SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-19417

PROGRESS SOFTWARE CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MASSACHUSETTS	04-2746201
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

14 OAK PARK
BEDFORD, MASSACHUSETTS 01730
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)
TELEPHONE NUMBER: (781) 280-4000

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. [X]

As of February 14, 2001, there were 35,546,000 common shares outstanding. As of that date, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $518,663,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended November 30, 2000 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, 2001 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 2000 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 including e-business messaging, the positioning of the Company's products in those market segments, market acceptance of the application service provider distribution model, variations in the demand for professional services and technical support, pricing pressures and the competitive environment in the software industry, business and consumer use of the Internet, and the Company's ability to penetrate international markets and manage its international operations. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that the Company has identified all possible issues which the Company might face.

ITEM 1. BUSINESS

Progress Software Corporation (PSC or the Company) is a global supplier of products and services for business applications deployed in an Internet or multi-tiered environment. PSC develops, markets and distributes application development, deployment and integration software to business, industry and government worldwide. 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. PSC'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. PSC's products include databases, application servers, messaging servers and development tools for Internet/Web, extranet and intranet applications as well as for client/server and host/terminal applications. In fiscal 2000, PSC operated in a single segment consisting of the development, marketing and support of application development, deployment and integration software. PSC's revenues are derived from licensing its products, and from related services, which consist of maintenance and consulting and education.

In January 2001, PSC established three separate operating units and a supporting research and business development unit in order to expand its opportunities in the e-business marketplace. The first operating unit conducts business as the Progress Company and is a division of PSC. The Progress Company supports the Progress(R) product line, which includes Progress(R) ProVision(R) Plus, the Progress(R) RDBMS, and the Progress(R) Open AppServer(TM). The Progress product line is an integrated, component-based visual development and deployment environment for Internet enterprise and global-class business applications. The other two operating units, Sonic Software Corporation and NuSphere Corporation, address the needs of rapidly emerging markets and have been established as wholly owned subsidiaries of the parent company, PSC. As separate companies, Sonic Software and NuSphere will have the ability to offer employees and partners a direct stake in the success of each business. The Company has also established PSC Labs, a division of PSC based in Cambridge, Massachusetts, to focus on new business development, research, and strategic investments for the parent corporation.

The Progress Company is a global supplier of software products and services for developing, deploying and managing enterprise business applications. The Progress Company offers databases, application servers, and application development and management products. The Progress Company's partners include more than 2,000 independent software vendors (ISVs) and application service providers (ASPs) who supply Progress(R)-based applications and related services.

Sonic Software is a leading provider of e-business messaging (EBM) software and services with its SonicMQ(TM) E-Business Messaging Server, which is based on Sun Microsystems' Java(TM) Message Service (JMS) standard. SonicMQ is a highly scalable, standards-based Internet middleware product that enables the guaranteed and secure exchange of business data among applications across distributed enterprises or between companies participating in business-to-business (B2B) exchanges. SonicMQ provides the performance and scalability needed for businesses participating in high impact Internet-enabled trading initiatives.

NuSphere Corporation provides enhanced open source software and commercial services for MySQL(TM) powered Web sites and applications. NuSphere's products include NuSphere(TM) MySQL(TM), an enhanced distribution of the open source database, MySQL. NuSphere provides commercial software services including technical support, consulting and training for MySQL. NuSphere has assisted the developers of MySQL in promoting the development and deployment of MySQL around the world, and provides funding for development resources dedicated to expanding the capabilities of MySQL. This partnership ensures that customers have the best source for MySQL software and services.

PSC sells software products and services worldwide to organizations that develop and use mission-critical enterprise business applications. More than half of PSC's worldwide revenue is realized through its relationship with 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, financial services, retail and health care. PSC also sells software products and services to the Information Technology (IT) organizations of businesses and governments. PSC operates in North America, Latin America, Europe, Middle East, Africa (EMEA) and the Asia/Pacific region through a network of subsidiaries and independent distributors.

BUSINESS STRATEGY

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

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

- Application Deployment Flexibility. PSC's products allow deployment across all major computing and networked environments: Internet/Web, client/server and host/terminal. The Progress Open AppServer provides "n-tier" computing support in order to improve application performance. PSC designs its products to operate across a broad range of platforms. PSC 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 reprogramming, even as they modify or upgrade their computing environments.

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

- "Buy, Build, Subscribe." PSC 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 capabilities that go beyond the offerings of a 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 PSC's global community of ISVs, thus gaining standard or customizable functionality for immediate business benefit. A third option is that businesses can obtain access to complex business applications as a service from ASPs by subscribing over the Internet or other wide-area networks, rather than licensing software.

- Balanced Distribution. PSC 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. PSC 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 PSC'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. PSC'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 PSC'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. PSC has emphasized global sales through its subsidiaries and a network of independent distributors. Approximately 61% of PSC's revenue was derived from customers outside of North America in fiscal 2000.

- Customer Service. PSC has made a strategic commitment to customer service. PSC 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. PSC 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. PSC also offers an extensive selection of training courses and on-site consulting services.

- New Market Opportunities. PSC makes significant investments in new product development and actively pursues new market opportunities. PSC intends to seek continued growth and expansion of the business through a combination of growth from existing products and markets and growth from new products, markets and businesses such as Sonic Software and NuSphere.

PSC PRODUCTS

PSC continues to deliver on its traditional strengths with intuitive development tools that empower developers to deliver high-quality applications--faster and more productively. PSC delivers reliable, high-performance deployment products--such as application servers, databases and e-business messaging servers--that are essential to successful use of the application, result in low total cost of ownership and extend application lifecycles. All 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(R) WebSpeed(R), Progress RDBMS, Progress Open AppServer and Progress(R) 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. PSC began shipping Progress Version 9.1B, the latest major release of PSC's flagship product line of application development and deployment products, in October 2000.

APPLICATION DEVELOPMENT PRODUCTS

PROGRESS(R) PROVISION(R) PLUS

Progress ProVision Plus is a programming environment that provides developers with a "visual road map" for developing and deploying complex enterprise applications. The Integrated Development Environment (IDE) of Progress ProVision Plus, through Progress(R) AppBuilder(TM) and Progress WebSpeed Workshop, gives developers the power to develop and manage scalable, high-performance applications, whether they are web-based, client/server, distributed, or host-based. Progress ProVision Plus lets developers build and share common business logic among a variety of clients and Web and application servers, simplifying the creation and management of applications. The power of Progress WebSpeed technology gives developers a fast way to build e-commerce applications, whether that means Internet-based communications with customers and other businesses or browser-based access to the organization's internal applications. Among ProVision Plus's recent advances is the ability to build multilingual applications that enable users from anywhere in the world to access key business applications --each in their own language--for the truly global enterprise.

ProVision Plus delivers the tools that developers need to develop, test, and deploy applications in a single IDE. It offers all the capabilities of the Progress 4GL language as well as visual, component-based development through the Progress AppBuilder and development versions of the Progress Open AppServer and RDBMS. ProVision Plus also has integrated reporting and source code management, and a host of other tools to help developers create, test, debug, partition and manage their applications. The product's tight integration with the Progress RDBMS means developers can build a single, central repository that not only describes the database definitions but the application defaults and business rules as well. The Progress 4GL lets developers build application business logic quickly and efficiently. Progress SmartObjects(TM) make creating attractive and effective user interfaces as well as business logic components fast and easy.

XML (eXtensible Markup Language) is supported directly in WebSpeed's SpeedScript language, allowing users to exchange data between Progress-supported data sources and XML documents. Quickly becoming the standard for exchanging data between disparate applications, XML is vital for B2B e-commerce. XML is a markup language like HTML. However, unlike HTML, XML describes document content in terms of the data without regard for how it is to be displayed.

Progress(R) Version 9.1B introduced the Internet Component Framework (ICF), including SmartBusinessObjects(TM) and the connectors and adapters to facilitate accessing them. Through the use of these business application and service components, the ICF provides improved productivity, reduced cost of ownership, greater extensibility, and an easier way to incorporate new technologies without significantly changing the architecture of applications.

APPLICATION DEPLOYMENT PRODUCTS

PROGRESS(R) RDBMS

The Progress RDBMS products are high-performance relational databases that can scale from a single-user Windows 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 architecture of the Progress storage engine lets applications take advantage of powerful computing systems. With support for over 10,000 concurrent users and numerous terabytes of data, it provides exceptional capacity for large-scale, high-performance computing. One reason for this high performance is the addition of the patent-pending Concurrent Commit Lock Protocol. This new feature increases the parallelism allowed within the storage engine for primitive update and commit operations used by most database applications. The net effect is that less work is done inside the storage engine for most operations, and CPU cycles are saved. Highly concurrent processing for on-line interactive users is provided through features that reduce contention for shared resources, such as support for today's large multi-processor SMP and ccNUMA configurations, fine-grained shared memory locking, and SMP spin locks. The resulting performance advantages allow the Enterprise RDBMS to scale effectively from smaller servers to the largest enterprise servers.

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 many 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.

PROGRESS(R) OPEN APPSERVER(TM)

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 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.

SONICMQ(TM)

SonicMQ is a fast, flexible, scalable e-business messaging server designed to simplify the development and integration of today's highly distributed enterprise applications and Internet-based business solutions. 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.

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. 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.

SonicMQ 3.0, the latest release that began shipping in December 2000, is one of the few messaging solutions that can deliver the scalability, performance and reliability required for E-Business.

E-Business applications bring together a number of variables that make the integration and exchange of business-critical data a highly complex endeavor. SonicMQ 3.0 introduces a Dynamic Routing Architecture (DRA) which represents a significant improvement over previous generations of messaging products and lays the foundation for meeting today's E-Business requirements. SonicMQ's DRA allows enterprises to participate in a global E-Business exchange through a single point of entry. As new trading domains (either enterprises or B2B exchanges) come online, SonicMQ dynamically discovers new destinations and delivers messages between them via an optimized routing path. Multi-domain routing makes it possible for messages to easily span domains, eliminating the need to make application changes.

The DRA provides the ability to dynamically add numerous business partners to an E-Business application. Running SonicMQ allows users to participate in a massively scalable messaging infrastructure delivering millions of messages per day.

SonicMQ Interbroker Clustering allows multiple servers to operate as a unit, eliminating single points of failure within the messaging system. Load balancing and connect-time failover ensure 7x24 availability and allow administrators to establish an efficient routing configuration that can be managed from a centralized configuration server. SonicMQ's DRA provides a comprehensive security solution for messaging over the Internet. It provides full access control and certificate-based mutual authentication for server-server and client-server security. The DRA also provides end-to-end secure communication through both message payload and channel encryption, while flexible HTTP/HTTPS leverages existing Internet security mechanisms and allows messages to easily travel through multiple firewalls.

SonicMQ guarantees the delivery of business-critical information via durable subscriptions and persistent messages that ensure delivery with no loss of messages. Long duration persistence for disconnected users is supported through an embedded database or other JDBC-compliant relational databases. SonicMQ also provides transactional support where one or more messages can be specified as a transacted set.

PROGRESS(R) WEBSPEED(R) 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, along with WebSpeed Workshop, 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(R) 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(R) 4GL and web-based applications designed for heterogeneous, distributed computing environments.

PROGRESS(R) WEBCLIENT(TM)

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

APPLICATION INTEGRATION PRODUCTS

SONICMQ E-BUSINESS EDITION

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

PRODUCT DEVELOPMENT

To date, most of PSC's products have been developed by its internal product development staff. PSC 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, PSC 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.

PSC's product development staff consisted of 249 employees as of November 30, 2000. Product development is primarily conducted at PSC's offices in Bedford, Massachusetts; Cambridge, Massachusetts; and Nashua, New Hampshire. In fiscal years 2000, 1999 and 1998, PSC spent $39.6 million, $38.8 million and $32.2 million, respectively, on product development, of which $0.5 million, $0.5 million and $2.0 million, respectively, were capitalized in those years. PSC believes that the experience and depth of its product development staff are important factors in its success.

CUSTOMERS

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

INDEPENDENT SOFTWARE VENDORS The Company's ISVs provide PSC 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, PSC 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 also purchase PSC's development tools to supplement their internal application development. Like ISVs, IT department customers may also license deployment products to install applications at additional user sites.

SALES AND MARKETING

PSC sells its products through its direct sales force in the United States and in over 25 other countries and through independent distributors in over 40 countries outside North America. The sales, marketing and service groups are organized by region into North America, EMEA, Asia/Pacific and Latin America. PSC believes that this structure allows it to maintain direct contact with and better support its customers and to control its international distribution. PSC's international operations provide focused local marketing efforts and are better able to directly respond to changes in local conditions.

Sales personnel are responsible for developing new ISV and IT accounts, assisting ISVs in closing major accounts and servicing existing customers. PSC 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.

PSC'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 PSC's various product lines. These programs include public relations, direct mail, participation in trade shows, advertising and production of collateral literature. PSC sponsored two regional users conferences in the United States and Spain in fiscal 2000. PSC is planning to hold a single worldwide users conference in the United States in fiscal 2001.

CUSTOMER SUPPORT

PSC's technical support staff provides telephone support to application developers and end-users using a computerized call tracking and problem reporting system. PSC'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. PSC provides technical support to customers primarily through its technical support centers in Bedford, Massachusetts; Rotterdam, The Netherlands; and Melbourne, Australia.

PROFESSIONAL SERVICES

PSC's professional services organization delivers a total business solution for customers through a combination of products, consulting and education. PSC also provides custom software development, consulting services and training throughout the world. PSC's worldwide consulting organization offers project management, custom development, programming, application implementation and Internet migration and other services. PSC'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 located outside North America are provided by personnel at PSC's international subsidiaries and distributors.

COMPETITION

The computer software industry is intensely competitive. PSC experiences significant competition from a variety of sources with respect to all its products. PSC 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 PSC include product performance in complex applications, application portability, vendor experience, ease of integration, price, training and support.

PSC 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 E-Business messaging server vendors and application development tools vendors. PSC believes that the database market is currently dominated by Oracle and Microsoft. PSC does not believe that there is a dominant E-Business messaging server vendor or a dominant application development tools vendor. Some of PSC's competitors have greater financial, marketing or technical resources than PSC 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 PSC to maintain its revenue and market presence.

COPYRIGHTS, TRADEMARKS, PATENTS AND LICENSES

In accordance with industry practice, PSC relies upon a combination of contractual provisions and copyright, patent, trademark and trade secret laws to protect its proprietary rights in its products. PSC distributes its products under software license agreements that grant customers a perpetual nonexclusive 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, PSC attempts to protect its trade secrets and other proprietary information through agreements with employees and consultants. Although PSC intends to protect its rights vigorously, there can be no assurance that these measures will be successful.

PSC seeks to protect the source code of its products as a trade secret and as an unpublished copyrighted work. PSC holds a patent for its "SmartObjects for the Development of Object Oriented Software." This invention provides the Progress 4GL with an advanced object-oriented programming environment that enables developers to rapidly create business applications that can be deployed in multiple computing models. PSC has also made patent applications for some of its various other product technologies. Where possible, PSC seeks to obtain protection of its product names through trademark registration and other similar procedures.

Progress, WebSpeed and ProVision are registered trademarks of PSC. AppBuilder, Open AppServer, SmartBusinessObjects, SmartObjects, SmartAdapters, WebClient and "Future Proof" are trademarks of PSC. SonicMQ is a trademark of Sonic Software Corporation. NuSphere is a trademark of NuSphere Corporation. All other trademarks or trade names appearing in this Form 10-K are the property of their respective owners.

PSC 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 important in establishing and maintaining a leadership position within the industry as are the various legal protections of its technology. In addition, PSC believes that the nature of its customers, the importance of PSC's products to them and their need for continuing product support reduce the risk of unauthorized reproduction.

BACKLOG

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

EMPLOYEES

As of November 30, 2000, PSC had 1,398 employees worldwide, including 575 in sales and marketing, 359 in customer support and services (including manufacturing and distribution), 249 in product development and 215 in administration. The competition in recruiting skilled technical personnel in the computer software industry is intense. PSC 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, PSC has been successful in recruiting and retaining sufficient numbers of qualified personnel to effectively conduct its business. None of PSC's employees is represented by a labor union. PSC has experienced no work stoppages and believes its relations with employees are good.

PSC 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 PSC'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	55	Chief Executive Officer and Director
Lorne J. Cooper	44	President, NuSphere
David G. Ireland	54	President, the Progress Company
Richard D. Reidy	41	Senior Vice President, Products
Norman R. Robertson	52	Senior Vice President, Finance and Administration and Chief Financial Officer

Mr. Alsop, a founder of PSC, has been a director and Chief Executive Officer since its inception in 1981.

Mr. Cooper joined the Company in February 2001 as President of NuSphere Corporation, a subsidiary of PSC. From November 1994 to June 2000, Mr. Cooper was employed by Sente, Inc., a computer software company, as President and Chief Executive Officer. From July 2000 to January 2001, Mr. Cooper was Vice Chairman of Sequence Design, Inc., a computer software company.

Mr. Ireland joined the Company in September 1997 as Vice President, Core Products and Services and was appointed Vice President and General Manager, Core Products and Services in March 1998, Vice President and General Manager, Worldwide Field Operations in December 1999 and President, the Progress Company in December 2000. 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 appointed Vice President, Development Tools in July 1996 and was appointed Vice President, Product Development in July 1997, Vice President, Products in December 1999 and Senior Vice President, Products in December 2000. Mr. Reidy joined PSC in 1985.

Mr. Robertson joined PSC in May 1996 as Vice President, Finance and Chief Financial Officer and was appointed Vice President, Finance and Administration and Chief Financial Officer in December 1997 and Senior Vice President, Finance and Administration and Chief Financial Officer in December 2000. From 1993 to 1996 he was employed by M/A-COM, Inc., a telecommunications company, as Director of Finance and Administration.

ITEM 2. PROPERTIES

PSC owns its principal administrative, sales, support, marketing and product development facility located in a single building of approximately 165,000 square feet in Bedford, Massachusetts. PSC leases approximately 58,000 square feet in Wilmington, Massachusetts, and maintains its manufacturing and distribution operations at this location. In addition, PSC maintains offices in 18 other locations in North America and 39 locations outside North America. The terms of leases generally range from one to seven years. PSC 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 PSC's shareholders during the fourth quarter of the fiscal year ended November 30, 2000.

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 2000 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 2000 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 2000 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 30 and 31 of the 2000 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 2000 Annual Report to Shareholders and the information appearing under the caption "Selected Quarterly Financial Data" on page 53 of the 2000 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, 2001, which will be filed with the Securities and Exchange Commission (SEC) not later than 120 days after November 30, 2000, 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, 2001, which will be filed with the SEC not later than 120 days after November 30, 2000, 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, 2001, which will be filed with the SEC not later than 120 days after November 30, 2000, 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, 2001, which will be filed with the SEC not later than 120 days after November 30, 2000, 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 PSC's 2000 Annual Report to Shareholders and are incorporated herein by reference:

Consolidated Balance Sheets as of November 30, 2000 and 1999
Consolidated Statements of Operations for the years ended November 30, 2000, 1999, and 1998
Consolidated Statements of Shareholders' Equity for the years ended November 30, 2000, 1999, and 1998
Consolidated Statements of Cash Flows for the years ended November 30, 2000, 1999, and 1998
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

PSC did not file any reports on Form 8-K during the fourth quarter of the year ended November 30, 2000.

(c) EXHIBITS

Documents listed below, except for documents identified by parenthetical numbers, are being filed as exhibits. 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 SEC under the Securities Exchange Act of 1934 (the "Act"), reference is made to such documents as previously filed as exhibits with the SEC. PSC'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 (4)
3.1.4	Articles of Amendment to Restated Articles of Organization filed on June 17, 2000
3.2	By-Laws of the Company, as amended and restated (5)
4.1	Specimen certificate for the Common Stock of the Company (6)
10.1	Amended and Restated 1984 Incentive Stock Option Plan (7)
10.2	1991 Employee Stock Purchase Plan, as amended (8)
10.3	Progress Software Corporation 401(k) Plan (9)
10.4	1992 Incentive and Nonqualified Stock Option Plan (10)
10.5	1994 Stock Incentive Plan (11)
10.6	1993 Directors' Stock Option Plan (12)
10.7	1997 Stock Incentive Plan, as amended
10.8	Employee Retention and Motivation Agreement executed by each of the Executive Officers (13)
10.9	First amendment to Employee Retention and Motivation Agreement executed by each of the Executive Officers (14)
13.1	2000 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

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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 3.1.3 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999.

(5) 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.

(6) Incorporated by reference to Exhibit 4.1 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 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

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

(13) 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.

(14) 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 26th day of February, 2001.

PROGRESS SOFTWARE CORPORATION

By: /s/ Joseph W. Alsop
Joseph W. Alsop
Chief Executive Officer

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

Signature	Title	Date
/s/ JOSEPH W. ALSOP Joseph W. Alsop	Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2001
/s/ NORMAN R. ROBERTSON Norman R. Robertson	Senior Vice President, Finance and Administration and Chief Financial Officer (Principal Financial Officer)	February 26, 2001
/s/ DAVID H. BENTON, JR. David H. Benton, Jr.	Vice President and Corporate Controller (Principal Accounting Officer)	February 26, 2001
/s/ LARRY R. HARRIS Larry R. Harris	Director	February 26, 2001
/s/ ROGER J. HEINEN, JR. Roger J. Heinen, Jr.	Director	February 26, 2001
/s/ MICHAEL L. MARK Michael L. Mark	Director	February 26, 2001
/s/ ARTHUR J. MARKS Arthur J. Marks	Director	February 26, 2001
/s/ SCOTT A. MCGREGOR Scott A. McGregor	Director	February 26, 2001
/s/ AMRAM RASIEL Amram Rasiel	Director	February 26, 2001

EXHIBIT 3.1.4

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, Norman R. Robertson , Vice 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 20, 2000, by vote of:

28,427,333 shares of Common Stock of 35,686,598 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:	75,000,000	$.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:	100,000,000	$.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 17th day of June, 2000,

/s/ NORMAN R. ROBERTSON

Norman R. Robertson
Vice 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 18th day of July, 2000.

WILLIAM FRANCIS GALVIN
Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION

Photocopy of the document to be sent to:

James W. Romeo, Counsel
- --
Progress Software Corporation
- --
14 Oak Park, Bedford MA 01730
- --
Telephone: (781) 280-4000
- --

EXHIBIT 10.7

PROGRESS SOFTWARE CORPORATION
1997 STOCK INCENTIVE PLAN

(AMENDED AND RESTATED 19 SEPTEMBER 2000)

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Progress Software Corporation 1997 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees and directors of, and other persons providing services to, Progress Software Corporation (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business, to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"ACT" means the Securities Exchange Act of 1934, as amended.

"AWARD" or "Awards", except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Conditioned Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Stock Appreciation Rights.

"BOARD" means the Board of Directors of the Company.

"CAUSE" means (i) any material breach by the participant of any agreement to which the participant and the Company are both parties, (ii) any act or omission to act by the participant which may have a material and adverse effect on the Company's business or on the participant's ability to perform services for the Company, including, without limitation, the commission of any crime (other than ordinary traffic violations), or (iii) any material misconduct or material neglect of duties by the participant in connection with the business or affairs of the Company or any affiliate of the Company.

"CHANGE OF CONTROL" shall have the meaning set forth in Section 15.

"CODE" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"CONDITIONED STOCK AWARD" means an Award granted pursuant to Section 6.

"COMMITTEE" shall have the meaning set forth in Section 2.

"DISABILITY" means disability as set forth in Section 22(e)(3) of the Code.

"EFFECTIVE DATE" means the date on which the Plan is approved by shareholders as set forth in Section 17.

"ELIGIBLE PERSONS" shall have the meaning set forth in Section 4.

"FAIR MARKET VALUE" on any given date means the closing price per share of the Stock on such date as reported by a nationally recognized stock exchange, or, if the Stock is not listed on such an exchange, as reported by NASDAQ, or, if the Stock is not quoted on NASDAQ, the fair market value of the Stock as determined by the Committee.

"INCENTIVE STOCK OPTION" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"NON-QUALIFIED STOCK OPTION" means any Stock Option that is not an Incentive Stock Option.

"NORMAL RETIREMENT" means retirement from active employment with the Company and its Subsidiaries in accordance with the retirement policies of the Company and its Subsidiaries then in effect.

"OUTSIDE DIRECTOR" means any director who (i) is not an employee of the Company or of any "affiliated group," as such term is defined in Section 1504(a) of the Code, which includes the Company (an "Affiliate"), (ii) is not a former employee of the Company or any Affiliate who is receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during the Company's or any Affiliate's taxable year, (iii) has not been an officer of the Company or any Affiliate and (iv) does not receive remuneration from the Company or any Affiliate, either directly or indirectly, in any capacity other than as a director.

"OPTION" OR "STOCK OPTION" means any option to purchase shares of Stock granted pursuant to Section 5.

"PERFORMANCE SHARE AWARD" means an Award granted pursuant to Section 8.

"STOCK" means the Common Stock, $.01 par value per share, of the Company, subject to adjustments pursuant to Section 3.

"STOCK APPRECIATION RIGHT" means an Award granted pursuant to Section 9.

"SUBSIDIARY" means a subsidiary as set forth in Section 424 of the Code.

"UNRESTRICTED STOCK AWARD" means Awards granted pursuant to Section 7.

SECTION 2. ADMINISTRATION OF PLAN; COMMITTEE AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS.

(a) Committee. The Plan shall be administered by a committee (the "Committee") consisting of at least two Outside Directors. None of the members of the Committee shall have been granted any Award under this Plan (other than pursuant to Section 7(c)) or any other stock option plan of the Company (other than the Company's 1993 Directors' Stock Option Plan) within one year prior to service on the Committee. It is the intention of the Company that the Plan shall be administered by "disinterested persons" within the meaning of Section

162(m) of the Code, but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not a disinterested person. Except as specifically reserved to the Board under the terms of the Plan, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the Company. Action by the Committee shall require the affirmative vote of a majority of all members thereof.

(b) Powers of Committee. The Committee shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the officers and other employees of, and persons providing services to, the Company and its Subsidiaries to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Conditioned Stock, Unrestricted Stock, Performance Shares and Stock Appreciation Rights, or any combination of the foregoing, granted to any one or more participants;

(iii) to determine the number of shares to be covered by any Award;

(iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate the exercisability or vesting of all or any portion of any Award with the exception of a Conditioned Stock Award;

(vi) subject to the provisions of Section 5(a)(ii), to extend the period in which any outstanding Stock Option or Stock Appreciation Right may be exercised;

(vii) to reduce the per-share exercise price of any outstanding Stock Option or Stock Appreciation Right awarded to any employee of the Company, including any officer or director of the Company (but not to less than 100% of Fair Market Value on the date the reduction is made) provided, however, that such reduction shall be effective only if approved by the shareholders of the Company;

(viii) to determine whether, to what extent, and under what circumstances Stock and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the participant and whether and to what extent the Company shall pay or credit amounts equal to interest (at rates determined by the Committee) or dividends or deemed dividends on such deferrals; and

(ix) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants.

SECTION 3. SHARES ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION.

(a) Shares Issuable. The maximum number of shares of Stock with respect to which Awards (including Stock Appreciation Rights) may be granted under the Plan shall be 680,000. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise) shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan so long as the participants to whom such Awards had been previously granted received no benefits of ownership of the underlying shares of Stock to which the Awards related. Subject to such overall limitation, any type or types of Award may be granted with respect to shares, including Incentive Stock Options. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

(b) Limitation on Awards. In no event may any Plan participant be granted Awards (including Stock Appreciation Rights) with respect to more than 100,000 shares of Stock in any calendar year. The number of shares of Stock relating to an Award granted to a Plan participant in a calendar year that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in such calendar year.

(c) Stock Dividends, Mergers, etc. In the event that after approval of the Plan by the shareholders of the Company in accordance with Section 17, the Company effects a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities with respect to which Awards may thereafter be granted (including without limitation the limitations set forth in Sections 3(a) and (b) above), (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or accelerate, amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances), subject, however, to the provisions of Section 15.

(d) Substitute Awards. The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the

Company or a Subsidiary of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances. The shares which may be delivered under such substitute awards shall be in addition to the maximum number of shares provided for in Section 3(a) only to the extent that the substitute Awards are both (i) granted to persons whose relationship to the Company does not make (and is not expected to make) them subject to Section 16(b) of the Act; and (ii) granted in substitution for awards issued under a plan approved, to the extent then required under Rule 16b-3 (or any successor rule under the Act), by the shareholders of the entity which issued such predecessor awards.

SECTION 4. ELIGIBILITY.

Awards may be granted to officers or other key employees of the Company or its Subsidiaries, and to members of the Board and consultants or other persons who render services to the Company, regardless of whether they are also employees ("Eligible Persons"), provided, however, that members of the Committee at the time of grant, except for the purposes of Section 7(c), shall not constitute Eligible Persons.

SECTION 5. STOCK OPTIONS.

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. To the extent that any option does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option.

No Incentive Stock Option shall be granted under the Plan after December 31, 2006.

(a) Grant of Stock Options. The Committee in its discretion may grant Incentive Stock Options only to employees of the Company or any Subsidiary. The Committee in its discretion may grant Non-Qualified Stock Options to Eligible Persons. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and the terms and conditions of Section 13 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable.

(i) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Committee at the time of grant but shall be, in the case of Incentive Stock Options and Non-Qualified Stock Options, not less than 100% of Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive

Stock Option is granted to such employee, the option price shall be not less than 110% of Fair Market Value on the grant date.

(ii) Option Term. The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five years from the date of grant.

(iii) Exercisability; Rights of a Shareholder. Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee at or after the grant date. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) Method of Exercise. Stock Options may be exercised in whole or in part, by delivering written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods:

(A) In cash, by certified or bank check or other instrument acceptable to the Committee;

(B) In the form of shares of Stock that are not then subject to restrictions under any Company plan, if permitted by the Committee, in its discretion. Such surrendered shares shall be valued at Fair Market Value on the exercise date; or

(C) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure. Payment instruments will be received subject to collection.

The delivery of certificates representing shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the Optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or applicable provisions of laws.

(v) Transferability of Options. No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee or his or her legal representative; provided, however, that the Committee may, in the manner established by the Committee, permit the transfer, without payment of consideration, of a Non-Qualified Stock Option by an optionee to a member of the optionee's immediate family or to a trust or partnership whose beneficiaries are members of the optionee's immediate family; and such transferee shall remain subject to all the terms and conditions applicable to the option prior to the transfer. For purposes of this provision, an optionee's "immediate family" shall mean the holder's spouse, children and grandchildren."

(vi) Annual Limit on Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which incentive stock options granted under this Plan and any other plan of the Company or its Subsidiaries become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000.

(vii) Repurchase Right. The Committee may in its discretion provide upon the grant of any Stock Option hereunder that the Company shall have an option to repurchase upon such terms and conditions as determined by the Committee all or any number of shares purchased upon exercise of such Stock Option. The repurchase price per share payable by the Company shall be such amount or be determined by such formula as is fixed by the Committee at the time the Option for the shares subject to repurchase is granted. In the event the Committee shall grant Stock Options subject to the Company's repurchase option, the certificates representing the shares purchased pursuant to such Options shall carry a legend satisfactory to counsel for the Company referring to the Company's repurchase option.

(viii) Form of Settlement. Shares of Stock issued upon exercise of a Stock Option shall be free of all restrictions under the Plan, except as otherwise provided in this Plan.

(b) Reload Options. At the discretion of the Committee, Options granted under Section 5(a) may include a so-called "reload" feature pursuant to which an optionee exercising an option by the delivery of a number of shares of Stock in accordance with Section 5(a)(iv)(B) hereof would automatically be granted an additional Option (with an exercise price equal to the Fair Market Value of the Stock on the date the additional Option is granted and with the same expiration date as the original Option being exercised, and with such other terms as the Committee may provide) to purchase that number of shares of Stock equal to the number delivered to exercise the original Option.

SECTION 6. CONDITIONED STOCK AWARDS.

(a) Nature of Conditioned Stock Award. The Committee in its discretion may grant Conditioned Stock Awards to any Eligible Person. A Conditioned Stock Award is an Award entitling the recipient to acquire, at no cost or for a purchase price determined by the Committee, shares of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ("Conditioned Stock"). Conditions may be based on continuing employment and/or achievement of pre-established performance goals and objectives. In addition, a Conditioned Stock Award may be granted to an employee by the Committee in lieu of a cash bonus due to such employee pursuant to any other plan of the Company.

(b) Acceptance of Award. A participant who is granted a Conditioned Stock Award shall have no rights with respect to such Award unless the participant shall have accepted the Award within 60 days (or such shorter date as the Committee may specify) following the award date by making payment to the Company, if required, by certified or bank check or other instrument or form of payment acceptable to the Committee in an amount equal to the specified purchase price, if any, of the shares covered by the Award and by executing and delivering to the Company a written instrument that sets forth the terms and conditions of the Conditioned Stock in such form as the Committee shall determine.

(c) Rights as a Shareholder. Upon complying with Section 6(b) above, a participant shall have all the rights of a shareholder with respect to the Conditioned Stock, including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or forfeiture rights described in this Section 6 and subject to such other conditions contained in the written instrument evidencing the Conditioned Award. Unless the Committee shall otherwise determine, certificates evidencing shares of Conditioned Stock shall remain in the possession of the Company until such shares are vested as provided in Section 6(e) below.

(d) Restrictions. Shares of Conditioned Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause), the Company shall have the right, at the discretion of the Committee, to repurchase shares of Conditioned Stock with respect to which conditions have not lapsed at their purchase price, or to require forfeiture of such shares to the Company if acquired at no cost, from the participant or the participant's legal representative. The Company must exercise such right of repurchase or forfeiture not later than the ninetieth day following such termination of employment (unless otherwise specified, in the written instrument evidencing the Conditioned Award).

(e) Vesting of Conditioned Stock. The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Conditioned Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such preestablished performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Conditioned Stock and shall be deemed "vested."

(f) Waiver, Deferral and Reinvestment of Dividends. The written instrument evidencing the Conditioned Stock Award may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

SECTION 7. UNRESTRICTED STOCK AWARDS.

(a) Grant or Sale of Unrestricted Stock. The Committee in its discretion may grant (or sell at a purchase price determined by the Committee which shall in no event be less than 100% of Fair Market Value) to any Eligible Person shares of Stock free of any restrictions under the Plan ("Unrestricted Stock"). Shares of Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration. Notwithstanding the foregoing, performance based grants of Unrestricted Stock shall be subject to a one year holding period and time based grants of Unrestricted Stock shall be subject to a three year holding period.

(b) Elections to Receive Unrestricted Stock In Lieu of Compensation. Upon the request of an Eligible Person and with the consent of the Committee, each Eligible Person may, pursuant to an irrevocable written election delivered to the Company no later than the date or dates specified by the Committee, receive a portion of the cash compensation otherwise due to him in Unrestricted Stock (valued at Fair Market Value on the date or dates the cash compensation would otherwise be paid). Such Unrestricted Stock may be paid to the Eligible Person at the same time as the cash compensation would otherwise be paid, or at a later time, as specified by the Eligible Person in the written election.

(c) Elections to Receive Unrestricted Stock in Lieu of Directors' Fees. Each Outside Director may, pursuant to an irrevocable written election delivered to the Company no later than June 30 of any calendar year, receive all or a portion of the directors' fees otherwise due to him in the subsequent calendar year in Unrestricted Stock (valued at Fair Market Value on the date or dates the directors' fees would otherwise be paid). Such Unrestricted Stock may be paid to the Non-Employee Director at the same time the directors' fees would otherwise have been paid, or at a later time, as specified by the Non-Employee Director in the written election.

(d) Restrictions on Transfers. The right to receive unrestricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

SECTION 8. PERFORMANCE SHARE AWARDS.

(a) Nature of Performance Shares. A Performance Share Award is an award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals. The Committee may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. Performance Share Awards may be granted under the Plan to any Eligible Person including those who qualify for awards under other performance plans of the Company. The Committee in its discretion shall determine whether and to whom Performance Share Awards shall be made, the performance goals applicable under each such Award, the periods during which performance is to be measured, and all other limitations and conditions applicable to the awarded Performance Shares; provided, however, that the Committee may rely on the performance goals and other standards applicable to other performance-based plans of the Company in setting the standards for Performance Share Awards under the Plan.

(b) Restrictions on Transfer. Performance Share Awards and all rights with respect to such Awards may not be sold, assigned, transferred, pledged or otherwise encumbered.

(c) Rights as a Shareholder. A participant receiving a Performance Share Award shall have the rights of a shareholder only as to shares actually received by the participant under the Plan and not with respect to shares subject to the Award but not actually received by the participant. A participant shall be entitled to receive a stock certificate evidencing the acquisition of shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the written instrument evidencing the Performance Share Award (or in a performance plan adopted by the Committee).

(d) Termination. Except as may otherwise be provided by the Committee at any time prior to termination of employment, a participant's rights in all Performance Share Awards shall automatically terminate upon the participant's termination of employment by the Company and its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause).

(e) Acceleration, Waiver, Etc. At any time prior to the participant's termination of employment by the Company and its Subsidiaries, the Committee may in its sole discretion accelerate, waive or, subject to Section 13, amend any or all of the goals, restrictions or conditions imposed under any Performance Share Award.

SECTION 9. STOCK APPRECIATION RIGHTS

(a) The Committee in its discretion may grant Stock Appreciation Rights to any Eligible Person (i) alone, (ii) simultaneously with the grant of a Stock Option and in conjunction therewith or in the alternative thereto or (iii) subsequent to the grant of a Non-Qualified option and in conjunction therewith or in the alternative thereto.

(b) The exercise price per share of a Stock Appreciation Right granted alone shall be determined by the Committee, but shall not be less than 100% of Fair Market Value on the date of grant of such Stock Appreciation Right. A Stock Appreciation Right granted simultaneously with or subsequent to the grant of a Stock Option and in conjunction therewith or in the alternative thereto shall have the same exercise price as the related Stock Option, shall be transferable only upon the same terms and conditions as the related Stock Option, and shall be exercisable only to the same extent as the related Stock Option; provided, however, that a Stock Appreciation Right, by its terms, shall be exercisable only when the Fair Market Value per share of Stock exceeds the exercise price per share thereof.

(c) Upon any exercise of a Stock Appreciation Right, the number of shares of Stock for which any related Stock Option shall be exercisable shall be reduced by the number of shares for which the Stock Appreciation Right shall have been exercised. The number of shares of Stock with respect to which a Stock Appreciation Right shall be exercisable shall be reduced upon any exercise of any related Stock Option by the number of shares for which such Option shall have been exercised. Any Stock Appreciation Right shall be exercisable upon such additional terms and conditions as may from time to time be prescribed by the Committee.

(d) A Stock Appreciation Right shall entitle the participant upon exercise thereof to receive from the Company, upon written request to the Company at its principal offices (the "Request"), a number of shares of Stock (with or without restrictions as to substantial risk of forfeiture and transferability, as determined by the Committee in its sole discretion), an amount of cash, or any combination of Stock and cash, as specified in the Request (but subject to the approval of the Committee in its sole discretion, at any time up to and including the time of payment, as to the making of any cash payment), having an aggregate Fair Market Value equal to the product of (i) the excess of Fair Market Value, on the date of such Request, over the exercise price per share of Stock specified in such Stock Appreciation Right or its related Option, multiplied by (ii) the number of shares of Stock for which such Stock Appreciation Right shall be exercised. Notwithstanding the foregoing, the Committee may specify at the time of grant of any Stock Appreciation Right that such Stock Appreciation Right may be exercisable solely for cash and not for Stock.

(e) Within thirty (30) days of the receipt by the Company of a Request to receive cash in full or partial settlement of a Stock Appreciation Right or to exercise such Stock Appreciation Right for cash, the Committee shall, in its sole discretion, either consent to or disapprove, in whole or in part, such Request. A Request to receive cash in full or partial settlement of a Stock Appreciation Right or to exercise a Stock Appreciation Right for cash may provide that, in the event the Committee shall disapprove such Request, such Request shall be deemed to be an exercise of such Stock Appreciation Right for Stock.

(f) If the Committee disapproves in whole or in part any election by a participant to receive cash in full or partial settlement of a Stock Appreciation Right or to exercise such Stock Appreciation Right for cash, such disapproval shall not affect such participant's right to exercise such Stock Appreciation Right at a later date, to the extent that such Stock Appreciation Right shall be otherwise exercisable, or to elect the form of payment at a later date, provided that an election to receive cash upon such later exercise shall be subject to the approval of the Committee. Additionally, such disapproval shall not affect such participant's right to exercise any related Option.

(g) A participant shall not be entitled to request or receive cash in full or partial payment of a Stock Appreciation Right, if such Stock Appreciation Right or any related Option shall have been exercised during the first six (6) months of its respective term; provided, however, that such prohibition shall not apply in the event of the death or Disability of the participant prior to the expiration of such six-month period, or if such participant is not a director or officer of the Company or a beneficial owner of the Company who is described in Section 16(a) of the Act.

(h) A Stock Appreciation Right shall be deemed exercised on the last day of its term, if not otherwise exercised by the holder thereof, provided that the fair market value of the Stock subject to the Stock Appreciation Right exceeds the exercise price thereof on such date.

(i) No Stock Appreciation Right shall be transferable other than by will or by the laws of descent and distribution and all Stock Appreciation Rights shall be exercisable, during the holder's lifetime, only by the holder.

SECTION 10. TERMINATION OF STOCK OPTIONS AND STOCK APPRECIATION RIGHTS.

(a) Termination by Death. If any participant's employment by or services to the Company and its Subsidiaries terminates by reason of death, any Stock Option or Stock Appreciation Right owned by such participant may thereafter be exercised to the extent exercisable at the date of death, by the legal representative or legatee of the participant, for a period of two years (or such longer period as the Committee shall specify at any time) from the date of death, or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(b) Termination by Reason of Disability or Normal Retirement.

(i) Any Stock Option or Stock Appreciation Right held by a participant whose employment by or services to the Company and its Subsidiaries has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of one year (or such longer period as the Committee shall specify at any time) from the date of such termination of employment or services, or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(ii) Any Stock Option or Stock Appreciation Right held by a participant whose employment by or services to the Company and its Subsidiaries has terminated by reason of Normal Retirement may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of 90 days (or such longer period as the Committee shall specify at any time) from the date of such termination of employment or services, or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(iii) The Committee shall have sole authority and discretion to determine whether a participant's employment or services has been terminated by reason of Disability or Normal Retirement.

(iv) Except as otherwise provided by the Committee at the time of grant, the death of a participant during a period provided in this Section 10(b) for the exercise of a Stock Option or Stock Appreciation Right, shall extend such period for two years from the date of death, subject to termination on the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(c) Termination for Cause. If any participant's employment by or services to the Company and its Subsidiaries has been terminated for Cause, any Stock Option or Stock Appreciation

Right held by such participant shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such Option or Stock Appreciation Right can be exercised for a period of up to 30 days from the date of termination of employment or services or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(d) Voluntary Termination. If any participant's employment by or services to the Company and its Subsidiaries is voluntarily terminated, any Stock Option or Stock Appreciation Right held by such participant shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such Option or Stock Appreciation right can be exercised for a period of up to 90 days from the date of termination of employment or services or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(e) Other Termination. Unless otherwise determined by the Committee, if a participant's employment by or services to the Company and its Subsidiaries terminates for any reason other than death, Disability, Normal Retirement, voluntary termination or for Cause, any Stock Option or Stock Appreciation Right held by such participant may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for 90 days (or such longer period as the Committee shall specify at any time) from the date of termination of employment or services or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

SECTION 11. TAX WITHHOLDING.

(a) Payment by Participant. Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any Federal, state or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) Payment in Shares. Participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to an Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due with respect to such Award, or (ii) transferring to the Company shares of Stock owned by the participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due. With respect to any participant who is subject to Section 16 of the Act, the following additional restrictions shall apply:

(A) the election to satisfy tax withholding obligations relating to an Award in the manner permitted by this Section 11(b) shall be made either (1) during the period beginning on the third business day following the date of release of quarterly or annual summary statements of sales and earnings of the Company and ending on the twelfth business day following such date, or (2) at least six months prior to the date as of which the receipt of such an Award first becomes a taxable event for Federal income tax purposes;

(B) such election shall be irrevocable;

(C) such election shall be subject to the consent or approval of the Committee; and

(D) the Stock withheld to satisfy tax withholding, if granted at the discretion of the Committee, must pertain to an Award which has been held by the participant for at least six months from the date of grant of the Award.

SECTION 12. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another;

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

SECTION 13. AMENDMENTS AND TERMINATION.

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award (or provide substitute Awards at the same exercise or purchase price) for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. However, no such amendment, unless approved by the shareholders of the Company, shall be effective if it would (i) cause the Plan to fail to satisfy the incentive stock option requirements of the Code, (ii) cause transactions under the Plan to fail to satisfy the requirements of Rule 16b-3 or any successor rule under the Act as in effect on the date of such amendment, (iii) permit the Board or the Committee to reprice Options or Stock Appreciation Rights granted to officers and directors of the Company under the Plan without shareholder approval, (iv) permit the Board or the Committee to grant Non-Qualified Stock Options or Stock Appreciation Rights under the Plan at less than 100% of the Fair Market Value on the date of grant of such Non-Qualified Stock Options or Stock Appreciation Rights, as the case may be, (v) cause a material increase in the number of shares authorized under the Plan, (vi) cause a material increase in benefits accruing to participants under the Plan, or (vii) cause a material increase in the eligible class of recipients under the Plan.

SECTION 14. STATUS OF PLAN.

With respect to the portion of any Award which has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the provision of the foregoing sentence.

SECTION 15. CHANGE OF CONTROL PROVISIONS.

(a) Upon the occurrence of a Change of Control as defined in this Section 15:

(i) subject to the provisions of clause (iii) below, after the effective date of such Change of Control, each holder of an outstanding Stock Option, Conditional Stock Award, Performance Share Award or Stock Appreciation Right shall be entitled, upon exercise of such Award, to receive, in lieu of shares of Stock (or consideration based upon the Fair Market Value of Stock), shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of Stock received in connection with the Change of Control;

(ii) the Committee may accelerate the time for exercise of, and waive all conditions and restrictions on, each unexercised and unexpired Stock Option, Conditional Stock Award, Performance Share Award and Stock Appreciation Right, effective upon a date prior or subsequent to the effective date of such Change of Control, specified by the Committee; or

(iii) each outstanding Stock Option, Conditional Stock Award, Performance Share Award and Stock Appreciation Right may be cancelled by the Committee as of the effective date of any such Change of Control provided that (x) notice of such cancellation shall be given to each holder of such an Award and (y) each holder of such an Award shall have the right to exercise such Award to the extent that the same is then exercisable or, if the Committee shall have accelerated the time for exercise of all such unexercised and unexpired Awards, in full during the 30-day period preceding the effective date of such Change of Control.

(b) "Change of Control" shall mean the occurrence of any one of the following events:

(i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Act) becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing thirty-five percent (35%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) persons who, as of January 1, 1997, constituted the Company's Board (the "Incumbent Board") cease for any reason, including without limitation as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to January 1, 1997 whose election was approved by, or who was nominated with the approval of, at least a majority of the directors then comprising the Incumbent Board shall, for purposes of this Plan, be considered a member of the Incumbent Board; or

(iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation or other entity, other than (a) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 65% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (b) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(iv) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

SECTION 16. GENERAL PROVISIONS.

(a) No Distribution; Compliance with Legal Requirements. The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) Delivery of Stock Certificates. Delivery of stock certificates to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan or any Award under the Plan does not confer upon any employee any right to continued employment with the Company or any Subsidiary.

SECTION 17. EFFECTIVE DATE OF PLAN.

The Plan shall become effective upon approval by the holders of a majority of the shares of capital stock of the Company present or represented and entitled to vote at a meeting of shareholders.

SECTION 18. GOVERNING LAW.

This Plan shall be governed by, and construed and enforced in accordance with, the substantive laws of The Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT

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

RESULTS OF OPERATIONS

The Company develops, markets and supports application development, deployment and integration software. Its core product line, Progress, is composed primarily of Progress ProVision, Progress RDBMS, Progress WebSpeed, Progress Open AppServer and Progress DataServers. In October 2000, the Company began shipping the latest major enhancement to the Progress product line, Progress Version 9.1. The Company began commercial shipments of Progress SonicMQ, an E-Business messaging server, in December 1999 and shipped the latest release, Progress SonicMQ 3.0, in December 2000. Software license revenue over the years has been generated primarily from internally developed products. Geographic expansion in overseas markets has been achieved through a combination of establishing new offices in new markets and the acquisition of the Progress-related assets of certain distributors.

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

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

FISCAL 2000 COMPARED TO FISCAL 1999

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

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

Software license revenue from development products, such as Progress ProVision, and most deployment products, including Progress RDBMS, decreased year over year. Partially offsetting the decline in license revenue from these product groups was significantly increased license revenue from Internet-focused products, primarily Progress WebSpeed and, to a lesser extent, Progress SonicMQ. However, these products currently represent a small percentage of total software license revenue.

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

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

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

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

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

Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services decreased 4% from $54.9 million in fiscal 1999 to $52.9 million in fiscal 2000 and decreased as a percentage of maintenance and services revenue from 36% to 33%. The margin percentage improvement in fiscal 2000 as compared to fiscal 1999 was primarily due to maintenance revenue increasing while the related technical support costs decreased due to lower headcount. The dollar decrease was also due to lower headcount in the professional services group and decreased usage of third-party contractors for service engagements. The Company decreased its technical support, education, and consulting staff from 373 at the end of fiscal 1999 to 338 at the end of fiscal 2000.

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

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

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

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

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

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

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

FISCAL 1999 COMPARED TO FISCAL 1998

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

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

Maintenance and services revenue increased 22% from $126.6 million in fiscal 1998 to $154.6 million in fiscal 1999. The increase in maintenance and services revenue was primarily the result of growth in the Company's installed customer base, renewal of maintenance contracts and increased consulting revenue.

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

In fiscal years 2000, 1999 and 1998, the Company purchased $27.3 million, $9.3 million and $10.0 million, respectively, of property and equipment. The amount for fiscal 2000 included the purchase of the land and building of the Company's principal facility in Bedford, Massachusetts for $15.7 million. The remaining amounts for fiscal 2000 and the amounts for fiscal years 1999 and 1998 consisted primarily of computer equipment and software, furniture and fixtures and leasehold improvements. The level of the remaining property and equipment purchases resulted primarily from continued growth of the business and replacement of older equipment. The Company financed these purchases primarily from cash generated from operations.

In fiscal years 2000, 1999 and 1998, the Company purchased and retired 1,087,942 shares, 2,042,238 shares and 3,500,970 shares, respectively, of its common stock for $17.3 million, $24.8 million and $33.2 million, respectively. The Company financed these purchases primarily from cash generated from operations.

In September 2000, the Board of Directors authorized, for the period October 1, 2000 through September 30, 2001, the purchase of up to 10,000,000 shares of the Company's common stock, at such times when the Company deems such purchases to be an effective use of cash. Shares that are repurchased may be used for various purposes including the issuance of shares pursuant to the Company's stock option and purchase plans. At November 30, 2000, approximately 9,600,000 shares of common stock remained available for repurchase under this authorization.

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

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

In December 1997, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in Brazil for $5.0 million. The acquisition was accounted for as a purchase, and accordingly, the results of operations are included in the Company's operating results from the date of acquisition. The purchase price was allocated primarily to goodwill, which is being amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest period presented, the effect on the consolidated financial statements would not have been significant.

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

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

NEW ACCOUNTING PRONOUNCEMENTS

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Exposure to market rate risk for changes in interest rates relates to the Company's investment portfolio. The Company has not used derivative financial instruments in its investment portfolio. The Company places its investments with high-quality issuers and has policies limiting, among other things, the amount of credit exposure to any one issuer. The Company limits default risk by purchasing only investment-grade securities. The Company's investments are all fixed-rate instruments. In addition, the Company has classified all its debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk. Based on a hypothetical ten percent adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive instruments, and cash flows are immaterial, although the actual effects may differ materially from the hypothetical analysis.

The Company has entered into foreign exchange option and forward contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific) against fluctuations in exchange rates. The Company has not entered into foreign exchange option and forward contracts for speculative or trading purposes. The Company's accounting policies for these contracts are based on the designation of the contracts as hedging transactions. The criteria the Company uses for designating a contract as a hedge include the contract's effectiveness in risk reduction and matching of derivative instruments to the underlying transactions. Market value increases and decreases on the foreign exchange option and forward contracts are recognized in income in the same period as gains and losses on the underlying transactions. The Company operates in certain countries where there are limited forward currency exchange markets and thus the Company has unhedged transaction exposures in these currencies. The Company generally does not hedge the net assets of its international subsidiaries. Based on a hypothetical ten percent adverse movement in all foreign currency exchange rates, the Company's revenue would be adversely affected by approximately 6% and the Company's net income would be adversely affected by approximately 15% (excluding any offsetting positive impact from the Company's ongoing hedging programs), although the actual effects may differ materially from the hypothetical analysis.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

FLUCTUATIONS IN REVENUE AND QUARTERLY RESULTS

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

PRODUCTS

The Company believes that the Progress product set and Progress SonicMQ have features and functionality that enable the Company to compete effectively with other vendors of application development products, but ongoing enhancements to these product lines will be required to enable the Company to maintain its competitive position. There can be no assurance that the Company will be successful in developing and marketing enhancements to its products on a timely basis, or that the enhancements will adequately address the changing needs of the marketplace. Delays in the release of enhancements could have a material adverse effect on the Company's business, financial condition and operating results.

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

The Company hopes that Progress SonicMQ and other new products and services will contribute positively to the Company's future results. The market for E-Business messaging products, other Internet business-to-business products and application integration software is highly competitive. Many potential customers have made significant investments in proprietary or internally developed systems and would incur significant costs in switching to third-party products. Global e-commerce and online exchange of information on the Internet and other similar open wide area networks continue to evolve. There can be no assurance that the Company's products will be successful in penetrating these new and evolving markets.

RAPID TECHNOLOGICAL CHANGE

Overlaying the risks associated with the Company's existing products and enhancements are ongoing technological developments and rapid changes in customer requirements. The Company's future success will depend upon its ability to develop and introduce in a timely manner new products that take advantage of technological advances and respond to new customer requirements. The Company is currently developing new products intended to help organizations meet the future needs of application developers. The development of new products is increasingly complex and uncertain, which increases the risk of delays. There can be no assurance that the Company will be successful in developing new products incorporating new technology on a timely basis, or that its new products will adequately address the changing needs of the marketplace.

DISTRIBUTION CHANNELS AND NEW MARKETS

Future results also depend upon the Company's continued successful distribution of its products through its ISV channel and may be impacted by downward pressure on pricing, which may not be offset by increases in volume. ISVs utilize technology from the Company to create their applications and resell the Company's products along with their own applications. During fiscal 2000, revenue from the ISV channel decreased as compared to the previous year. If this negative revenue trend were to continue in fiscal 2001, the Company's business and operating results would be adversely affected. Any other adverse effect on the ISVs' business related to competition, pricing and other factors could also have a material adverse effect on the Company's business, financial condition and operating results.

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

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

COMPETITION

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

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

INTERNATIONAL OPERATIONS

Approximately 58% of the Company's total revenue in fiscal 2000 and in fiscal 1999 was attributable to international sales made through its subsidiaries. Because a majority of the Company's total revenue is derived from such international operations which are primarily conducted in foreign currencies, changes in the value of these foreign currencies relative to the U.S. dollar may affect the Company's results of operations and financial position. The Company engages in certain currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on the Company's results of operations. However, there can be no assurance that such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. If for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, the Company's business could be adversely affected.

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

HIRING AND RETENTION OF EMPLOYEES

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

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

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

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

THIRD-PARTY TECHNOLOGY

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

STOCK PRICE VOLATILITY

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

CONSOLIDATED BALANCE SHEETS

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

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

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

ACCOUNTING PRINCIPLES

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

USE OF ESTIMATES

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

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated.

FOREIGN CURRENCY TRANSLATION

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

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

The Company enters into foreign exchange option contracts which are designated as effective hedges on certain transactions in selected foreign currencies. The purpose of the Company's foreign exposure management policies and practices is to attempt to minimize the impact of exchange rate fluctuations on the Company's results of operations. The option contracts are structured such that the cost to the Company cannot exceed the premium paid for such contracts. Premiums are recognized ratably over the contract period as a component of foreign currency gain or loss. Increases and decreases in market value gains on such contracts are recognized in income in the same period as the underlying transactions as a component of foreign currency gain or loss. The notional principal amount of outstanding foreign exchange option contracts at November 30, 2000 was $51.2 million. Unrealized market value gains on such contracts were immaterial at November 30, 2000. Major U.S. multinational banks are counterparties to the option contracts.

REVENUE RECOGNITION

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

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

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

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

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

SUPPLEMENTAL CASH FLOW INFORMATION

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

CONCENTRATION OF CREDIT RISK

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

PROPERTY AND EQUIPMENT

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

CAPITALIZATION OF SOFTWARE COSTS

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

INTANGIBLE ASSETS

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

INVESTMENT IN RELATED PARTY

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

STOCK-BASED COMPENSATION PLANS

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

INCOME TAXES

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

EARNINGS PER SHARE

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

COMPREHENSIVE INCOME

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

NEW ACCOUNTING PRONOUNCEMENTS

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

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

NOTE 2: BUSINESS COMBINATIONS

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

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

In December 1997, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in Brazil for $5.0 million. The acquisition was accounted for as a purchase, and accordingly, the results of operations are included in the Company's operating results from the date of acquisition. The purchase price was allocated primarily to goodwill, which is being amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest year presented, the effect on the consolidated financial statements would not have been significant.

NOTE 3: CASH AND SHORT-TERM INVESTMENTS

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

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

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

(In thousands)

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

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

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

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

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

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

NOTE 5: SHAREHOLDERS' EQUITY

PREFERRED STOCK

The Board of Directors is authorized to establish one or more series of preferred stock and to fix and determine the number and conditions of preferred shares, including dividend rates, redemption and/or conversion provisions, if any, preference and voting rights. At November 30, 2000, the Board of Directors has not authorized any series of preferred stock.

COMMON STOCK

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

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

In September 2000, the Board of Directors authorized, for the period October 1, 2000 through September 30, 2001, the purchase of up to 10,000,000 shares of the Company's common stock, at such times when the Company deems such purchases to be an effective use of cash. Shares that are repurchased may be used for various purposes, including the issuance of shares pursuant to the Company's stock option and stock purchase plans. At November 30, 2000, approximately 9,600,000 shares of common stock remained available for repurchase under this authorization.

STOCK OPTIONS

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

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

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

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

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

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

(In thousands, except per share data)	Options Outstanding		
Range of Exercise Price:	Number of Shares	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price
$ 0.22- 1.67	3	3.55	$0.88
4.50- 6.23	2,146	5.00	5.17
6.54- 7.23	1,829	5.86	7.19
9.00-12.19	2,232	9.18	11.19
12.81-14.94	1,392	8.27	12.85
16.69-19.25	930	9.20	19.16
$ 0.22-19.25	8,532	7.27	$9.95

(In thousands, except per share data)	Options Exercisable	
Range of Exercise Price:	Number of Shares	Weighted Average Exercise Price
$ 0.22- 1.67	3	$0.88
4.50- 6.23	1,687	5.18
6.54- 7.23	1,172	7.20
9.00-12.19	532	10.64
12.81-14.94	420	12.88
16.69-19.25	138	19.17
$ 0.22-19.25	3,952	$7.82

EMPLOYEE STOCK PURCHASE PLAN

The 1991 Employee Stock Purchase Plan (ESPP), as amended in April 1998, permits eligible employees to purchase up to a maximum of 1,500,000 shares of common stock of the Company at 85% of the lesser of the market value of such shares at the beginning of a 27-month offering period or the end of each three-month segment within such offering period. During fiscal years 2000, 1999 and 1998, 297,973 shares, 217,002 shares and 120,412 shares, respectively, were issued with weighted average purchase prices of $10.61, $9.54 and $7.63 per share, respectively, under the ESPP. At November 30, 2000, approximately 413,000 shares were available and reserved for issuance under the ESPP.

PRO FORMA DISCLOSURES

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

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

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

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

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

NOTE 6: RETIREMENT PLAN

The Company maintains a retirement plan covering all U.S. employees under Section 401(k) of the Internal Revenue Code. Company contributions to the plan are at the discretion of the Board of Directors and totaled approximately $1.8 million, $2.5 million and $2.4 million for fiscal years 2000, 1999 and 1998, respectively.

NOTE 7: INCOME TAXES

The components of pretax income were as follows:

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

The provisions for income taxes were comprised of the following:

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

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

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

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

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

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

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

NOTE 8: OPERATING LEASES

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

(In thousands)

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

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

NOTE 9: LITIGATION

The Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

NOTE 10: BUSINESS SEGMENT AND INTERNATIONAL OPERATIONS

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

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

(In thousands)

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

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

(In thousands)

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Progress Software Corporation and its subsidiaries as of November 30, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended November 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Progress Software Corporation and its subsidiaries as of November 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Boston, Massachusetts
December 19, 2000

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share data)

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

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

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

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

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

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

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

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	NuSphere Corporation
Delaware	Progress Software International Corporation
Delaware	Progress Software Corporation
Delaware	Sonic 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.
Latin America	
Argentina	Progress Software de Argentina S.A.
Brazil	Progress Software do Brasil Ltda.
Chile	Progress Software de Chile S.A.
Colombia	Progress Software de Colombia S.A.
Mexico	Progress Software, S.A. de C.V.
Venezuela	Progress Software de Venezuela C.A.
Other	
Australia	Progress Software Pty. Ltd.
Hong Kong	Progress Software Corporation Limited
Japan	Progress Software K.K.
Malaysia	Progress Software (M) Sdn Bhd
Singapore	Progress Software Pte. Ltd.
South Africa	Progress Software (Pty) Ltd.

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, all on Form S-8, of our report dated December 19, 2000, incorporated by reference in this Annual Report on Form 10-K of Progress Software Corporation and its subsidiaries for the year ended November 30, 2000.

/s/ DELOITTE & TOUCHE LLP
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Boston, Massachusetts
February 26, 2001