server development, including:

- AppBuilder -- a productivity-enhancing suite of tools for client/server, web and character development.

- Roundtable Lite -- an integrated source code management and team collaboration system that provides version control, secure check-in/out, task management, impact analysis, change auditing, cross referencing and incremental compiling.

- Open Client Toolkit -- provides Open Client access to Progress Open AppServer functionality.

- AppServer Partition Deployment ProTool -- defines the location of business logic at runtime, increasing ease of development and deployment of distributed applications.

- Progress ProVision Plus Development Server -- includes a development database, AppServer and WebSpeed Transaction Server for quickly and easily testing distributed applications.

- WebTools -- a set of browser-based tools used for building and testing web applications.

- Progress Explorer -- defines and manages the Progress database, Progress Open AppServer and Progress WebSpeed Transaction Server.

- Progress Data Dictionary -- a central repository that describes the database definitions, application defaults and business rules.

- SmartObjects -- component technology that offers code inheritance, encapsulation and other object-oriented development features that allow the creation, customization and automatic assembly of components.

- Progress 4GL -- a high-level application development language that reduces development complexity by addressing all development needs within a single language.

- Wizards -- tools that speed development through the creation of reusable SmartObjects or Web Objects.

- Integration with ActiveX components for greater user interface flexibility and OLE automation for application interoperability.

- Integrated reporting tools including Report Builder, a graphical report writing tool for business analysts and application developers, and Results, an interactive data access and reporting tool that allows non-technical end-users to create ad-hoc queries and reports.

PROGRESS APPTIVITY DEVELOPER

Progress Apptivity Developer is an integrated application environment designed to simplify and accelerate the development of distributed, Web-deployed business applications that leverage the capabilities of the Progress Apptivity Application Server. The product provides a comprehensive toolset and component framework for developing both the client and server portions of the application. Progress Apptivity Developer provides a single integrated environment for building data-centric HTML pages, interactive Java forms and reusable Enterprise JavaBeans server components. The toolset includes a customizable environment, a color-coded editor, an integrated Java debugger and other productivity tools. Progress Apptivity Developer supports team-based development and speeds the development process with its SmartComponent framework and comprehensive set of wizards that perform many functions including page layout, creating client and server business logic and working with CORBA objects.

DEPLOYMENT TECHNOLOGIES: APPLICATION AND MESSAGING SERVERS

PROGRESS OPEN APPSERVER

Progress Open AppServer supports distributed enterprise applications that leverage existing investments, support new technologies, and communicate with other applications as needed. An integrated application server for both Progress Version 9 4GL-based applications and Progress WebSpeed Version 3 web-based applications, Progress Open AppServer forms a middle tier between an application's user interface and its back-end data. Progress Open AppServer allows interoperability with various clients and various data sources and improves the performance and scalability of business applications. Progress Open AppServer uses a component-based model for partitioning an application for efficient deployment. Progress 4GL procedures can be encapsulated into components that represent an application's business logic. These components can then be placed on client systems or onto faster server machines distributed throughout the enterprise or the web. When distributed, the business logic components are reusable across multiple applications. A new feature called the SmartDataObject gives developers the ability to create these components.

Progress Open AppServer components can run on a single Windows NT or UNIX workstation for faster processing or on multiple machines for failover capabilities. Additionally, all business logic and components can be accessed by multiple user interfaces for broad client support. The AppServer Partitioning Tool, part of Progress Version 9, makes it possible to code applications using distributed components or "partitions" that can be run either remotely on a Progress Open AppServer or locally on the client. Furthermore, the decision on whether to run remotely or locally can be made at runtime without recompiling the client application. A developer can create and compile an application once and deploy it in many different Progress Open AppServer configurations. Progress Open AppServers can connect across the network to other Progress Open AppServers in complex multi-tier configurations, allowing more effective enterprise business solutions that maximize available computing resources.

PROGRESS SONICMQ

Progress SonicMQ is a fast, flexible, scalable Internet messaging server designed to simplify the development and integration of today's highly distributed enterprise applications and Internet-based business solutions. Progress SonicMQ is one of the only standards-based Internet messaging servers that fully complies with Sun Microsystems' Java Messaging Server ("JMS") and the World Wide Web Consortium's XML specifications. Progress SonicMQ is designed to meet the most demanding performance requirements of business-to-business ("B2B") e-commerce.

Messaging allows distributed applications to exchange data and business logic with each other asynchronously. At its core stands an Internet messaging server, which manages the constant flow of business events between applications. The messaging server is like a postmaster who will deliver reliably, even if the message must be preserved until a disconnected receiver returns online. Messages marked for guaranteed delivery will arrive once, and only once, at the subscriber's address. Progress SonicMQ allows developers to quickly establish and maintain an efficient high-performance messaging structure that can handle the most complex business logic flow requirements without compromising application functionality.

Progress SonicMQ provides high-speed messaging capabilities for a large number of connections. Progress SonicMQ's feature set, including guaranteed delivery, durable subscriptions and persistent messaging, supports both data and message integrity. Progress SonicMQ supports both point-to-point and publish-and-subscribe communication models. The product's administration tools simplify the creation and maintenance of an efficient messaging system, which can be configured and managed remotely.

PROGRESS WEBSPEED TRANSACTION SERVER

Progress WebSpeed is a comprehensive environment for web-enabling existing applications and building new applications that deliver a high level of database connectivity and transaction management. Progress WebSpeed Transaction Server is one of two components within the Progress WebSpeed product line. Progress WebSpeed Transaction Server provides a robust platform for Internet Transaction Processing ("ITP") applications that require high scalability and rapid response rates. Progress WebSpeed Transaction Server provides high throughput, dynamic load balancing and scalability to handle thousands of simultaneous users. Progress WebSpeed Transaction Server includes record locking, transaction rollback and two-phase commit capabilities that safeguard application and data integrity, even if transactions are interrupted, and ensures the integrity of transactions that span multiple databases.

PROGRESS APPTIVITY APPLICATION SERVER

The Progress Apptivity Application Server is an open, standards-based and highly scalable application server that simplifies the process of web-enabling legacy business applications and data. The product includes numerous features such as SmartAdapters that allow applications to access an external data source through a standard data interface model. Since Progress Apptivity Application Server maintains business logic on a central server, applications can be deployed faster and with lower maintenance costs. Progress Apptivity's SmartConnect capabilities, which include native support for JDBC- and ODBC-compliant databases, allow developers to build content-rich applications that dynamically aggregate and manage data from diverse business processes and data sources. Progress Apptivity Application Server has multi-threaded server architecture that provides a secure and scalable foundation for business applications. Progress Apptivity Application Server includes comprehensive security, load balancing and automatic failover that ensures no single point of failure and provides a high level of application reliability and scalability.

DEPLOYMENT TECHNOLOGIES: DATABASES

PROGRESS RDBMS

The Progress RDBMS products are high-performance relational databases that can scale from a single-user Windows 95 system to massive symmetric multiprocessing ("SMP") and cache coherent non-uniform memory access ("ccNUMA") systems, supporting thousands of concurrent users. In addition to offering one of the lowest total costs of ownership and scalability, the Progress RDBMS products offer high availability, reliability, performance, and platform portability. With full support for ANSI SQL-92 Entry Level specification, Progress RDBMS products integrate with enterprise applications, tools and numerous third-party data management systems.

The three Progress RDBMS products -- the Progress Enterprise RDBMS, the Progress Workgroup RDBMS, and the Progress Personal RDBMS -- allow users to select a solution that satisfies their business objectives. The benefit to customers is that they pay for what is needed today and, as their requirements grow, they can upgrade to a more robust solution without changing program code.

The Progress Enterprise RDBMS is designed for large user environments and the transaction processing throughput of high volume SQL-based and Progress 4GL-based on-line transaction processing ("OLTP") applications. The Progress Enterprise RDBMS was developed with a flexible, multithreaded, multiserver architecture. The Progress Enterprise RDBMS is a powerful, open and large-scale enterprise database that can run across multiple hardware platforms and networks.

The Progress Enterprise RDBMS includes the functionality needed to meet demanding OLTP requirements. These capabilities include row-level locking, roll-back and roll-forward recovery, point-in-time recovery, distributed database management with two-phase commit, a complete suite of on-line utilities and full support for ANSI-standard SQL-92. Sophisticated self-tuning capabilities and simple graphical interfaces for system administration make the Progress Enterprise RDBMS easy to install, tune and manage. With low administration costs, low initial cost of licenses and upgrade fees and limited software implementation costs, the Progress Enterprise RDBMS provides a significant cost-of-ownership advantage over competing database products.

The Progress Workgroup RDBMS, which offers many of the same powerful capabilities as the Progress Enterprise RDBMS, is optimized for workgroups of two to thirty simultaneous users. This cost-effective, department-level solution provides high performance, multi-user support and cross-platform interoperability. The Progress Workgroup RDBMS meets the needs of workgroup applications by running on a wide variety of hardware and operating system platforms. Because the flexible database architecture provides optimal throughput on all supported platforms, a database developed on one machine can serve applications on other systems and network configurations.

The Progress Personal RDBMS is bundled with Progress development tools, including Progress ProVision Plus, and is suitable for deploying single-user SQL-based and 4GL-based applications and for developing, prototyping and testing applications.

DEPLOYMENT TECHNOLOGIES: DATASERVERS

PROGRESS DATASERVERS

The Company provides developers with a transparent interface to a wide range of database management systems through Progress DataServers. These products offer full read, write, update and delete capabilities to diverse data management systems and enable developers to write applications once and deploy them across a broad spectrum of data sources. Progress DataServers also enable existing Progress 4GL and web-based applications to access non-Progress data sources and allow the integration of new and legacy applications with diverse databases.

Progress DataServer products include the Progress Oracle DataServer, the Progress ODBC DataServer, which is available in Enterprise and Personal editions, and the Progress/400 DataServer. These products provide an environment for developing and deploying Progress 4GL and web-based applications designed for heterogeneous, distributed computing environments.

APPLICATION MANAGEMENT PRODUCTS

The Internet Software Quality ("ISQ") product line includes a set of products designed to provide solutions geared toward the management of applications and networks by monitoring their availability, performance and recoverability. The ISQ product line consists primarily of Progress IPQoS and Progress IPAccounting Framework.

PROGRESS IPQOS

Progress IPQoS enables developers to introduce a new element into network management capabilities -- the ability to monitor service levels for specific network resources throughout the entire network. Progress IPQoS measures and monitors the overall availability and performance of applications, file systems and services over distributed networks. Progress IPQoS is designed to deliver a comprehensive application and resource monitoring and measuring system that provides reporting, notification and recoverability features.

PROGRESS IPACCOUNTING FRAMEWORK

Progress IPAccounting Framework provides developers with an environment for the rapid development of custom business solutions that require the inspection, analysis and logging of IP network traffic. Progress IPAccounting Framework allows developers to create applications to capture and analyze full messages and session content from any type of TCP/IP or UDP/IP application.

PRODUCT DEVELOPMENT

To date, most of the Company's products have been developed by its internal product development staff. The Company believes that the features and performance of its products are competitive with those of other available application development and deployment tools and that none of the current versions of its products is approaching obsolescence. However, the Company believes that significant investments in new product development and continuing enhancements of its current products will be required to enable the Company to maintain its competitive position.

The Company intends to focus its principal future product development efforts on developing new products and updating existing products in order to realize the Company's vision of the expected direction of application development technology -- which the Company describes as Universal Application Architecture ("UAA"). UAA is an approach to application development and deployment technology that relies on server-centric performance and maintainability, component-based modularity and standards-based interoperability and integration.

In the server-centric UAA model, the business logic of an application resides primarily on the server, accessed by users with Web browsers or thin clients. Application code that is more suitable for client side execution, such as user interface logic, data entry validation, and the like, is distributed as needed to the client but managed by the server. Component-based modularity is an application development technique derived from object-oriented programming in which applications are built as encapsulated blocks of logic. The product direction of future releases is to offer ISVs standards-based paths for building and deploying functionally rich, distributed, integrated multi-tier applications. This will enable them to take advantage of the emerging ASP and Internet B2B market opportunities.

The Company's product development staff consisted of 242 employees as of November 30, 1999. Product development is primarily conducted at the Company's offices in Bedford, Massachusetts, Newark, California and Nashua, New Hampshire. Limited work related to product localization may also be performed at the Company's international subsidiaries. In fiscal years 1999, 1998 and 1997, the Company spent $38.8 million, $32.2 million and $28.9 million, respectively, on product development, of which $0.5 million, $2.0 million and $1.9 million, respectively, were capitalized in those years. The Company believes that the experience and depth of its product development staff are important factors in the Company's success.

CUSTOMERS

The Company markets its products worldwide to ISVs and IT departments of corporations and government agencies. No single customer has accounted for more than 10% of the Company's total revenue in any of its last three fiscal years.

Independent Software Vendors The Company's ISVs provide the Company with broad market coverage, offer an extensive library of commercial applications and are a source of follow-on revenue. PSC publishes Application Catalogs and includes ISVs in trade shows and other marketing programs. PSC also has kept entry costs for ISVs low to encourage a wide variety of ISVs to build applications. An ISV typically takes 6 to 12 months to develop an application. Although many of the Company's ISVs have developed successful applications and have large installed customer bases, others are engaged in earlier stages of product development and marketing and may not contribute follow-on revenue to PSC for some time, if at all. However, if an ISV succeeds in marketing its applications, the Company obtains follow-on revenue as the ISV licenses copies of the Company's deployment products to permit its application to be installed and used by customers.

IT Departments PSC licenses its products to IT departments of corporations, government agencies and other organizations to build complex applications. Many IT departments that purchase ISV applications often also purchase the Company's development tools to supplement their internal application development. Like ISVs, IT customers may also license deployment products to install applications at additional user sites.

SALES AND MARKETING

The Company sells its products through its direct sales force in the United States and in over 20 other countries and through independent distributors in over 50 countries outside North America. The sales, marketing and service groups are organized by region into North America, EMEA, Asia/Pacific, Latin America and Japan. The Company believes that this structure allows it to maintain direct contact with and better support its customers and to control its international distribution. The Company's international operations provide focused local marketing efforts and are better able to directly respond to changes in local conditions. Financial information relating to business segment and international operations is detailed in Note 10 of Notes to Consolidated Financial Statements on page 51 in the 1999 Annual Report to Shareholders and is incorporated herein by reference. Risks and uncertainties related to the Company's international operations are detailed under the heading "Factors That May Affect Future Results" on pages 31 to 35 in the 1999 Annual Report to Shareholders and are incorporated herein by reference.

Sales personnel are responsible for developing new ISV and IT accounts, assisting ISVs in closing major accounts and servicing existing customers. The Company actively seeks to avoid conflict between the sales efforts of its ISVs and the Company's own sales efforts.

PSC uses its telephone sales and sales administration groups to enhance its direct sales efforts and to generate new business and follow-on business from existing customers. These groups may provide evaluation copies to ISVs or IT organizations to help qualify them as prospective customers, and also sell additional development and deployment products to existing customers.

The Company is investing significant resources in its ASPEN (ASP ENablement) program. The ASP business model has the potential to revolutionize the way software is delivered. With the Company's ASPEN program, ISVs get the support they need to gain a foothold in this new marketplace. PSC's ASPEN program offers business planning assistance, industry recognition, technology, services and partnerships to help ISVs transform their Progress-based applications into ASP-enabled applications. These new applications, available on a subscription basis and accessed over the Internet rather than purchased, allow small and mid-tier organizations to more quickly and economically gain access to application functionality previously unavailable to them. ASP-enabled applications reduce traditional IT infrastructure costs because they are developed and maintained by service providers rather than an internal IT staff.

The Company's marketing department conducts extensive marketing programs designed to ensure a stream of market-ready products, raise general awareness of PSC, generate leads for the PSC sales organization and promote the Company's various product lines. These programs include public relations, direct mail, participation in trade shows, advertising and production of collateral literature. The Company sponsored a single worldwide user conference in the United States in fiscal 1999. The Company is planning to hold regional user conferences in the United States and Spain in fiscal 2000.

CUSTOMER SUPPORT AND PROFESSIONAL SERVICES

The Company's technical support staff provides telephone support to application developers and end-users using a computerized call tracking and problem reporting system. PSC also provides custom software development, consulting services and training throughout the world. The Company's software licenses generally are perpetual licenses. Customers may also purchase an annual maintenance service entitling them to software updates, technical support and technical bulletins. The annual fee for maintenance is generally 15% to 20% of the current list price of the product to be maintained; first year maintenance is not included with the Company's products and is purchased separately. The Company provides technical support to customers primarily through its technical support centers in Bedford, Massachusetts, Rotterdam, The Netherlands and Melbourne, Australia. Additional localized support may also be provided by international subsidiaries in their own countries.

The Company's professional services organization delivers a total business solution for customers through a combination of products, consulting and education. The Company's worldwide consulting organization offers project management, custom development, programming, application implementation and Internet, migration and other services. The Company's consulting organization also provides services to Web-enable existing applications or take advantage of the capabilities of new product releases.

Consulting and training services for customers outside North America are provided by personnel at the Company's international subsidiaries and distributors. Revenue from maintenance and services was 54%, 53% and 49% of total revenue for fiscal years 1999, 1998 and 1997, respectively.

COMPETITION

The computer software industry is intensely competitive. The Company experiences significant competition from a variety of sources with respect to all its products. The Company believes that the breadth and integration of its product offerings have become increasingly important competitive advantages. Other factors affecting competition in the markets served by the Company include product performance in complex applications, application portability, vendor experience, ease of integration, price, training and support. The Company believes that it competes favorably with respect to these factors.

The Company competes in various markets with a number of entities including database vendors offering development tools in conjunction with their database systems, such as Informix Corporation, Microsoft Corporation, Oracle Corporation and Sybase, Inc., as well as numerous application server vendors and application development tools vendors. The Company believes that the database market is currently dominated by Oracle and Microsoft, and that there is no dominant application development tools or application server vendor. Some 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.

COPYRIGHTS, TRADEMARKS, PATENTS AND LICENSES

In accordance with industry practice, the Company relies upon a combination of contractual provisions and copyright, patent, trademark and trade secret laws to protect its proprietary rights in its products. The Company distributes its products under software license agreements that grant customers a perpetual non-exclusive license to use the Company's products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of the Company's products. In addition, the Company attempts to protect its trade secrets and other proprietary information through agreements with employees and consultants. Although the Company intends to protect its rights vigorously, there can be no assurance that these measures will be successful.

The Company seeks to protect the source code of its products as a trade secret and as an unpublished copyrighted work. The Company holds a patent on SmartObjects and has also made patent applications for some of its various other product technologies. Where possible, the Company seeks to obtain protection of its product names through trademark registration and other similar procedures.

The Company believes that, due to the rapid pace of innovation within its industry, factors such as the technological and creative skills of its personnel are as equally important in establishing and maintaining a leadership position within the industry as are the various legal protections of its technology. In addition, the Company believes that the nature of its customers, the importance of the Company's products to them and their need for continuing product support reduce the risk of unauthorized reproduction.

BACKLOG

The Company generally ships its products within 30 days after acceptance of a customer purchase order and execution of a license agreement. Accordingly, the Company does not believe that its backlog at any particular point in time is indicative of future sales levels.

EMPLOYEES

As of November 30, 1999, the Company had 1,363 employees worldwide, including 519 in sales and marketing, 397 in customer support and services (including manufacturing and distribution), 242 in product development and 205 in administration. The competition in recruiting skilled technical personnel in the computer software industry is intense. The Company believes that its ability to attract and retain qualified employees is an important factor in its growth and development, and that its future success will depend, in large measure, on its ability to continue to attract and retain qualified employees. To date, the Company has been successful in recruiting and retaining sufficient numbers of qualified personnel to effectively conduct its business. None of the Company's employees is represented by a labor union. The Company has experienced no work stoppages and believes its relations with employees are good.

The Company has various equity incentive plans which permit the granting of options to eligible employees and the purchase of shares by eligible employees. The payment of cash bonuses and contributions to retirement plans is at the discretion of the compensation committee of the Board of Directors and the amounts depend on the level of attainment relative to the Company's financial plan. These programs are designed to minimize employee turnover, although there can be no assurance that such programs will be successful.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the executive officers of the Company.

NAME	AGE	POSITION
Joseph W. Alsop	54	President and Director
David G. Ireland	53	Vice President and General Manager, Worldwide Field Operations
Richard D. Reidy	40	Vice President, Products
Norman R. Robertson	51	Vice President, Finance and Administration and Chief Financial Officer

Mr. Alsop, a founder of the Company, has been a director and President of the Company since its inception in 1981.

Mr. Ireland joined the Company in September 1997 as Vice President, Core Products and Services and was elected Vice President and General Manager, Core Products and Services in March 1998 and Vice President and General Manager, Worldwide Field Operations in December 1999. From 1994 to 1997, Mr. Ireland was employed by Marcam Corporation, a computer software company, as a Vice President and General Manager.

Mr. Reidy was elected Vice President, Development Tools in July 1996 and was elected Vice President, Product Development in July 1997 and Vice President, Products in December 1999. From 1995 to 1996, Mr. Reidy held various management positions within the product development organization of the Company. Mr. Reidy joined the Company in June 1985.

Mr. Robertson joined the Company in May 1996 as Vice President, Finance and Chief Financial Officer and was elected Vice President, Finance and Administration and Chief Financial Officer in December 1997. From 1993 to 1996 he was employed by M/A-COM, Inc., a telecommunications company, as Director of Finance and Administration.

ITEM 2. PROPERTIES

The Company's principal administrative, sales, support, marketing and product development facility is located in a single leased building of approximately 165,000 square feet in Bedford, Massachusetts. The Company leases approximately 58,000 square feet in Wilmington, Massachusetts and maintains its manufacturing and distribution operations at this location. In addition, the Company maintains offices in 15 other locations in North America and 35 locations outside North America. The Bedford lease expires in August 2002. The terms of all other leases generally range from one to seven years. The Company believes that its present and proposed facilities are adequate for its current needs and that suitable additional space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of the fiscal year ended November 30, 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The information appearing under the caption "Market for Registrant's Common Equity and Related Shareholder Matters" on page 53 of the 1999 Annual Report to Shareholders is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information appearing under the caption "Selected Consolidated Financial Data" on page 20 of the 1999 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 21 to 35 of the 1999 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing under the caption "Quantitative and Qualitative Disclosures About Market Risk" on pages 29 and 30 of the 1999 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, related notes and independent auditors' report appearing on pages 36 to 52 of the 1999 Annual Report to Shareholders and the information appearing under the caption "Selected Quarterly Financial Data" on page 53 of the 1999 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding executive officers set forth under the caption "Executive Officers of the Registrant" in Item 1 of this Annual Report is incorporated herein by reference.

The information regarding directors set forth under the caption "Election of Directors" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 20, 2000, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1999, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Executive Compensation" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 20, 2000, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1999, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership of Certain Holders and Management" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 20, 2000, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1999, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Certain Relationships and Related Transactions" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 20, 2000, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1999, is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS

The following financial statements are included in the Company's 1999 Annual Report to Shareholders and are incorporated herein by reference:

Consolidated Balance Sheets as of November 30, 1999 and 1998
Consolidated Statements of Operations for the years ended November 30, 1999, 1998, and 1997
Consolidated Statements of Shareholders' Equity for the years ended November 30, 1999, 1998, and 1997
Consolidated Statements of Cash Flows for the years ended November 30, 1999, 1998, and 1997
Notes to Consolidated Financial Statements
Independent Auditors' Report

Supplemental Financial Data not covered by the Independent Auditors' Report:

Selected Quarterly Financial Data

(b) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed by the Company during the fourth quarter of the fiscal year ended November 30, 1999.

(c) EXHIBITS

Documents listed below, except for documents identified by parenthetical numbers, are being filed as exhibits herewith. Documents identified by parenthetical numbers are not being filed herewith and, pursuant to Rule 12b-32 of the General Rules and Regulations promulgated by the Commission under the Securities Exchange Act of 1934 (the "Act"), reference is made to such documents as previously filed as exhibits with the Commission. The Company's file number under the Act is 0-19417.

3.1	Restated Articles of Organization of the Company(1)
3.1.1	Articles of Amendment to Restated Articles of Organization filed on January 19, 1995(2)
3.1.2	Articles of Amendment to Restated Articles of Organization filed on November 17, 1997(3)
3.1.3	Articles of Amendment to Restated Articles of Organization filed on May 6, 1999
3.2	By-Laws of the Company, as amended and restated(4)
4.1	Specimen certificate for the Common Stock of the Company(5)
10.1	1984 Incentive Stock Option Plan, with amendments(6)
10.2	Amended and Restated 1984 Incentive Stock Option Plan(7)
10.3	1991 Employee Stock Purchase Plan, as amended(8)
10.4	Progress Software Corporation 401(k) Plan with Fidelity Institutional Retirement Services Company(9)
10.5	1992 Incentive and Nonqualified Stock Option Plan(10)
10.6	First Amended and Restated Lease dated August 11, 1994 between the Company and the Equitable Life Assurance Company of the United States(11)
10.7	1994 Stock Incentive Plan(12)
10.8	1993 Directors' Stock Option Plan(13)
10.9	1997 Stock Incentive Plan, as amended(14)
10.10	Employee Retention and Motivation Agreement executed by each of the Executive Officers(15)
10.10.1	First amendment to Employee Retention and Motivation Agreement executed by each of the Executive Officers(16)
13.1	1999 Annual Report to Shareholders (which is not deemed to be "filed" except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K)
21.1	List of Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP
27.1	Financial Data Schedule (EDGAR version only)

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(1) Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997.

(2) Incorporated by reference to Exhibit 3.1.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1994.

(3) Incorporated by reference to Exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997.

(4) Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 31, 1991.

(5) Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

(6) Incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

(7) Incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

(8) Incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1998.

(9) Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1991.

(10) Incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1992.

(11) Incorporated by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

(12) Incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

(13) Incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

(14) Incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1999.

(15) Incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1998.

(16) Incorporated by reference to Exhibit 10.10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1999.

(d) FINANCIAL STATEMENT SCHEDULES

All schedules are omitted because they are not applicable or the required information is shown on the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 25th day of February, 2000.

PROGRESS SOFTWARE CORPORATION

By: /s/ JOSEPH W. ALSOP
Joseph W. Alsop
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JOSEPH W. ALSOP Joseph W. Alsop	President and Director (Principal Executive Officer)	February 25, 2000
/s/ NORMAN R. ROBERTSON Norman R. Robertson	Vice President, Finance and Administration and Chief Financial Officer (Principal Financial Officer)	February 25, 2000
/s/ DAVID H. BENTON, JR. David H. Benton, Jr.	Vice President and Corporate Controller (Principal Accounting Officer)	February 25, 2000
/s/ LARRY R. HARRIS Larry R. Harris	Director	February 25, 2000
/s/ ROGER J. HEINEN, JR. Roger J. Heinen, Jr.	Director	February 25, 2000
/s/ MICHAEL L. MARK Michael L. Mark	Director	February 25, 2000
/s/ ARTHUR J. MARKS Arthur J. Marks	Director	February 25, 2000
/s/ SCOTT A. MCGREGOR Scott A. McGregor	Director	February 25, 2000
/s/ AMRAM RASIEL Amram Rasiel	Director	February 25, 2000

EXHIBIT 3.1.3

FEDERAL IDENTIFICATION
NO. 04-2746201

THE COMMONWEALTH OF MASSACHUSETTS
William Francis Galvin
Secretary of the Commonwealth
One Ashburton Place, Boston, Massachusetts 02108-1512

ARTICLES OF AMENDMENT
(General Laws, Chapter 156B, Section 72)

We, Joseph W. Alsop , President

and James D. Freedman , Clerk

of Progress Software Corporation,
(Exact name of corporation)

located at 14 Oak Park, Bedford, Massachusetts 01730 .
(Street address of corporation in Massachusetts)

certify that these Articles of Amendment affecting articles numbered:

3
(Number those articles 1 ,2, 3, 4, 5 and/or 6 being amended)

of the Articles of Organization were duly adopted at a meeting held on April 23, 1999, by vote of:

11,725,870 shares of Common Stock of 17,269,526 shares outstanding,
(type, class & series if any)

shares of of shares outstanding, and

shares of of shares outstanding,
(type, class & series if any)

1** being at least a majority of each type, class or series outstanding and entitled to vote thereon:

To change the number of shares and the par value (if any) of any type, class or series of stock which the corporation is authorized to issue, fill in the following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	50,000,000	$.01
Preferred:		Preferred:	1,000,000	$.01

Change the total authorized to:

WITHOUT PAR VALUE STOCKS		WITH PAR VALUE STOCKS		
TYPE	NUMBER OF SHARES	TYPE	NUMBER OF SHARES	PAR VALUE
Common:		Common:	75,000,000	$.01
Preferred:		Preferred:	1,000,000	$.01

The foregoing amendments(s) will become effective when these Articles of Amendment are filed in accordance with General Laws, Chapter 156B, Section 6 unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date.

Later effective date: -----------------

SIGNED UNDER THE PENALTIES OF PERJURY, this 5th day of May, 1999,

/s/ JOSEPH W. ALSOP

Joseph W. Alsop
President

/s/ JAMES D. FREEDMAN

James D. Freedman
Clerk

THE COMMONWEALTH OF MASSACHUSETTS

ARTICLES OF AMENDMENT
(General Laws, Chapter 156B, Section 72)

I hereby approve the within restated Articles of Amendment, and the filing fee in the amount of $25,000.00 having been paid, said article is deemed to have been filed with me this 6th day of May, 1999.

WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION

Photocopy of the document to be sent to:

James W. Romeo, Esquire

Progress Software Corporation
----
14 Oak Park

Bedford, MA 01730

EXHIBIT 13.1

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,				
	1999	1998	1997	1996	1995
Statement of Operations Data:					
Revenue:					
Software licenses	$131,499	$113,312	$ 95,579	$ 93,178	$110,785
Maintenance and services	154,648	126,578	92,735	83,512	69,350
Total revenue	286,147	239,890	188,314	176,690	180,135
Costs and expenses:					
Cost of revenue	68,133	56,038	41,238	38,539	31,896
Sales and marketing	104,809	96,832	87,570	87,830	79,546
Product development	38,339	30,154	26,991	23,951	24,175
General and administrative	28,162	26,839	23,202	21,909	18,813
Non-recurring charges	--	--	11,537	--	2,373
Total costs and expenses	239,443	209,863	190,538	172,229	156,803
Income (loss) from operations	46,704	30,027	(2,224)*	4,461	23,332**
Other income, net	4,739	3,941	5,356	3,869	3,169
Income before provision for income taxes	51,443	33,968	3,132*	8,330	26,501**
Provision for income taxes	16,452	11,210	4,739	2,833	9,817
Net income (loss)	$ 34,991	$ 22,758	$ (1,607)*	$ 5,497	$ 16,684**
Basic earnings (loss) per share	$ 1.01	$ 0.66	$ (0.04)*	$ 0.14	$ 0.44**
Weighted average shares outstanding (basic)	34,488	34,458	36,336	38,468	38,022
Diluted earnings (loss) per share	$ 0.89	$ 0.59	$ (0.04)*	$ 0.14	$ 0.41**
Weighted average shares outstanding (diluted)	39,212	38,560	36,336	39,666	40,514
Balance Sheet Data:					
Cash and short-term investments	$158,665	$113,999	$ 93,485	$ 97,323	$ 92,338
Working capital	111,616	69,188	67,760	84,207	85,271
Total assets	256,554	206,708	171,733	173,188	175,736
Long-term debt, including current portion	--	--	--	122	162
Shareholders' equity	142,311	102,693	96,439	113,793	113,481

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

* Includes non-recurring charges related to the acquisition of Apptivity Corporation 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. See Note 2 of Notes to Consolidated Financial Statements.

** Includes a non-recurring charge for purchase of in-process software development of $2.4 million or $0.06 per diluted share. Excluding this non-recurring item, net income would have been $19.1 million or $0.47 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, the positioning of the Company's products in those market segments, market acceptance of the application service provider distribution model, variations in the demand for customer service and technical support, pricing pressures and the competitive environment in the software industry, business and consumer use of the Internet, and the Company's ability to penetrate international markets and manage its international operations. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that the Company has identified all possible issues which the Company might face.

RESULTS OF OPERATIONS The Company's total revenue in fiscal 1999 increased 19% from its total revenue in fiscal 1998. The Company's net income increased 54% from $22.8 million in fiscal 1998 to $35.0 million in fiscal 1999. The Company's total revenue in fiscal 1998 increased 27% from its total revenue in fiscal 1997. The Company's net income increased 135% from $9.7 million, excluding non-recurring, acquisition-related charges, in fiscal 1997 to $22.8 million in fiscal 1998. After including the effect of the non-recurring charges of $11.5 million related to the acquisition of Apptivity Corporation (Apptivity), the Company recorded a net loss of $1.6 million in fiscal 1997.

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 — Year Ended November 30, 1999	1998	1997	Period-to-Period Change — 1999 Compared to 1998	1998 Compared to 1997
Revenue:					
Software licenses	46%	47%	51%	16%	19%
Maintenance and services	54	53	49	22	36
Total revenue	100	100	100	19	27
Costs and expenses:					
Cost of software licenses	5	4	5	31	1
Cost of maintenance and services	19	19	17	20	47
Sales and marketing	37	41	47	8	11
Product development	13	13	14	27	12
General and administrative	10	11	12	5	16
Non-recurring charges	--	--	6	--	--
Total costs and expenses	84	88	101	14	10
Income (loss) from operations	16	12	(1)	56	*
Other income, net	2	2	3	20	(26)
Income before provision for income taxes	18	14	2	51	985
Provision for income taxes	6	5	3	47	137
Net income (loss)	12%	9%	(1)%	54	*

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* Not meaningful

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 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 is attributable to greater acceptance of the Company's products, including Progress Version 8 and Progress Version 9, the latest versions of 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 Independent Software Vendors (ISVs), value-added resellers who resell the Company's products in conjunction with the sale of their applications. The increase in sales to ISVs is 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. The Company is dedicating more resources to its service business in order to take advantage of the market opportunities associated with companies Web-enabling their business applications and buying packaged applications and engaging service providers to customize such packages.

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 Europe, Middle East and Africa (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 enterprise resource planning (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 as compared to the exchange rates in effect in fiscal 1998.

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 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 software licenses as a percentage of software license revenue can vary 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 increased 20% from $46.0 million in fiscal 1998 to $54.9 million in fiscal 1999, but remained the same percentage of maintenance and services revenue in each year at 36%. 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. The Company expects its headcount for technical support, consulting and education to continue to increase in fiscal 2000 primarily due to the need to satisfy increased demand for consulting services. However, there can be no assurance that the Company will be successful in recruiting and retaining such personnel.

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 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 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. 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 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 Company's 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 US federal tax rate. See Note 7 of Notes to Consolidated Financial Statements. The Company expects its effective tax rate to remain at approximately 32% in fiscal 2000.

FISCAL 1998 COMPARED TO FISCAL 1997 The Company's total revenue increased 27% from $188.3 million in fiscal 1997 to $239.9 million in fiscal 1998. Total revenue would have increased by 30% in fiscal 1998 from fiscal 1997 if exchange rates had been constant as compared to the exchange rates in effect in fiscal 1997.

Software license revenue increased 19% from $95.6 million in fiscal 1997 to $113.3 million in fiscal 1998. The increase in software license revenue in fiscal 1998 as compared to fiscal 1997 was due to greater acceptance of the Progress Version 8 product family, and, to a lesser extent, new Internet-focused products such as Progress WebSpeed and Progress Apptivity. Progress Version 8.3, released in May 1998, provided customers with increased capabilities through its 32-bit architecture and enhanced database and reporting tools features. 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, dataservers and reporting tools products.

Maintenance and services revenue increased 36% from $92.7 million in fiscal 1997 to $126.6 million in fiscal 1998. The maintenance and services revenue increase was primarily a result of growth in the Company's installed customer base, greater demand for consulting services and renewal of maintenance contracts. The Company dedicated more resources to its service businesses in order to take advantage of the market opportunities associated with companies buying packaged applications and engaging service providers to customize such packages.

Total revenue generated in markets outside North America increased 23% from $111.5 million in fiscal 1997 to $137.0 million in fiscal 1998 and represented 57% of total revenue in fiscal 1998 as compared to 58% in fiscal 1997. Total revenue generated in markets outside North America would have represented 58% of total revenue in fiscal 1998 if exchange rates had been constant as compared to the exchange rates in effect in fiscal 1997.

Cost of software licenses increased 1% from $10.0 million in fiscal 1997 to $10.1 million in fiscal 1998, but decreased as a percentage of software license revenue from 10% to 9%. The percentage decrease was due to lower documentation costs and lower amortization expense from capitalized software costs.

Cost of maintenance and services increased 47% from $31.2 million in fiscal 1997 to $46.0 million in fiscal 1998 and increased as a percentage of maintenance and services revenue from 34% to 36%. The percentage increase was due primarily to a change in the mix of maintenance and service revenue as consulting revenue increased at a greater rate than maintenance revenue and education revenue. Consulting revenue generally has a lower margin than either maintenance or education revenue due to the amount of resources required to produce such revenue. The dollar increase was due primarily to an increase in the technical support, consulting and education staff in fiscal 1998 as compared to fiscal 1997 and greater usage of third-party contractors to fulfill demand for consulting services. The Company increased its technical support, education, and consulting staff from 230 at the end of fiscal 1997 to 282 at the end of fiscal 1998.

Sales and marketing expenses increased 11% from $87.6 million in fiscal 1997 to $96.8 million in fiscal 1998, but decreased as a percentage of total revenue from 47% to 41%. The percentage decrease in sales and marketing expenses was primarily due to improved productivity as revenue increased at a greater rate than sales and marketing expenses during fiscal 1998 as compared to fiscal 1997. The dollar increase in sales and marketing expenses was primarily due to increased headcount and higher average compensation costs, including commissions, for the sales, sales support and marketing staff. Worldwide sales and marketing headcount increased from 454 at the end of fiscal 1997 to 476 at the end of fiscal 1998.

Product development expenses increased 12% from $27.0 million in fiscal 1997 to $30.2 million in fiscal 1998, but decreased as a percentage of total revenue from 14% to 13%. The dollar increase was primarily due to increased personnel costs. The increase in personnel costs was primarily due to higher average compensation costs and increased headcount to support continued new product development efforts. The major product development efforts in fiscal 1998 related to the development of the next versions of the Company's various product lines, including Progress Version 9.0, Progress Apptivity Versions 2 and 3 and various new products for the Internet Software Quality (ISQ) product line. The Company capitalized $1.9 million of software development costs in fiscal 1997 and $2.0 million in fiscal 1998. The product development staff increased from 199 at the end of fiscal 1997 to 225 at the end of fiscal 1998.

General and administrative expenses increased 16% from $23.2 million in fiscal 1997 to $26.8 million in fiscal 1998, but decreased as a percentage of total revenue from 12% to 11%. The dollar increase in general and administrative expenses was primarily due to higher staff levels and average personnel costs and increased goodwill charges resulting from recent acquisitions. The Company increased its administrative staff from 180 at the end of fiscal 1997 to 191 at the end of fiscal 1998.

Income from operations increased as a percentage of total revenue from (1)% in fiscal 1997 (including non-recurring charges of $11.5 million related to the acquisition of Apptivity) to 12% in fiscal 1998. Excluding the non-recurring charges, income from operations in fiscal 1997 was 5% of total revenue.

In fiscal 1997, the Company acquired all of the outstanding stock of Apptivity, a developer of Java-based application development tools, for approximately $11.2 million, consisting of $3.8 million in cash, $1.4 million in assumed and other liabilities, the issuance of 1,186,970 shares of common stock valued at $5.5 million and the assumption of stock options valued at $0.5 million. The acquisition has been accounted for as a purchase, and accordingly, the results of operations have been included in the Company's operating results from the date of acquisition. The allocation of the purchase price included $10.8 million to in-process software development which was charged to operations as part of the non-recurring charges in the third quarter of fiscal 1997. Additionally, the Company recorded a non-recurring charge of $0.7 million for the writedown of certain capitalized software costs and other intangible assets to fair value after evaluating the impact of the acquisition upon the Company's future operating plans.

Excluding the non-recurring charges, income from operations increased due to continued sales productivity improvement and expense control, especially in North America and EMEA. These increases in fiscal 1998 were partially offset by operating losses in regions outside of North America and EMEA, primarily in Latin America, as the Company invested in expanding its presence in the region.

Other income decreased 26% from $5.4 million in fiscal 1997 to $3.9 million in fiscal 1998. The decrease was primarily due to foreign currency gains in fiscal 1997 versus foreign currency losses in fiscal 1998 and lower amounts from the minority interest in fiscal 1998, offset to some extent by higher interest income. The foreign currency gain in fiscal 1997 related primarily to gains from the Company's foreign currency hedging programs. Minority interest included as a component of other income (expense) reflects the portion of the income or loss in the Company's joint venture in Japan which is attributable to the 49% minority interest. The increase in interest income was due to higher average cash balances in fiscal 1998 as compared to fiscal 1997.

The Company's effective tax rate was 33% in fiscal 1998 compared to 151% in fiscal 1997. The decrease in the effective tax rate in fiscal 1998 from fiscal 1997 was due to nondeductible expenses related to the acquisition of Apptivity in fiscal 1997. Excluding these nondeductible expenses, the Company's effective tax rate for fiscal 1997 was 34%.

LIQUIDITY AND CAPITAL RESOURCES At the end of fiscal 1999, the Company's cash and short-term investments totaled $158.7 million. The increase in the balance of $44.7 million since the end of fiscal 1998 resulted from cash generated from operations and proceeds from stock issuances under the stock purchase plan and exercise of options, partially offset by common stock repurchases and capital expenditures.

In fiscal years 1999, 1998 and 1997, the Company generated $61.1 million, $58.5 million and $33.7 million, respectively, in cash from operations. The increase in each year was primarily due to higher net income, partially offset by the timing of payments related to accounts payable and other accrued liabilities, smaller increases in the deferred revenue balance and changes in the accounts receivable balance. Accounts receivable increased each year primarily due to revenue growth. The Company's accounts receivable days sales outstanding were 55 days, 53 days and 61 days at the end of fiscal years 1999, 1998 and 1997, respectively. The improvement from fiscal 1997 was due to more effective collection efforts in fiscal 1999 and fiscal 1998.

In fiscal years 1999, 1998 and 1997, the Company purchased and retired $9.3 million, $10.0 million and $10.0 million, respectively, of property and equipment, which consisted primarily of computer equipment and software, furniture and fixtures and leasehold improvements. The level of property and equipment purchases resulted primarily from continued growth of the business and replacement of older equipment. The Company financed these purchases primarily from cash generated from operations. See Note 4 of Notes to Consolidated Financial Statements.

In fiscal years 1999, 1998 and 1997, the Company purchased and retired 2,042,238 shares, 3,500,970 shares and 4,702,800 shares, respectively, of its common stock for $24.8 million, $33.2 million and $26.6 million, respectively. The Company financed these purchases primarily from cash generated from operations.

In September 1999, the Board of Directors authorized, for the period October 1, 1999 through September 30, 2000, 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 plans. At November 30, 1999, approximately 9,975,000 shares of common stock remained available for repurchase under this authorization.

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 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 is effective for fiscal years beginning after June 15, 2000. The Company will adopt SFAS 133 in the first quarter of fiscal 2001. The Company is currently evaluating this statement, but does not expect the adoption of SFAS 133 to have a material effect 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.

The Company's exposure to market rate risk for changes in interest rates relates to the Company's investment portfolio. The Company has not used derivative financial instruments in its investment portfolio. The Company places its investments with high quality issuers and has policies limiting, among other things, the amount of credit exposure to any one issuer. The Company limits default risk by purchasing only investment-grade securities. The Company's investments are all fixed rate instruments. In addition, the Company has classified all its debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk. Information about the Company's investment policies and portfolio is in Notes 1 and 3 of Notes to Consolidated Financial Statements.

The Company has entered into foreign exchange option and forward contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific) against fluctuations in exchange rates. The Company has not entered into foreign exchange option and forward contracts for speculative or trading purposes. The Company's accounting policies for these contracts are based on the Company's designation of the contracts as hedging transactions. The criteria the Company uses for designating a contract as a hedge include the contract's effectiveness in risk reduction and matching of derivative instruments to the underlying transactions. Market value increases and decreases on the foreign exchange option and forward contracts are recognized in income in the same period as gains and losses on the underlying transactions. The Company operates in certain countries where there are limited forward currency exchange markets and thus the Company has unhedged transaction exposures in these currencies. The Company generally does not hedge the net assets of its international subsidiaries. Information about the Company's foreign currency option contracts is set forth in Note 1 of Notes to Consolidated Financial Statements.

YEAR 2000 The Year 2000 presented potential concerns and issues for the Company as well as other companies in the information technology industry. In general, Year 2000 readiness issues in computer software and hardware systems relate to the use two digit date formats, instead of four digits, to represent a particular year.

The Company established a global project team to coordinate the Company's Year 2000 readiness efforts and address the impact of the Year 2000 date transition on its operations. The project team met regularly and reported to an executive steering committee composed of the Chief Financial Officer, the General Counsel and the General Manager for Worldwide Field Operations. The Company's initial Year 2000 readiness plans encompassed four phases. The first phase was an inventory and assessment of the Company's internal systems. The second phase was testing such systems for Year 2000 readiness. The third phase was remediation, representing the repair or replacement of any non-compliant hardware or software, and the fourth phase was contingency planning and preparation. The Company completed all phases and has not experienced any disruptions in its internal operations or systems, both information technology (IT) and non-IT systems, related to the Year 2000. These systems are based primarily on the Company's own software products with respect to applications and also include third-party software and hardware technology.

The Company believes that the most current versions of its products, including available patches, have not been adversely affected by the Year 2000 date change. The Company did not test products that were retired on or before January 1, 2000. The Company encouraged customers who are using such products to either upgrade to a more current version or conduct their own testing to determine if continued use of such products allows them to meet their own Year 2000 readiness objectives.

The Company has not experienced an increase in technical support calls since the new year related to Year 2000 readiness issues. However, there can be no assurance that the Company will not experience unanticipated negative consequences or material costs caused by undetected errors or defects in its products. While the Company believes that the most current versions of its products are Year 2000 ready, other factors may result in an application created using the Company's products not being Year 2000 ready. Some of these factors include improper programming techniques used in creating the application or non-compliance of the underlying hardware or operating system on which the software runs. The Company does not believe that it would be liable in such events. However, due to the unprecedented nature of potential litigation related to Year 2000 readiness as discussed in the industry and popular press, the most likely worst case scenario is that the Company would be subject to litigation. It is uncertain whether or to what extent the Company may be affected by such litigation.

All costs related to Year 2000 issues were expensed as incurred. Costs for addressing Year 2000 readiness issues were not material. Most of these expenses represented time spent by employees. The Company also continually upgrades and improves its facilities and IT systems. Such costs are integrated into the operating budgets of each geographic area or function and are not separately maintained as Year 2000-related expenses.

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. In addition, risks and uncertainties related to Year 2000 issues are described above under the heading "Year 2000."

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

The Company develops, markets and supports application development, deployment and management software. Its core product line, Progress, is composed primarily of Progress ProVision, Progress RDBMS, Progress WebSpeed, Progress Open AppServer and Progress DataServers. In December 1998, the Company began shipping the latest major enhancement to the Progress product line, Progress Version 9.0. The Progress Apptivity product line consists of Apptivity Developer and Apptivity Server. The Company began commercial shipments of Progress Apptivity Version 3.2 in October 1999. The Company began commercial shipments of Progress SonicMQ, an Internet messaging server, in December 1999. The ISQ product line is a set of software products that measure, monitor and manage the availability, performance and recoverability of enterprise networks and ensure overall system and application quality. Progress IPQoS Version 2.0 began shipping in March 1999. The Company believes that the Progress product set, Progress SonicMQ, Progress Apptivity and the ISQ product set have features and functionality that enable the Company to compete effectively with other vendors of application development products. Ongoing enhancements to these product lines will be required to enable the Company to maintain its competitive position. There can be no assurance that the Company will be successful in developing and marketing enhancements to its products on a timely basis, or that the enhancements will adequately address the changing needs of the marketplace. Delays in the release of enhancements could have a material adverse effect on the Company's business, financial condition and operating results.

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

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

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

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

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

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

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

Approximately 58% of the Company's total revenue in fiscal 1999, as compared to 53% in fiscal 1998, was attributable to international sales made through its subsidiaries. Because a substantial portion of the Company's total revenue is derived from such international operations which are primarily conducted in foreign currencies, changes in the value of these foreign currencies relative to the United States dollar may affect the Company's results of operations and financial position. The Company engages in certain currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on the Company's results of operations. However, there can be no assurance that such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. If for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, the Company's business could be adversely affected.

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

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

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

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

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

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

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	November 30, 1999	November 30, 1998
Assets		
Current assets:		
Cash and equivalents	$ 81,651	$ 50,155
Short-term investments	77,014	63,844
Accounts receivable (less allowances of $7,259 in 1999 and $7,147 in 1998)	47,952	40,779
Other current assets	9,406	9,855
Deferred income taxes	9,836	8,415
Total current assets	225,859	173,048
Property and equipment, net	20,594	22,458
Capitalized software costs, net	3,155	4,742
Other assets	6,946	6,460
Total	$ 256,554	$ 206,708
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 14,041	$ 12,461
Accrued compensation and related taxes	24,344	23,041
Income taxes payable	8,723	10,276
Other accrued liabilities	8,962	8,140
Deferred revenue	58,173	49,942
Total current liabilities	114,243	103,860
Minority interest in subsidiary	--	155
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, 75,000,000 shares in 1999 and 50,000,0000 shares in 1998; issued and outstanding, 35,552,862 shares in 1999 and 34,180,582 shares in 1998	40,491	18,966
Retained earnings	103,904	84,115
Accumulated other comprehensive loss	(2,084)	(388)
Total shareholders' equity	142,311	102,693
Total	$ 256,554	$ 206,708

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended November 30,		
	1999	1998	1997
Revenue:			
Software licenses	$ 131,499	$ 113,312	$ 95,579
Maintenance and services	154,648	126,578	92,735
Total revenue	286,147	239,890	188,314
Costs and expenses:			
Cost of software licenses	13,188	10,085	10,000
Cost of maintenance and services	54,945	45,953	31,238
Sales and marketing	104,809	96,832	87,570
Product development	38,339	30,154	26,991
General and administrative	28,162	26,839	23,202
Non-recurring charges	--	--	11,537
Total costs and expenses	239,443	209,863	190,538
Income (loss) from operations	46,704	30,027	(2,224)
Other income (expense):			
Interest income	5,054	4,529	3,756
Foreign currency gain (loss)	(374)	(632)	1,135
Minority interest	155	113	556
Other expense	(96)	(69)	(91)
Total other income, net	4,739	3,941	5,356
Income before provision for income taxes	51,443	33,968	3,132
Provision for income taxes	16,452	11,210	4,739
Net income (loss)	$ 34,991	$ 22,758	$ (1,607)
Basic earnings (loss) per share	$ 1.01	$ 0.66	$ (0.04)
Weighted average shares outstanding (basic)	34,488	34,458	36,336
Diluted earnings (loss) per share	$ 0.89	$ 0.59	$ (0.04)
Weighted average shares outstanding (diluted)	39,212	38,560	36,336

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Comprehensive Income (Loss)	Common Stock and Additional Paid-in Capital: Number of Shares	Common Stock and Additional Paid-in Capital: Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balance, December 1, 1996		37,898	$ 41,435	$ 72,280	$ 78	$ 113,793
Exercise of employee stock options		942	4,163			4,163
Issuance of stock under ESPP		112	511			511
Repurchase of common stock		(4,703)	(26,553)			(26,553)
Stock option compensation			16			16
Tax benefits from stock plans			488			488
Issuance of stock in connection with Apptivity acquisition		1,187	5,437			5,437
Stock options assumed in connection with Apptivity acquisition			522			522
Unrealized gains on investments	$ 4				4	4
Translation adjustments	(335)				(335)	(335)
Net loss	(1,607)			(1,607)		(1,607)
Comprehensive loss	$ (1,938)					
Balance, November 30, 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

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended November 30,		
	1999	1998	1997
Cash flows from operating activities:			
Net income (loss)	$ 34,991	$ 22,758	$ (1,607)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	10,641	10,750	10,596
Non-recurring charges	--	--	11,537
Allowances for accounts receivable	2,098	3,617	1,807
Amortization of capitalized software costs	2,101	1,771	2,072
Amortization of intangible assets	586	1,032	241
Deferred income taxes	(2,013)	(4,834)	(2,950)
Minority interest in subsidiary	(155)	(113)	(556)
Non-cash compensation	81	--	16
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(12,458)	(8,702)	(4,905)
Other current assets	(311)	(2,326)	(2,120)
Accounts payable and accrued expenses	5,258	8,854	9,252
Income taxes payable	8,905	8,609	3,908
Deferred revenue	11,331	17,062	6,359
Total adjustments	26,064	35,720	35,257
Net cash provided by operating activities	61,055	58,478	33,650
Cash flows from investing activities:			
Purchases of investments available for sale	(59,606)	(57,025)	(33,809)
Maturities of investments available for sale	45,631	47,033	31,238
Sales of investments available for sale	--	440	15,068
Purchase of property and equipment	(9,331)	(10,038)	(10,048)
Capitalized software costs	(514)	(1,968)	(1,864)
Acquisitions, net of cash acquired	--	(5,000)	(3,847)
Decrease (increase) in other non-current assets	(578)	(24)	59
Net cash used for investing activities	(24,398)	(26,582)	(3,203)
Cash flows from financing activities:			
Proceeds from issuance of common stock	20,611	12,078	4,674
Repurchase of common stock	(24,828)	(33,217)	(26,553)
Contributions from minority interest	--	--	603
Payment of obligations under capital leases	--	--	(116)
Net cash used for financing activities	(4,217)	(21,139)	(21,392)
Effect of exchange rate changes on cash	(944)	(53)	(476)
Net increase in cash and equivalents	31,496	10,704	8,579
Cash and equivalents, beginning of year	50,155	39,451	30,872
Cash and equivalents, end of year	$ 81,651	$ 50,155	$ 39,451

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) develops, markets and distributes application development, deployment and management technology and Internet and intranet enabling technologies to business, industry and government worldwide. The Company also provides consulting, education and support to its customers through its worldwide professional services organization.

USE OF ESTIMATES The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 accompanying 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 currently as a component of foreign currency gain or loss. The notional principal amount of outstanding foreign exchange option contracts at November 30, 1999 was $71.8 million. Unrealized market value gains on such contracts were immaterial at November 30, 1999. Major U.S. multinational banks are counterparties to the option contracts.

MINORITY INTEREST IN SUBSIDIARY Minority interest in subsidiary represents the joint venture partners' proportionate share of the equity in Progress Software K.K. (PSKK), a Japanese joint stock corporation established in January 1995 to market and support the Company's products in Japan. At November 30, 1999, the Company owned 51% of the capital stock of PSKK.

REVENUE RECOGNITION 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. Maintenance revenue is deferred and recognized ratably over the term of the agreement. Revenue from services, primarily consulting and customer education, is recognized as the related services are performed. The Company follows the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition" and its amendments. The application of this statement at the beginning of fiscal 1998 did not have a material effect on the revenue recognition practices of the Company.

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 1999, 1998 and 1997, the Company paid $9.5 million, $7.2 million and $3.8 million in income taxes, respectively. The Company had the following noncash financing activities: income tax benefit from employees' exercise of stock options of $10.5 million, $4.8 million and $0.5 million in fiscal years 1999, 1998 and 1997, respectively, and stock issued and options assumed in the acquisition of Apptivity of $6.0 million in fiscal 1997.

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 is recorded at cost. Depreciation and amortization is provided on the straight-line method over the estimated useful lives (three to ten 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 continually 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 $9.0 million and $6.9 million at November 30, 1999 and 1998, 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 $1.1 million and $1.2 million at November 30, 1999 and 1998, 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 $0.8 million and $0.6 million at November 30, 1999 and 1998, 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).

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 $20.1 million at November 30, 1999.

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

COMPREHENSIVE INCOME Effective December 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," which requires presentation of the components of comprehensive income, including unrealized gains and losses on investments and foreign currency translation adjustments. Accumulated foreign currency translation losses, net of taxes, were approximately $1.9 million and $0.9 million at November 30, 1999 and 1998, respectively. Accumulated unrealized gains (losses) on short-term investments, net of taxes, were approximately $(0.2) million and $0.5 million at November 30, 1999 and 1998, respectively.

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

NOTE 2: BUSINESS COMBINATIONS AND NON-RECURRING CHARGES

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.

In July 1997, the Company acquired all of the outstanding stock of Apptivity Corporation (Apptivity), a developer of Java-based application development tools, for approximately $11.2 million, consisting of $3.8 million in cash, $1.4 million in assumed and other liabilities, the issuance of 1,186,970 shares of common stock valued at $5.5 million and the assumption of stock options valued at $0.5 million. The acquisition has been accounted for as a purchase, and accordingly, the results of operations have been included in the Company's operating results from the date of acquisition. The allocation of the purchase price included $10.8 million to in-process software development which was charged to operations as part of the non-recurring charges in the third quarter of fiscal 1997. Additionally, the Company recorded a non-recurring charge of $0.7 million for the writedown of certain capitalized software costs and other intangible assets to fair value after evaluating the impact of the acquisition upon the Company's future operating plans. If this acquisition had been made at the beginning of fiscal 1997, 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 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

The fair value of debt securities at November 30, 1999, by contractual maturity, was as follows:

(In thousands)	
Due in one year or less (including $46,036 classified as cash equivalents)	$ 83,621
Due after one year	39,429
Total	$123,050

A summary of the Company's investments available for sale by major security type (including $23.1 million classified as cash equivalents) at November 30, 1998 was as follows:

(In thousands) Security Type:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$22,864	--	--	$22,864
Obligations of states and political subdivisions	57,212	$ 341	$ (28)	57,525
U.S. government obligations	6,323	190	--	6,513
Total	$86,399	$ 531	$ (28)	$86,902

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(In thousands)	November 30, 1999	November 30, 1998
Equipment and software	$52,686	$46,989
Furniture and fixtures	6,295	5,919
Leasehold improvements	9,891	9,082
Total	68,872	61,990
Less accumulated depreciation and amortization	48,278	39,532
Property and equipment, net	$20,594	$22,458

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, 1999, 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. Such 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 for all years presented have been restated to reflect the split.

In fiscal years 1999, 1998 and 1997, the Company purchased and retired 2,042,238 shares, 3,500,970 shares and 4,702,800 shares, respectively, of its common stock for $24.8 million, $33.2 million and $26.6 million, respectively.

In September 1999, the Board of Directors authorized, for the period October 1, 1999 through September 30, 2000, 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 plans. At November 30, 1999, approximately 9,975,000 shares of common stock remained available for repurchase under this authorization.

STOCK OPTIONS In April 1992, the shareholders adopted and approved the 1992 Incentive and Nonqualified Stock Option Plan (1992 Plan) and terminated the 1984 Incentive Stock Option Plan (1984 Plan). Options granted and outstanding under the 1984 Plan remain outstanding and are exercisable in accordance with their terms, but no further options will be granted under the 1984 Plan. In August 1994, the shareholders of the Company adopted and approved the 1994 Stock Incentive Plan (1994 Plan) and the 1993 Directors' Stock Option Plan (Directors' Plan). The Directors' Plan permitted certain option grants to non-employee directors.

In April 1997, the shareholders of the Company adopted and approved the 1997 Stock Incentive Plan (1997 Plan). Upon the approval of the 1997 Plan, the Directors' Plan was terminated. Options granted and outstanding under the Directors' Plan remain outstanding and are exercisable in accordance with their terms, but no further options will be granted under the Directors' Plan. The 1994 and 1997 Plans permit the granting of stock incentive 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. However, no awards other than incentive and non-qualified stock options have been granted under either the 1994 or 1997 Plans in fiscal years 1999, 1998 and 1997.

In April 1999, the shareholders of the Company adopted and approved an increase of 3,000,000 shares of Common Stock authorized for issuance under the 1997 Plan. A total of 17,040,000 shares are issuable under the 1992, 1994 and 1997 Plans, of which approximately 3,118,000 shares were available for grant at November 30, 1999.

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, 1996	8,598	$ 5.45
Granted	3,200	4.92
Exercised	(942)	4.43
Canceled	(1,778)	5.49
Options outstanding, November 30, 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

At the end of fiscal years 1999, 1998 and 1997, the Company had 2,854,000 shares, 3,808,000 shares and 3,640,000 shares of exercisable options, respectively, with weighted average exercise prices of $6.66, $5.81 and $5.67 per share, respectively.

For various exercise price ranges, characteristics of outstanding stock options at November 30, 1999 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
$ 0.22 - 1.67	12	4.00	$ 0.67
4.50 - 6.23	2,690	6.20	5.17
6.54 - 7.23	2,240	7.04	7.20
9.00-12.19	1,168	9.08	9.79
12.69-16.69	1,798	9.24	12.95
$ 0.22-16.69	7,908	7.55	$ 8.19

(In thousands, except per share data)

	Options Exercisable	
Range of Exercise Price:	Number of Shares	Weighted Average Exercise Price
$ 0.22- 1.67	8	$ 0.83
4.50- 6.23	1,524	5.21
6.54- 7.23	956	7.20
9.00-12.19	178	9.81
12.69-16.69	188	12.93
$ 0.22-16.69	2,854	$ 6.66

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 1999, 1998 and 1997, 217,002 shares, 120,412 shares and 112,436 shares, respectively, were issued with a weighted average purchase price of $9.54, $7.63 and $4.55 per share, respectively, under the ESPP. At November 30, 1999, approximately 711,000 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 1999, 1998 and 1997 reported below has been estimated at the date of grant using a Black-Scholes option valuation model with the following ranges of assumptions:

Stock Purchase Plan:	Year Ended November 30, 1999	1998	1997
Expected volatility	35.1-65.0%	29.2-44.1%	39.1-53.1%
Risk-free interest rate	4.1-5.4%	5.0-5.2%	5.1-5.3%
Expected life in years	1.1	0.6	0.5
Expected dividend yield	None	None	None

Stock Options:	Year Ended November 30, 1999	1998	1997
Expected volatility	46.5-47.5%	43.2-45.6%	43.0-44.1%
Risk-free interest rate	4.5-6.2%	4.7-5.7%	5.9-6.8%
Expected life in years	6.0	6.5	6.6
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 (loss) and pro forma diluted earnings (loss) per share would have been:

(In thousands, except per share data)	Year Ended November 30, 1999	1998	1997
Pro forma net income (loss)	$31,072	$20,870	$(3,040)
Pro forma diluted earnings (loss) per share	$0.79	$0.54	$(0.08)

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. The Company's options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. Based on the above assumptions, the weighted average estimated fair value of options granted in fiscal years 1999, 1998 and 1997 was $6.59, $4.03 and $2.79 per share, respectively. The weighted average estimated fair value for shares issued under the ESPP in fiscal years 1999, 1998 and 1997 was $4.43, $3.08 and $2.05 per share, respectively.

The effect on pro forma net income (loss) and pro forma diluted earnings (loss) per share in fiscal years 1999, 1998 and 1997 is not necessarily indicative of the effects on pro forma net income and pro forma diluted earnings per share in future years.

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 $2.5 million, $2.4 million and $1.8 million for fiscal years 1999, 1998 and 1997, respectively.

NOTE 7: INCOME TAXES

The components of pretax income (loss) were as follows:

(In thousands)	Year Ended November 30,		
	1999	1998	1997
United States	$37,527	$29,236	$(1,402)
Non-U.S	13,916	4,732	4,534
Total	$51,443	$33,968	$ 3,132

The provisions for income taxes were comprised of the following:

(In thousands)	Year Ended November 30,		
	1999	1998	1997
Current:			
Federal	$11,571	$11,419	$ 5,226
State	2,109	2,015	467
Foreign	4,785	2,610	1,996
Total current	18,465	16,044	7,689
Deferred:			
Federal	(1,902)	(3,448)	(2,316)
State	(378)	(684)	(454)
Foreign	267	(702)	(180)
Total deferred	(2,013)	(4,834)	(2,950)
Total	$ 16,452	$ 11,210	$ 4,739

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

(In thousands)	November 30,	
	1999	1998
Deferred tax liabilities:		
Capitalized software costs	$ (589)	$ (1,112)
Total deferred tax liabilities	(589)	(1,112)
Deferred tax assets:		
Accounts receivable	2,713	2,826
Depreciation and amortization	2,559	1,688
Other current assets	1,044	720
Accrued compensation	699	70
Deferred revenue	2,657	2,784
Tax loss carryforwards	1,982	1,461
Accrued liabilities and other	2,272	1,869
Total deferred tax assets	13,926	11,418
Valuation allowance	(1,211)	(1,315)
Total	$ 12,126	$ 8,991

The valuation allowance applies to deferred tax assets, primarily net operating loss carryforwards, in the U.S. and in certain foreign jurisdictions where realization is not assured. The change in the valuation allowance of $0.1 million, $0.0 million and $0.4 million in fiscal years 1999, 1998 and 1997, respectively, primarily related to tax loss carryforwards. Noncurrent deferred taxes of $2.3 million and $0.6 million were included in other assets at November 30, 1999 and 1998, respectively.

The Company has net operating loss carryforwards of $3.4 million expiring on various dates through 2012 and $1.9 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,		
	1999	1998	1997
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
Non-U.S	1.7	4.3	16.2
Foreign sales corporation	(4.5)	(4.5)	(3.5)
Research credits	(1.2)	(2.9)	(4.8)
State income taxes, net	2.2	2.5	8.5
Tax-exempt interest	(1.6)	(2.0)	(23.3)
Nondeductible in-process software development	--	--	117.3
Other	0.4	0.6	5.9
Total	32.0%	33.0%	151.3%

NOTE 8: OPERATING LEASES

The Company leases certain facilities and equipment under noncancelable operating lease arrangements. Future minimum rental payments at November 30, 1999 under these leases are as follows:

(In thousands)	
2000	$ 8,454
2001	7,165
2002	5,331
2003	2,540
2004	1,884
Thereafter	5,306
Total	$30,680

Total rent expense under all operating leases was approximately $7.4 million, $7.0 million and $6.2 million for fiscal years 1999, 1998 and 1997, 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

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 requires public companies to report financial and descriptive information about their reportable operating segments, and also establishes standards for related disclosures about products and services, geographic areas and major customers. Generally, financial information is required to be reported on the basis used internally by the chief operating decision-maker to evaluate segment performance and determine resource allocation. The Company operates in a single segment consisting of the development, marketing and support of application development, deployment and management 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,		
	1999	1998	1997
Revenue from unaffiliated customers:			
Licenses	$131,499	$113,312	$ 95,579
Maintenance	104,230	83,613	66,064
Consulting and education	50,418	42,965	26,671
Total	$286,147	$239,890	$188,314

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,		
	1999	1998	1997
Revenue from unaffiliated customers:			
North America	$111,081	$102,893	$ 76,847
EMEA	128,012	100,507	80,501
Latin America	28,577	22,269	16,415
Asia Pacific	18,477	14,221	14,551
Total	$286,147	$239,890	$188,314

Revenue from the United Kingdom totaled $34.0 million, $24.0 million and $15.9 million for fiscal years 1999, 1998 and 1997, 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 $18.1 million, $20.6 million and $21.5 million in the United States and $7.2 million, $7.7 million and $7.3 million outside of the United States for fiscal years 1999, 1998 and 1997, respectively. No individual country exceeded 10% of the Company's consolidated long-lived assets.

INDEPENDENT AUDITORS' REPORT

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, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended November 30, 1999. 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 generally accepted auditing standards. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 1999, in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
December 17, 1999 (January 21, 2000 as to the effects of the stock split in Note 5)

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
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
1998				
Revenue	$54,146	$57,106	$59,482	$69,156
Income from operations	4,868	5,939	7,968	11,252
Net income	3,547	4,673	6,161	8,377
Diluted earnings per share	0.10	0.12	0.16	0.21

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 on the market under the Nasdaq symbol "PRGS."

	Year Ended November 30,			
	1999		1998	
	High	Low	High	Low
First Quarter	$19.19	$12.38	$ 9.34	$6.29
Second Quarter	17.63	9.94	11.54	8.46
Third Quarter	16.88	12.10	14.00	9.00
Fourth Quarter	21.25	13.94	13.59	8.63

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. The Company presently intends to retain its earnings to finance further growth of its business. As of December 31, 1999, the Company's common stock was held by approximately 5,500 shareholders of record or through nominee or street name accounts with brokers.

EXHIBIT 21.1

SUBSIDIARIES OF PROGRESS SOFTWARE CORPORATION

North America	
Barbados	Progress Software International Sales Corporation
Canada	Progress Software Corporation of Canada Ltd.
Connecticut	Crescent Software, Inc.
Delaware	Progress Software International Corporation
Delaware	Progress Software Corporation
Massachusetts	Apptivity Corporation
Massachusetts	Progress Security Corporation
Europe	
Austria	Progress Software GesmbH
Belgium	Progress Software NV
Czech Republic	Progress Software spol. s.r.o.
Denmark	Progress Software A/S
Finland	Progress Software Oy
France	Progress Software S.A.
Germany	Progress Software GmbH
Italy	Progress Software Italy S.r.l.
Netherlands	Progress Software B.V.
Netherlands	Progress Software Europe B.V.
Norway	Progress Software A/S
Poland	Progress Software sp. z.o o.
Spain	Progress Spain S.A.
Sweden	Progress Software Svenska AB
Switzerland	Progress Software A.G.
United Kingdom	Progress Software Ltd.
Other	
Argentina	Progress Software de Argentina S.A.
Australia	Progress Software Pty. Ltd.
Brazil	Progress Software do Brasil Ltda.
Colombia	Progress Software de Colombia S.A.
Hong Kong	Progress Software Corporation Limited
Japan	Progress Software K.K.
Mexico	Progress Software, S.A. de C.V.
Singapore	Progress Software Pte. Ltd.
South Africa	Tresso Trading 10 (Pty.) Limited

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-41752, 33-43045, 33-50654, 33-58892, 33-96320, 333-41393, 333-41401, 333-41403, 333-80571 and 333-80559 of Progress Software Corporation and its subsidiaries on Form S-8 of our report dated December 17, 1999 (January 21, 2000 as to the effects of the stock split in Note 5), incorporated by reference in this Annual Report on Form 10-K of Progress Software Corporation and its subsidiaries for the year ended November 30, 1999.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
February 25, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS CONTAINED IN THE COMPANY'S FORM 10-K FOR THE YEAR ENDING NOVEMBER 30, 1999 AND IS QUALIFIED IN IT'S ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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12-MOS
NOV-30-1999
DEC-01-1998
NOV-30-1999
81,651
77,014
55,211
7,259
0
225,859
68,872
48,278
256,554
114,243
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0
0
40,491
101,820
256,554
131,499
286,147
13,188
239,443
0
0
0
51,443
16,452
34,991
0
0
0
34,991
1.01
0.89