UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☑ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended August 31, 2002

OR

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

Commission File Number: **0-19417**

PROGRESS SOFTWARE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes __X__ No ____

As of October 7, 2002, there were 34,125,000 shares of the Registrant's Common Stock, $.01 par value per share, outstanding.

TABLE OF CONTENTS

PROGRESS SOFTWARE CORPORATION
FORM 10-Q
FOR THE THREE MONTHS ENDED AUGUST 31, 2002

INDEX

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Condensed Consolidated Balance Sheets (unaudited)

(In thousands, except share data)	**August 31, 2002**	**November 30, 2001**
Assets		
Current assets:		
Cash and equivalents	$130,304	$108,337
Short-term investments	66,438	66,179
Accounts receivable (less allowances of $7,830 in 2002 and $6,333 in 2001)	42,951	54,230
Other current assets	9,555	11,067
Deferred income taxes	9,500	9,632
Total current assets	258,748	249,445
Property and equipment, net	35,145	36,990
Other assets	10,919	12,945
Total	$304,812	$299,380
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 7,783	$ 10,386
Accrued compensation and related taxes	19,390	20,146
Income taxes payable	8,033	8,886
Other accrued liabilities	9,665	10,323
Deferred revenue	67,547	64,463
Total current liabilities	112,418	114,204
Commitments and contingent liabilities		
Shareholders' equity:		
Common stock, $.01 par value, and additional paid-in capital; authorized, 100,000,000 shares; issued and outstanding, 35,478,516 in 2002 and 35,621,071 shares in 2001	40,880	42,382
Retained earnings, including accumulated other comprehensive loss of $2,273 in 2002 and $2,720 in 2001	151,514	142,794
Total shareholders' equity	192,394	185,176
Total	$304,812	$299,380

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Operations (unaudited)

(In thousands, except per share data)	Three Months Ended Aug 31, 2002	Three Months Ended Aug 31, 2001	Nine months Ended Aug 31, 2002	Nine months Ended Aug 31, 2001
Revenue:				
Software licenses	$22,842	$23,560	$ 68,342	$ 69,660
Maintenance and services	46,141	43,531	132,678	124,241
Total revenue	68,983	67,091	201,020	193,901
Costs and expenses:				
Cost of software licenses	2,505	2,767	7,973	7,914
Cost of maintenance and services	14,146	14,670	42,774	41,908
Sales and marketing	27,146	25,723	77,581	76,419
Product development	10,459	10,390	31,740	31,106
General and administrative	7,405	7,441	21,945	21,842
Total costs and expenses	61,661	60,991	182,013	179,189
Income from operations	7,322	6,100	19,007	14,712
Other income (expense):				
Interest income	1,131	1,534	3,345	5,286
Investment impairment charge	—	—	(1,000)	—
Foreign currency losses	(632)	(554)	(1,809)	(1,763)
Other	16	12	41	(58)
Total other income (expense), net	515	992	577	3,465
Income before provision for income taxes	7,837	7,092	19,584	18,177
Provision for income taxes	2,351	2,198	5,875	5,634
Net income	$ 5,486	$ 4,894	$ 13,709	$ 12,543
Earnings per share:				
Basic	$ 0.15	$ 0.14	$ 0.38	$ 0.35
Diluted	$ 0.14	$ 0.13	$ 0.35	$ 0.33
Weighted average shares outstanding:				
Basic	35,962	35,396	35,809	35,401
Diluted	38,251	38,724	38,923	38,420

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)	Nine months Ended August 31, 2002	Nine months Ended August 31, 2001
Cash flows from operating activities:		
Net income	$ 13,709	$ 12,543
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,455	9,084
Investment impairment charge	1,000	—
Deferred income taxes and other	69	369
Changes in operating assets and liabilities:		
Accounts receivable	13,216	1,593
Other current assets	1,564	2,865
Accounts payable and accrued expenses	(4,460)	(5,270)
Income taxes payable	1,430	(2,086)
Deferred revenue	852	5,473
Net cash provided by operating activities	35,835	24,571
Cash flows from investing activities:		
Purchases of investments available for sale	(23,481)	(29,410)
Maturities of investments available for sale	23,254	28,398
Purchases of property and equipment	(5,654)	(6,001)
Capitalized software costs	—	(392)
Acquisitions	—	(2,188)
Increase in other non-current assets	88	(277)
Net cash used for investing activities	(5,793)	(9,870)
Cash flows from financing activities:		
Proceeds from issuance of common stock	8,345	7,964
Repurchase of common stock	(17,724)	(8,802)
Net cash used for financing activities	(9,379)	(838)
Effect of exchange rate changes on cash	1,304	(107)
Net increase in cash and equivalents	21,967	13,756
Cash and equivalents, beginning of period	108,337	90,722
Cash and equivalents, end of period	$130,304	$104,478

See notes to condensed consolidated financial statements.

Table of Contents

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Progress Software Corporation (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001.

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

Note 2: Revenue Recognition

Revenue is recognized when earned. 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. The Company does not license its software with a right of return and generally does not license its software with conditions of acceptance. If an arrangement does contain conditions of acceptance, recognition of the revenue is deferred until the acceptance criteria are met or the period of acceptance has passed. The Company generally recognizes revenue for products distributed through indirect channels, including independent software vendors, original equipment manufacturers and distributors, when sold through to the end user.

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

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

Note 3: Income Taxes

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

Note 4: Investment in Related Party

The Company holds a minority interest in EasyAsk, Inc., a privately-held software company whose chairman is on the board of directors of the Company. The Company regularly monitors the carrying value of its investment in EasyAsk. The investment was valued at $0.3 million at August 31, 2002 and is included in other assets. In the second quarter of fiscal 2002, the Company recorded an impairment charge of $1.0 million related to this investment.

Note 5: 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. The following table sets forth the calculation of basic and diluted earnings per share on an interim basis:

(In thousands, except per share data) Three Months Ended August 31,	2002	2001
Net income	$ 5,486	$ 4,894
Weighted average shares outstanding	35,962	35,396
Dilutive impact from outstanding stock options	2,289	3,328
Diluted weighted average shares outstanding	38,251	38,724
Basic earnings per share	$ 0.15	$ 0.14
Diluted earnings per share	$ 0.14	$ 0.13

(In thousands, except per share data) Nine Months Ended August 31,	2002	2001
Net income	$13,709	$12,543
Weighted average shares outstanding	35,809	35,401
Dilutive impact from outstanding stock options	3,114	3,019
Diluted weighted average shares outstanding	38,923	38,420
Basic earnings per share	$ 0.38	$ 0.35
Diluted earnings per share	$ 0.35	$ 0.33

Approximately 857,000 and 855,000 outstanding stock options were excluded from the calculation of diluted earnings per share in the three months ended August 31, 2002 and 2001, respectively, because these options were anti-dilutive. However, these options could be dilutive in the future.

Note 6: Comprehensive Income

Comprehensive income includes foreign currency translation gains and losses, net of tax, and unrealized gains and losses on investments and hedging contracts, net of tax, that have been previously excluded from net income and reflected instead in shareholders’ equity. The following table sets forth the calculation of comprehensive income on an interim basis:

(In thousands) Three Months Ended August 31,	2002	2001
Net income	$5,486	$4,894
Foreign currency translation adjustments	212	127
Unrealized gains on foreign exchange hedging contracts	106	—
Unrealized holding gains on investments	180	190
Total comprehensive income	$5,984	$5,211

(In thousands) Nine Months Ended August 31,	2002	2001
Net income	$13,709	$12,543
Foreign currency translation adjustments	621	(170)
Unrealized losses on foreign exchange hedging contracts	(209)	—
Unrealized holding gains on investments	35	703
Total comprehensive income	$14,156	$13,076

Note 7: Accounting Changes

Effective June 1, 2002, the Company adopted Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) No. 01-14, “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred” (EITF 01-14). EITF 01-14 requires reimbursements received for out-of-pocket expenses to be reflected as revenues and to reclassify prior period financial statements to conform with the current period presentation. Prior to the adoption of EITF 01-14, reimbursable out-of-pocket expenses were reflected as net amounts in Cost of Maintenance and Services. Reimbursable out-of-pocket expenses reclassified as revenues for the three months ended August 31, 2001, the nine months ended August 31, 2001, and the six months ended May 31, 2002 were $0.4 million, $1.2 million and $0.5 million, respectively.

Effective December 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets” (SFAS 142). This statement requires that goodwill and certain other intangibles no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 also requires completion of a two-step transitional goodwill impairment test. In connection with the completion of the first step of its transitional analysis, the Company assigned goodwill to two reporting units, both of which are included in the E-Business Application Development & Deployment segment. Completion of the first step of the Company’s analysis did not indicate impairment as the fair value of each reporting unit exceeded its carrying amount, which includes goodwill. As the first step did not indicate that any impairment existed, completion of the second step was not required. The Company will assess the impairment of goodwill on an annual basis or if other indicators of impairment arise.

Net income for the first nine months of fiscal 2001, if adjusted to exclude amortization expense, net of taxes, would have increased by $0.4 million to $12.9 million and diluted earnings per share would have increased by $0.01 to $0.34.

During the first nine months of fiscal 2002, no goodwill was acquired, impaired or written off. At August 31, 2002, goodwill, which is included in other assets, totaled approximately $3.8 million.

At August 31, 2002, other acquired intangible assets, which are included in other assets and are all subject to amortization, were composed primarily of purchased technology and totaled $0.6 million (net of accumulated amortization of $0.3 million). These intangible assets are being amortized over an estimated useful life of three to four years with no expected residual value. Amortization expense related to these intangible assets was $0.2 million for the nine months ended August 31, 2002 and is estimated to be approximately $0.2 million in each of fiscal years 2003 through 2005.

Note 8: New Accounting Pronouncement

In July 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit and Disposal Activities” (SFAS 146). This statement revises the accounting for exit and disposal activities under EITF Issue 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity.” The provisions of SFAS 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have a material effect on the Company’s consolidated financial position and results of operations.

Note 9: Segment Information

The Company conducts business through four separate operating units and a supporting research and business development unit. The first operating unit conducts business as the Progress Company and provides OpenEdge, an e-business platform that includes the Progress RDBMS. The second operating unit, Sonic Software Corporation, is a provider of Web services and messaging software. The third operating unit, NuSphere Corporation, provides enhanced open source software and services and the fourth unit, PeerDirect, provides replication technology for distributed computing. PSC Labs has responsibility for research and new business development activities.

Segment information is presented in accordance with SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." This standard is based on a management approach, which requires segmentation based upon the Company's internal organization and disclosure of revenue and operating income based upon internal accounting methods.

Based upon the aggregation criteria for segment reporting, the Company has two reportable segments: E-Business Application Development & Deployment, which includes the Progress Company, NuSphere, PeerDirect and PSC Labs, and E-Business Integration, which includes Sonic Software and certain Sonic-related international sales and marketing functions within the Progress Company. The Company does not internally report its assets, capital expenditures, interest income or provision for income taxes by segment.

The following table sets forth the Company's revenue and income from operations from the Company's reportable segments on an interim basis:

(In thousands)

Three Months Ended Aug 31:	E-Business Application Development & Deployment	E-Business Integration	Eliminations	Total
2002:				
Revenue	$67,272	$ 2,526	$(815)	$68,983
Income (loss) from operations	$12,657	$(4,520)	$(815)	$ 7,322
2001:				
Revenue	$65,823	$ 1,559	$(291)	$67,091
Income (loss) from operations	$11,576	$(5,185)	$(291)	$ 6,100

(In thousands)

Nine Months Ended Aug 31:	E-Business Application Development & Deployment	E-Business Integration	Eliminations	Total
2002:				
Revenue	$194,605	$ 8,167	$(1,752)	$201,020
Income (loss) from operations	$ 34,144	$(13,385)	$(1,752)	$ 19,007
2001:				
Revenue	$191,088	$ 3,505	$ (692)	$193,901
Income (loss) from operations	$ 32,319	$(16,915)	$ (692)	$ 14,712

Amounts included under Eliminations represent intersegment sales. Total revenue from the Sonic product line, generated by both segments, was $10.7 million in the first nine months of fiscal 2002 as compared to $5.2 million in the first nine months of fiscal 2001.

Table of Contents

Note 10: 2002 Nonqualified Stock Plan

In September 2002, the Board of Directors approved an amendment to the Company's 2002 Nonqualified Stock Plan, for which the approval of shareholders is not required, to increase the total number of shares authorized for issuance under the plan from 3,500,000 to 6,500,000. Executive officers and directors are not eligible for awards under this plan. Awards under the plan may include non-qualified stock options, grants of conditioned stock, unrestricted grants of stock, grants of stock contingent upon the attainment of performance goals and stock appreciation rights.

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

Cautionary Statements

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Form 10-Q, and other information provided by the Company or statements made by its directors, officers or employees from time to time, may contain "forward-looking" statements and information, which involve risks and uncertainties. Actual future results may differ materially. Forward-looking statements include statements concerning plans, objectives, goals, strategies, expectations, intentions, projections, developments, future events, performance or products, underlying assumptions and other statements which are other than statements of historical facts. In some cases, forward-looking statements are identified by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "estimates," "believes," "contemplates," "predicts," "projects," "continue" and other similar terminology or the negative of these terms. All such forward-looking statements, whether written or oral, are expressly qualified by the cautionary statements described in this Form 10-Q, including those set forth below under the heading "Factors That May Affect Future Results" and any other cautionary statements which may accompany the forward-looking statements. 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. The Company undertakes no obligation to update any forward-looking statements it makes.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company makes estimates and assumptions in the preparation of its consolidated financial statements that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.

The Company has identified the following critical accounting policies that require the use of significant judgments and estimates in the preparation of its consolidated financial statements. This listing is not a comprehensive list of all of the Company's accounting policies. For further information regarding the application of these and other accounting policies, see the Notes to Condensed Consolidated Financial Statements in Item 1 of this Form 10-Q and Note 1 in the Notes to Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended November 30, 2001.

Revenue Recognition — The Company's revenue recognition policy is significant because revenue is a key component affecting operations. In addition, revenue recognition determines the timing of certain expenses, such as commissions and bonuses. While the Company follows specific and detailed rules and guidelines related to revenue recognition, significant management judgments and estimates must be made and used in connection with the revenue recognized in any reporting period, particularly in the area of collectibility. If management used different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

Allowance for Doubtful Accounts — The Company maintains an allowance for doubtful accounts to reflect estimated losses resulting from the inability of customers to make required payments. This allowance is established using estimates that the Company makes based on factors such as the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, customer creditworthiness and current economic trends. If the Company used different estimates, or if the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions for doubtful accounts would be required and would increase bad debt expense.

Investment in Related Party — The Company holds a minority interest in EasyAsk, Inc., a privately-held software company whose chairman is on the board of directors of the Company. In the second quarter of fiscal 2002, the Company recorded an impairment charge of $1.0 million related to this investment. The investment was valued at $0.3 million at August 31, 2002. The Company periodically considers available evidence in evaluating potential impairment of its investment in EasyAsk. Because no public market exists for this investment, the Company estimates its value based on past and potential financing valuations, the anticipated future performance of the company, as well as the external markets for these types of investments. If these estimates prove to be inaccurate, or in the event of future adverse changes in market conditions or poor operating results of the underlying company, an inability to recover the remaining carrying value of the investment could result, thereby possibly requiring an additional impairment charge.

Deferred Income Taxes — The Company had a net deferred tax asset of $13.5 million at August 31, 2002. The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company considers scheduled reversals of deferred tax liabilities, projected future taxable income, ongoing tax planning strategies and other matters in assessing the need for and the amount of a valuation allowance. If the Company were to change its assumptions or otherwise determine that it was unable to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period that such change or determination was made.

Overview

The Company develops, markets and supports application development, deployment, integration and management software. Its core product line, Progress, is composed primarily of the Progress ProVision, Progress RDBMS, Progress WebSpeed, Progress AppServer and Progress DataServer products. In May 2002, the Company began shipping the latest release of its Progress product line, Progress Version 9.1D. The Company began commercial shipments of the Sonic product line in December 1999 and shipped the latest release of SonicMQ in October 2001 and the latest release of SonicXQ in September 2002. Software license revenue continues to be generated primarily from internally developed products. The Company also resells, in connection with its own software, third-party products for reporting and business intelligence solutions. Geographic expansion in overseas markets has been achieved through a combination of establishing offices in new markets and the acquisition of Progress-related assets of certain distributors. Over the past several years, the Company’s revenue and earnings per share have been adversely affected by the strengthening of the U.S. dollar against many of the major currencies from which a substantial portion of its international revenue is derived. However, in the third quarter, the dollar weakened against such currencies and the Company’s revenue was positively affected by changes in exchange rates.

The Company conducts business through four separate operating units and a supporting research and business development unit. The first operating unit conducts business as the Progress Company and provides OpenEdge, an e-business platform that includes the Progress RDBMS. The second operating unit, Sonic Software Corporation, is a provider of Web services and messaging software. The third operating unit, NuSphere Corporation, provides enhanced open source software and services and the fourth unit, PeerDirect, provides replication technology for distributed computing. PSC Labs is the unit that has responsibility for research and new business development activities.

Results of Operations

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

	Percentage of Total Revenue				Period-to-Period Change	
	Three Months Ended		Nine Months Ended			
	Aug 31, 2002	Aug 31, 2001	Aug 31, 2002	Aug 31, 2001	Three Month Period	Nine Month Period
Revenue:						
Software licenses	33%	35%	34%	36%	(3)%	(2)%
Maintenance and services	67	65	66	64	6	7
Total revenue	100	100	100	100	3	4
Costs and expenses:						
Cost of software licenses	4	4	4	4	(9)	1
Cost of maintenance and services	20	22	21	22	(4)	2
Sales and marketing	39	38	39	39	6	2
Product development	15	16	16	16	1	2
General and administrative	11	11	11	11	0	0
Total costs and expenses	89	91	91	92	1	2
Income from operations	11	9	9	8	20	29
Other income	0	2	1	1	(48)	(83)
Income before provision for taxes	11	11	10	9	11	8
Provision for income taxes	3	4	3	3	7	4
Net income	8%	7%	7%	6%	12%	9%

The Company’s total revenue increased 3% from $67.1 million in the third quarter of fiscal 2001 to $69.0 million in the third quarter of fiscal 2002. Total revenue would have been approximately the same in the third quarter of fiscal 2002 as compared to the third quarter of fiscal 2001 if exchange rates had been constant in the third quarter of fiscal 2002 as compared to the exchange rates in effect in the third quarter of fiscal 2001.

The Company’s total revenue increased 4% from $193.9 million in the first nine months of fiscal 2001 to $201.0 million in the first nine months of fiscal 2002. The impact of year over year changes in exchange rates was not significant through the first nine months of fiscal 2002 as compared to fiscal 2001.

Total revenue derived from the Sonic product line increased from $2.3 million in the third quarter of fiscal 2001 to $3.6 million in the third quarter of fiscal 2002 and increased from $5.2 million in the first nine months of fiscal 2001 to $10.7 million in the first nine months of fiscal 2002. The Sonic product line revenue total for the first nine months of fiscal 2002 included the recognition of $1.8 million of deferred license revenue related to the expiration of one contract signed in a previous year. Revenue from the NuSphere and PeerDirect product lines in each period was not significant.

Software license revenue decreased 3% from $23.6 million in the third quarter of fiscal 2001 to $22.8 million in the third quarter of fiscal 2002. Software license revenue decreased 2% from $69.7 million in the first nine months of fiscal 2001 to $68.3 million in the first nine months of fiscal 2002. The decrease in software license revenue in the third quarter and first nine months of fiscal 2002 was primarily due to a decline in sales to direct end user accounts, partially offset by an increase in revenue from Independent Software Vendors (ISVs), companies which have written software applications utilizing Progress Software technology and which resell the Company’s products in conjunction with the sale of their applications. Software license revenue from the Progress product set decreased year over year, primarily within the database product and development products such as Progress ProVision. This decrease was partially offset by increases in revenue from new products such as the Sonic product line. In addition, the Company’s license revenue was positively affected in the third quarter and adversely affected in the first nine months by the year-over-year exchange movements of the U.S. dollar.

Maintenance and services revenue increased 6% from $43.5 million in the third quarter of fiscal 2001 to $46.1 million in the third quarter of fiscal 2002. Maintenance and services revenue increased 7% from $124.2 million in the first nine months of fiscal 2001 to $132.7 million in the first nine months of fiscal 2002. The increase in maintenance and services revenue was primarily the result of growth in the Company's installed customer base and renewal of maintenance contracts, partially offset by a decline in services revenue. The decline in services revenue was primarily the result of decreases in consulting revenue in North America and the Asia Pacific region due to delays in new engagements, fewer projects as a result of economic conditions and a slower overall market for professional services. Education revenue also decreased in each period of fiscal 2002 as compared to fiscal 2001.

Total revenue generated in markets outside North America increased 8% from $38.2 million in the third quarter of fiscal 2001 to $41.2 million in the third quarter of fiscal 2002 and represented 60% of total revenue in the third quarter of fiscal 2002 as compared to 57% in the third quarter of fiscal 2001. The dollar increase in revenue was primarily the result of higher revenue in the Europe, Middle East and Africa region, partially offset by lower amounts from the Latin American region. Total revenue generated in markets outside North America would have represented 59% of total revenue in the third quarter of fiscal 2002 if exchange rates had been constant in the third quarter of fiscal 2002 as compared to the exchange rates in effect in the third quarter of fiscal 2001.

Total revenue generated in markets outside North America increased 4% from $114.2 million in the first nine months of fiscal 2001 to $119.1 million in the first nine months of fiscal 2002. Such revenue represented 59% of total revenue in the first nine months of fiscal 2002, the same percentage as in the first nine months of fiscal 2001. The percentage of revenue generated in markets outside North America in the first nine months of fiscal 2002 would have remained the same if exchange rates had been constant as compared to the exchange rates in effect in the first nine months of fiscal 2001.

The Company anticipates total revenue growth in the fourth quarter of fiscal 2002 in the range of 2% to 4%. The Company's expectation for fourth quarter revenue growth is based on a continued growth of revenue from the ISV channel, the Company's plans to generate additional software license and service revenue by focusing more of its selling efforts on end users, continued growth of new products and no strengthening of the U.S dollar. However, there can be no assurance that the Company will be successful in achieving its forecasts and plans or that other factors will not negatively impact its revenue.

Cost of software licenses consists primarily of cost of product media, documentation, duplication, packaging, royalties and amortization of capitalized software costs. Cost of software licenses decreased 9% from $2.8 million in the third quarter of fiscal 2001 to $2.5 million in the third quarter of fiscal 2002 and decreased as a percentage of software license revenue from 12% to 11%. Cost of software licenses increased 1% from $7.9 million in the first nine months of fiscal 2001 to $8.0 million in the first nine months of fiscal 2002 and increased as a percentage of software license revenue from 11% to 12%. The percentage and dollar increases for the nine month periods were primarily due to higher royalty expense for products and technologies licensed from third parties, partially offset by lower amortization expense from previously capitalized software costs. Cost of software licenses as a percentage of software license revenue may vary from period to period depending upon the relative product mix. The Company expects costs of software licenses to range from 10% to 12% of the related software license revenue in a given period.

Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services decreased 4% from $14.7 million in the third quarter of fiscal 2001 to $14.1 million in the third quarter of fiscal 2002 and decreased as a percentage of maintenance and services revenue from 34% to 31%. Cost of maintenance and services increased 2% from $41.9 million in the first nine months of fiscal 2001 to $42.8 million in the first nine months of 2002, but decreased as a percentage of maintenance and services revenue from 34% to 32%. The maintenance and services revenue margin improvement was due to the mix of such revenue as maintenance revenue, which has a substantially higher margin than professional services revenue, represented a greater proportion of the total maintenance and services revenue. The dollar increase was due to greater usage of third-party contractors for service engagements and a write-down related to excess fixed assets, partially offset by lower headcount-related expenses in the professional services group. The Company's technical support, education, and consulting headcount decreased by 12% from the end of the third quarter of fiscal 2001 to the end of the third quarter of fiscal 2002.

Sales and marketing expenses increased 6% from $25.7 million for the third quarter of fiscal 2001 to $27.1 million in the third quarter of fiscal 2002 and increased as a percentage of total revenue from 38% to 39%. Sales and marketing expenses increased 2% from $76.4 million in the first nine months of fiscal 2001 to $77.6 million in the first nine months of fiscal 2002, but remained the same percentage of total revenue at 39%. The dollar increase in sales and marketing expenses was due to a slight increase in the level of discretionary marketing spending for trade shows, advertising campaigns, lead generation, direct mail solicitations and other events, partially offset by a decrease in the sales, sales support and marketing headcount. Expenses also increased in the third quarter due to year-over-year changes in exchange rates as a significant percentage of sales and marketing expenses are incurred outside of North America. For all of fiscal 2002, the Company expects to increase revenue at a higher rate of growth than sales and marketing expenses. However, there can be no assurance that the Company will be successful in achieving this goal.

Product development expenses increased 1% from $10.4 million in the third quarter of fiscal 2001 to $10.5 million in the third quarter of fiscal 2002, but decreased as a percentage of total revenue from 16% to 15%. Product development expenses increased 2% from $31.1 million in the first nine months of fiscal 2001 to $31.7 million in the first nine months of fiscal 2002, but remained the same percentage of total revenue at 16%. The dollar increase was primarily due to an increase in compensation-related expenses and greater use of outside contractors. The major product development efforts in fiscal 2002 primarily related to the development and enhancement of new products such as SonicXQ, SonicMQ, Fathom, Dynamics and the next release of Progress, the Company's principal product line. Capitalized software development costs were $0.3 million in the third quarter of fiscal 2001 and none in the third quarter of fiscal 2002, due to the timing and stage of development of projects that might qualify for capitalization under the Company's software capitalization policy. The Company's product development headcount decreased from the end of the third quarter of fiscal 2001 to the end of the third quarter of fiscal 2002.

General and administrative expenses include the costs of the finance, human resources, legal, information systems and administrative departments of the Company. General and administrative expenses were $7.4 million in each of the third quarters of fiscal 2001 and fiscal 2002 and remained the same percentage of total revenue at 11%. General and administrative expenses increased from $21.8 million in the first nine months of fiscal 2001 to $21.9 million in the first nine months of fiscal 2002, but remained the same percentage of total revenue at 11%. Excluding amortization of goodwill in each period of fiscal 2001, general and administrative expenses would have increased by 2% in the third quarter and by 3% for the nine-month period primarily due to greater usage of outside contract and professional services. The Company's administrative headcount decreased from the end of the third quarter of fiscal 2001 to the end of the third quarter of fiscal 2002.

Income from operations increased as a percentage of total revenue from 9% in the third quarter of fiscal 2001 to 11% in the third quarter of fiscal 2002 and from 8% in the first nine months of fiscal 2001 to 9% in the first nine months of fiscal 2002. The increase in operating income as a percentage of revenue was primarily due to revenue growth in the period. If the Company is able to meet its forecasted revenue target and expenses occur as planned for the remainder of the fiscal year, the Company expects operating income as a percentage of revenue to be approximately 10% for all of fiscal 2002.

Other income decreased 48% from $1.0 million in the third quarter of fiscal 2001 to $0.5 million in the third quarter of fiscal 2002. Other income decreased 83% from $3.5 million in the first nine months of fiscal 2001 to $0.6 million in the first nine months of fiscal 2002. The decrease in the third quarter was primarily due to lower interest income. The decrease for the first nine months was primarily due to the second quarter noncash impairment charge of $1.0 million related to the Company's investment in a related party, EasyAsk, Inc., and lower interest income. The Company wrote down the carrying amount of its investment to the estimated fair value based on changes in market conditions for this investment. The decrease in interest income was due to lower interest rates.

The Company's effective tax rate was 30% in the third quarter and first nine months of fiscal 2002 as compared to 31% in the third quarter and first nine months of fiscal 2001. The Company expects its effective tax rate to remain at approximately 30% for all of fiscal 2002.

Liquidity and Capital Resources

At the end of the third quarter of fiscal 2002, the Company's cash and short-term investments totaled $196.7 million. The increase of $22.2 million since the end of fiscal 2001 resulted primarily from cash generated from operations, improved collection of accounts receivable and proceeds from stock issuances under the Company's stock purchase plan and exercises of stock options, offset by capital expenditures and common stock repurchases.

The Company generated $35.8 million in cash from operations in the first nine months of fiscal 2002 and $24.6 million in the first nine months of fiscal 2001. The increase in cash generated from operations in the first nine months of fiscal 2002 was primarily due to higher net income and improved collections of outstanding accounts receivable.

Accounts receivable decreased by $11.3 million from the end of fiscal 2001. This reduction resulted from accounts receivable days sales outstanding (DSO) decreasing to 56 days at the end of the third quarter of fiscal 2002 as compared to 64 days at the end of the third quarter of fiscal 2001 and 70 days at the end of fiscal 2001. The Company targets a DSO range of 60 to 80 days.

The Company purchased $5.7 million of property and equipment in the first nine months of fiscal 2002 and $6.0 million of property and equipment in the first nine months of fiscal 2001. The purchases consisted primarily of computer equipment and software. The Company financed these purchases primarily from cash generated from operations.

The Company purchased and retired approximately 1,208,000 shares of its common stock for $17.7 million in the first nine months of fiscal 2002 and approximately 636,000 shares of its common stock for $8.8 million in the first nine months of fiscal 2001. The Company financed these purchases primarily from cash generated from operations.

In September 2002, the Board of Directors authorized, for the period October 1, 2002 through September 30, 2003, the purchase of up to 10,000,000 shares of the Company's common stock, at such times as the Company deems such purchases to be an effective use of cash. Shares that are repurchased may be used for various purposes including the issuance of shares pursuant to the Company's stock option and purchase plans. The Company's previous share repurchase authorization ended on September 30, 2002.

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's only significant long-term financial commitment relates to operating lease obligations. Future annual minimum rental lease payments are detailed in Note 8 of the Notes to Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended November 30, 2001.

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 and lease commitments) through at least the next twelve months.

Accounting Changes

Effective June 1, 2002, the Company adopted Financial Accounting Standards Board (FASB) Emerging Issues Task Force No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred" (EITF 01-14). EITF 01-14 requires reimbursements received for out-of-pocket expenses to be reflected as revenues and to reclassify prior period financial statements to conform with the current period presentation. Prior to the adoption of EITF 01-14, reimbursable out-of-pocket expenses were reflected as net amounts in Cost of Maintenance and Services. Reimbursable out-of-pocket expenses reclassified as revenues for the three months ended August 31, 2001, the nine months ended August 31, 2001, and the six months ended May 31, 2002 were $0.4 million, $1.2 million and $0.5 million, respectively.

Effective December 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). This statement requires that goodwill and certain other intangibles no longer be amortized, but instead be tested for impairment at least annually. SFAS 142 also requires completion of a two-step transitional goodwill impairment test. In connection with the completion of the first step of its transitional analysis, the Company assigned goodwill to two reporting units. Completion of the first step of the Company's analysis did not indicate impairment as the fair value of each reporting unit exceeded its carrying amount, which includes goodwill. As the first step did not indicate that any impairment existed, completion of the second step was not required. The Company will assess the impairment of goodwill on an annual basis or if other indicators of impairment arise.

Net income for the first nine months of fiscal 2001, if adjusted to exclude amortization expense, net of taxes, would have increased by $0.4 million to $12.9 million and diluted earnings per share would have increased by $0.01 to $0.34.

New Accounting Pronouncement

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit and Disposal Activities" (SFAS 146). This statement revises the accounting for exit and disposal activities under EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." The provisions of SFAS 146 are effective prospectively for exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have a material effect on the Company's consolidated financial position and results of operations.

Factors That May Affect Future Results

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

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

Global Economic and Political Conditions — The global economic and political environment and the current business climate is likely to impact the Company’s revenue and net income in the near-term. Various economic indicators and analysts do not predict an increase in demand for capital spending, especially within the technology sector, within the near future. The aftermath of the terrorist attacks upon the United Sates and the potential for war with Iraq also contribute to economic and political uncertainty. If customers’ buying patterns, such as lengthier decision-making processes, timing of expected deliveries and timing of new projects, unfavorably change due to worsening economic or political conditions, there will be a material adverse effect on the Company’s business and its financial results.

Products — Ongoing enhancements to the Progress product set and Sonic product set will be required to enable the Company to maintain its competitive position. There can be no assurance that the Company will be successful in developing and marketing enhancements to its products on a timely basis, or that the enhancements will adequately address the changing needs of the marketplace. Delays in the release of enhancements could have a material adverse effect on the Company’s business, financial condition and operating results.

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

The Company is currently developing and enhancing the Sonic product set and other new products and services. The market for Web services, messaging products, other Internet business-to-business products and application integration software is highly competitive. Many potential customers have made significant investments in proprietary or internally developed systems and would incur significant costs in switching to third-party products. Global e-commerce and online exchange of information on the Internet and other similar open wide area networks continue to evolve. There can be no assurance that the Company’s products will be successful in penetrating these new and evolving markets.

Rapid Technological Change — Overlaying the risks associated with the Company’s existing products and enhancements are ongoing technological developments and rapid changes in customer requirements. The Company’s future success will depend upon its ability to develop and introduce in a timely manner new products that take advantage of technological advances and respond to new customer requirements. The 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.

Future Acquisitions — As part of its business strategy, the Company has made and expects to continue to make acquisitions of businesses or investments in companies that offer complementary products, services and technologies. Such acquisitions or investments involve a number of risks, including the risks of assimilating the operations and personnel of acquired companies, realizing the value of the acquired assets relative to the price paid, distraction of management from the Company’s ongoing businesses and potential product disruptions associated with the sale of the acquired company’s products. These factors could have a material adverse effect on the Company’s business, financial condition and operating results. Consideration paid for future acquisitions, if any, could be in the form of cash, stock or a combination thereof. As a result, future acquisitions could cause dilution to existing shareholders and to earnings per share.

Distribution Channels and New Markets — Future results also depend upon the Company’s continued successful distribution of its products through its ISV channel and may be impacted by downward pressure on pricing, which may not be offset by increases in volume. ISVs utilize technology from the Company to create their applications and resell the Company’s products along with their own applications. While revenue from the ISV channel increased in the first nine months of fiscal 2002, such revenue experienced a year-over-year decrease in fiscal 2001. If this negative revenue trend were to reoccur in the remainder of fiscal 2002, the Company's business and operating results would be adversely affected. Any other adverse effect on the ISVs' businesses related to competition, pricing and other factors could also have a material adverse effect on the Company's business, financial condition and operating results.

NuSphere has and continues to develop a set of products and services for the open source market. The success of an open source business model, which gives customers the right to freely copy and distribute software, is unproven. Few open source software products have gained widespread commercial acceptance, partly due to the lack of viable open source industry participants to offer adequate service and support on a long-term basis. In addition, open source vendors are not able to provide industry standard warranties and indemnities for their products, since largely independent parties over whom open source vendors exercise no control or supervision have developed these products. There can be no assurance that NuSphere will be successful in building a sustainable business model or that the enhanced open source products provided by NuSphere will attain sufficient market acceptance to support such a business.

Competition — The Company experiences significant competition from a variety of sources with respect to the marketing and distribution of its products. Many of these competitors have greater financial, marketing or technical resources than the Company and may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than can the Company. Increased competition could make it more difficult for the Company to maintain its market presence. The marketplace for new products is intensely competitive and characterized by low barriers to entry. As a result, new competitors possessing technological, marketing or other competitive advantages may emerge and rapidly acquire market share.

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

International Operations — Revenue generated outside of North America represented 59% of the Company's total revenue in the first nine months of fiscal 2002 and 57% in the first nine months of fiscal 2001. Because a majority of the Company's total revenue is derived from international operations that are primarily conducted in foreign currencies, changes in the value of these foreign currencies relative to the U.S. dollar may affect the Company's results of operations and financial position. There can be no assurance that the Company's currency 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, economic instability in emerging markets and potentially adverse tax consequences. Any one of these factors could adversely impact the success of the Company's international operations. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international operations, and, consequently, on the Company's business, financial condition and operating results.

Hiring and Retention of Skilled Employees — The Company's future success will depend in large part upon its ability to attract and retain highly skilled technical, managerial and marketing personnel. There is significant competition for such personnel in the software industry. There can be no assurance that the

Company will continue to be successful in attracting and retaining the personnel it requires to successfully develop new and enhanced products and to continue to grow and operate profitably.

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to a variety of market 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 rates.

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 have an average remaining maturity of less than one years and are primarily fixed-rate instruments. In addition, the Company has classified all its debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk. Based on a hypothetical 10% adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive instruments, and cash flows would be immaterial, although the actual effects may differ materially from the hypothetical analysis.

The Company has entered into foreign exchange option and forward contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific) against fluctuations in exchange rates. The Company has not entered into foreign exchange option and forward contracts for speculative or trading purposes. The Company's accounting policies for these contracts are based on the designation of the contracts as hedging instruments. 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 generally 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. The notional principal amount of outstanding foreign exchange option contracts at August 31, 2002 was $50.8 million. Unrealized market value gains on such contracts were immaterial at August 31, 2002. The table below details outstanding forward contracts, which mature in ninety days or less, at August 31, 2002 where the notional amount is determined using contract exchange rates:

(In thousands)

Functional Currency:	Exchange Foreign Currency For U.S. Dollars (Notional Amount)	Exchange U.S. Dollars For Foreign Currency (Notional Amount)	Notional Weighted Average Exchange Rate
Australian Dollar	$1,659	—	0.55
Brazilian Real	487	—	3.14
Euro	1,365	—	0.97
South African Rand	719	—	10.70
UK Pound	—	$3,400	0.65
	$4,230	$3,400	

Item 4. Controls and Procedures

(a) *Disclosure controls and procedures*. Within 90 days before filing this report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. The Company's disclosure controls and procedures are the controls and other procedures that it designed to ensure that it records, processes, summarizes and reports in a timely manner the information it must disclose in reports that it files with or submits to the Securities and Exchange Commission. Joseph W. Alsop, the Company's Chief Executive Officer, and Norman R. Robertson, its Senior Vice President, Finance and Administration and Chief Financial Officer, supervised and participated in this evaluation. Based on this evaluation, Messrs. Alsop and Robertson concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective.

(b) *Internal controls*. Since the date of the evaluation described above, there have not been any significant changes in the Company's internal accounting controls or in other factors that could significantly affect those controls.

PART II. OTHER INFORMATION

Item 5. Other Information

The Company's chief executive officer and chief financial officer have furnished to the SEC the certification with respect to this Form 10-Q that is required by Section 906 of the Sarbanes-Oxley Act of 2002.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

None

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended August 31, 2002.

[Table of Contents](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated: October 11, 2002	/s/ Joseph W. Alsop
	Joseph W. Alsop Chief Executive Officer (Principal Executive Officer)
Dated: October 11, 2002	/s/ Norman R. Robertson
	Norman R. Robertson Senior Vice President, Finance and Administration and Chief Financial Officer (Principal Financial Officer)
Dated: October 11, 2002	/s/ David H. Benton, Jr.
	David H. Benton, Jr. Vice President and Corporate Controller (Principal Accounting Officer)

CERTIFICATIONS

I, Joseph W. Alsop, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Progress Software Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: October 11, 2002

/s/ Joseph W. Alsop

Joseph W. Alsop
Chief Executive Officer
(Principal Executive Officer)

I, Norman R. Robertson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Progress Software Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: October 11, 2002

/s/ Norman R. Robertson

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