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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended May 31, 2003

OR

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

Commission File Number: **0-19417**

PROGRESS SOFTWARE CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes X No ___

As of July 10, 2003, there were 34,581,000 shares of the Registrant's Common Stock, $.01 par value per share, outstanding.

TABLE OF CONTENTS

Table of Contents

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE THREE MONTHS ENDED MAY 31, 2003

INDEX

Table of Contents

PART 1. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Condensed Consolidated Balance Sheets (unaudited)

(In thousands)	May 31, 2003	November 30, 2002
Assets		
Current assets:		
Cash and equivalents	$114,718	$117,425
Short-term investments	75,875	59,768
Accounts receivable, net	54,008	48,676
Other current assets	12,249	10,102
Deferred income taxes	8,830	8,857
Total current assets	265,680	244,828
Property and equipment, net	34,558	34,045
Intangible assets, net	8,409	887
Goodwill	17,011	4,013
Other assets	15,566	6,393
Total	$341,224	$290,166
Liabilities and Shareholders’ Equity		
Current liabilities:		
Accounts payable	$ 11,357	$ 9,717
Accrued compensation and related taxes	21,886	21,788
Income taxes payable	3,371	6,785
Other accrued liabilities	21,167	12,509
Deferred revenue	87,124	66,404
Total current liabilities	144,905	117,203
Commitments and contingent liabilities		
Shareholders’ equity:		
Common stock and additional paid-in capital; authorized, 100,000 shares; issued and outstanding, 34,383 in 2003 and 33,401 shares in 2002	40,473	27,743
Retained earnings, including accumulated other comprehensive loss of $1,232 in 2003 and $2,256 in 2002	155,846	145,220
Total shareholders’ equity	196,319	172,963
Total	$341,224	$290,166

See notes to condensed consolidated financial statements.

Table of Contents

Condensed Consolidated Statements of Operations (unaudited)

(In thousands, except per share data)	Three Months Ended May 31,		Six Months Ended May 31,	
	2003	2002	2003	2002
Revenue:				
Software licenses	$27,074	$23,023	$ 52,528	$ 45,500
Maintenance and services	50,476	44,536	96,844	86,537
Total revenue	77,550	67,559	149,372	132,037
Costs and expenses:				
Cost of software licenses	2,434	2,586	4,760	5,468
Cost of maintenance and services	12,790	14,383	25,907	28,628
Sales and marketing	31,992	24,456	61,282	50,435
Product development	12,802	10,563	25,289	21,281
General and administrative	8,367	7,153	17,507	14,540
In-process research and development	—	—	200	—
Total costs and expenses	68,385	59,141	134,945	120,352
Income from operations	9,165	8,418	14,427	11,685
Other income (expense):				
Interest income and other	835	1,159	1,746	2,239
Investment impairment charge	—	(1,000)	—	(1,000)
Foreign currency losses	(443)	(346)	(562)	(1,177)
Total other income, net	392	(187)	1,184	62
Income before provision for income taxes	9,557	8,231	15,611	11,747
Provision for income taxes	2,867	2,469	4,683	3,524
Net income	$ 6,690	$ 5,762	$ 10,928	$ 8,223
Earnings per share:				
Basic	$ 0.20	$ 0.16	$ 0.32	$ 0.23
Diluted	$ 0.18	$ 0.15	$ 0.30	$ 0.21
Weighted average shares outstanding:				
Basic	33,844	35,749	33,628	35,733
Diluted	37,829	39,117	36,703	39,259

See notes to condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)	Six Months Ended May 31,	
	2003	2002
Cash flows from operating activities:		
Net income	$ 10,928	$ 8,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,419	5,358
Investment impairment charge	—	1,000
In-process research and development	200	—
Deferred income taxes and other	228	(172)
Changes in operating assets and liabilities:		
Accounts receivable	3,729	8,887
Other current assets	1,080	(804)
Accounts payable and accrued expenses	(1,478)	(4,961)
Income taxes payable	(656)	1,060
Deferred revenue	10,468	3,638
Net cash provided by operating activities	29,918	22,229
Cash flows from investing activities:		
Purchases of investments available for sale	(23,545)	(12,916)
Maturities of investments available for sale	7,589	12,356
Purchases of property and equipment	(2,066)	(3,961)
Acquisitions, net of cash acquired	(25,164)	—
Increases in other non-current assets	(521)	(19)
Net cash used for investing activities	(43,707)	(4,540)
Cash flows from financing activities:		
Proceeds from issuance of common stock	13,451	4,838
Repurchase of common stock	(4,865)	(6,683)
Net cash provided by (used for) financing activities	8,586	(1,845)
Effect of exchange rate changes on cash	2,496	349
Net increase (decrease) in cash and equivalents	(2,707)	16,193
Cash and equivalents, beginning of period	117,425	108,337
Cash and equivalents, end of period	$114,718	$124,530

See notes to condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Progress Software Corporation (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002.

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

Note 2: Stock-based Compensation

Effective March 1, 2003, the Company adopted Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure — an amendment of FASB Statement No. 123" (SFAS 148). The Company accounts for stock-based compensation cost using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost is recognized for stock options granted to employees at fair market value.

Had the Company recognized compensation expense for its stock option and purchase plans based on the fair value for awards under those plans in accordance with SFAS No. 123, "Accounting for Stock Based Compensation," pro forma net income and pro forma earnings per share would have been as follows:

(In thousands, except per share data)

Three Months Ended May 31,	**2003**	**2002**
Net income, as reported	$ 6,690	$ 5,762
Less: stock-based compensation expense determined under fair value method for all awards, net of tax	(2,148)	(1,783)
Pro forma net income	$ 4,542	$ 3,979
Earnings per share:		
Basic, as reported	$ 0.20	$ 0.16
Basic, pro forma	$ 0.13	$ 0.11
Diluted, as reported	$ 0.18	$ 0.15
Diluted, pro forma	$ 0.12	$ 0.10

(In thousands, except per share data)

Six Months Ended May 31,	2003	2002
Net income, as reported	$10,928	$ 8,223
Less: stock based compensation expense determined under fair value method for all awards, net of tax	(4,037)	(3,539)
Pro forma net income	$ 6,891	$ 4,684
Earnings per share:		
Basic, as reported	$ 0.32	$ 0.23
Basic, pro forma	$ 0.20	$ 0.13
Diluted, as reported	$ 0.30	$ 0.21
Diluted, pro forma	$ 0.19	$ 0.12

Note 3: Revenue Recognition

Revenue is recognized when earned. Software license revenue is recognized upon shipment of the product provided that the license fee is fixed and determinable, persuasive evidence of an arrangement exists and collection is probable. The Company does not license its software with a right of return and generally does not license its software with conditions of acceptance. If an arrangement does contain conditions of acceptance, recognition of the revenue is deferred until the acceptance criteria are met or the period of acceptance has passed. The Company generally recognizes revenue for products sold through indirect channels, including application partners, original equipment manufacturers (OEMs) and distributors, when the indirect channel partner places an order identifying the end user or reports the number of reproduced copies of the licensed software. Under certain circumstances, nonrefundable license fees from indirect channel partners, primarily OEMs, are recognized upon shipment of the product master provided that all other criteria are met.

Software licenses are generally sold with annual maintenance contracts and, in some cases, also with consulting services. For the undelivered elements, vendor-specific objective evidence (VSOE) of fair value is determined to be the price charged when the undelivered element is sold separately. VSOE for maintenance sold in connection with a software license is determined based on the amount that will be separately charged for the maintenance renewal period. VSOE for consulting services is determined by reference to amounts charged for consulting services when a software license sale is not involved.

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

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

Note 4: Income Taxes

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

Note 5: Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the treasury stock method. The following table sets forth the calculation of basic and diluted earnings per share on an interim basis:

(In thousands, except per share data)

Three Months Ended May 31,	2003	2002
Net income	$ 6,690	$ 5,762
Weighted average shares outstanding	33,844	35,749
Dilutive impact from outstanding stock options	3,985	3,368
Diluted weighted average shares outstanding	37,829	39,117
Basic earnings per share	$ 0.20	$ 0.16
Diluted earnings per share	$ 0.18	$ 0.15

(In thousands, except per share data)

Six Months Ended May 31,	2003	2002
Net income	$10,928	$ 8,223
Weighted average shares outstanding	33,628	35,733
Dilutive impact from outstanding stock options	3,075	3,526
Diluted weighted average shares outstanding	36,703	39,259
Basic earnings per share	$ 0.32	$ 0.23
Diluted earnings per share	$ 0.30	$ 0.21

Approximately 634,000 and 730,000 outstanding stock options were excluded from the calculations of diluted earnings per share in the three months ended May 31, 2003 and 2002, respectively, and approximately 703,000 and 725,000 outstanding stock options were excluded from the calculations of diluted earnings per share in the six months ended May 31, 2003 and 2002, respectively, because these options were anti-dilutive. However, these options could be dilutive in the future.

Note 6: Comprehensive Income

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

(In thousands)

Three Months Ended May 31,	2003	2002
Net income	$6,690	$5,762
Foreign currency translation adjustments	690	(192)
Unrealized losses on foreign exchange hedging contracts	(345)	(315)
Unrealized holding gains on investments	20	529
Total comprehensive income	$7,055	$5,784

(In thousands)

Six Months Ended May 31,	2003	2002
Net income	$10,928	$8,223
Foreign currency translation adjustments	1,219	(280)
Unrealized losses on foreign exchange hedging contracts	(345)	(315)
Unrealized holding gains on investments	150	544
Total comprehensive income	$11,952	$8,172

Note 7: Segment Information

The Company conducts business through three principal operating units and a supporting research and business development unit. The first operating unit conducts business as the Progress Company and provides the OpenEdge platform, a set of development and deployment technologies, which includes the Progress RDBMS. The second operating unit, Sonic Software, is a provider of standards-based integration products and services. The third operating unit, PeerDirect, provides replication technology for distributed computing. PSC Labs has responsibility for research and new business development activities.

Segment information is presented in accordance with SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." This standard is based on a management approach, which requires segmentation based upon the Company's internal organization and disclosure of revenue and operating income based upon internal accounting methods.

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

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

(In thousands)

Three Months Ended May 31:	E-Business Application Development & Deployment	E-Business Integration	Eliminations	Total
2003:				
Revenue	$73,707	$ 5,717	$(1,874)	$77,550
Income (loss) from operations	$16,467	$(5,428)	$(1,874)	$ 9,165
2002:				
Revenue	$64,548	$ 3,447	$ (436)	$67,559
Income (loss) from operations	$13,050	$(4,196)	$ (436)	$ 8,418

(In thousands) Six Months Ended May 31:	E-Business Application Development & Deployment	E-Business Integration	Eliminations	Total
2003:				
Revenue	$142,597	$ 9,581	$(2,806)	$149,372
Income (loss) from operations	$ 28,702	$(11,469)	$(2,806)	$ 14,427
2002:				
Revenue	$127,333	$ 5,641	$ (937)	$132,037
Income (loss) from operations	$ 21,487	$ (8,865)	$ (937)	$ 11,685

Amounts included under Eliminations represent intersegment sales. Total revenue from the Sonic product line, generated by both segments, was $11.0 million in the first six months of fiscal 2003 as compared to $7.2 million in the first six months of fiscal 2002.

Note 8: Acquisition of eXcelon Corporation

On December 19, 2002, the Company completed its acquisition of eXcelon Corporation (eXcelon), a provider of data management software. The acquisition was accounted for as a purchase, and accordingly, the results of operations of eXcelon are included in the Company's operating results from the date of acquisition. The acquisition was structured as a merger of a wholly owned subsidiary of the Company with and into eXcelon. Pursuant to the terms of the acquisition, each outstanding share of eXcelon common stock was converted into the right to receive $3.19 in cash, without interest. In addition, as a result of the acquisition, holders of outstanding options to purchase eXcelon common stock with an exercise price of less than $3.19 per share were entitled to receive a cash payment equal to the number of shares of eXcelon common stock subject to such option multiplied by the amount by which $3.19 exceeded the exercise price per share of such option. The aggregate purchase price of approximately $34.9 million included $10.2 million for facilities closures and employee severance and $0.7 million for direct transaction costs.

Acquired in-process research and development ("IPR&D") of $0.2 million was expensed when the acquisition was consummated because the technological feasibility of several products under development at the time of the acquisition had not been achieved and no alternate future uses had been established. Research and development costs to bring the acquired products to technological feasibility are not expected to have a material impact on the Company's future results of operations or cash flows. The Company used an independent appraiser to calculate the amounts allocated to assets and liabilities acquired including intangible assets and IPR&D. The preliminary allocation of the purchase price as of May 31, 2003 was as follows:

(In thousands)	Total	Life (in years)
Assets and liabilities, including cash	$14,045	
Intangible assets	8,100	1 to 6 years
Goodwill	12,510	
In-process research and development	200	
Total purchase price	34,855	
Less: cash acquired	(9,391)	
Less: cash paid for 94 shares of eXcelon owned by PSC	(300)	
Net cash paid	$25,164	

The following table sets forth supplemental pro forma financial information that assumes the acquisition was completed at the beginning of the earliest period presented. The information for the three months ended May 31, 2002 includes the historical results of the Company for the three months ended May 31, 2002 and the historical results of eXcelon for the three month period ended March 31, 2002 and the information for the six months ended May 31, 2002 includes the historical results of the Company for the six months ended May 31, 2002 and the historical results of eXcelon for the six month period ended March 31, 2002 due to different fiscal period ends. The pro forma results include estimates and assumptions regarding increased amortization of intangible assets related to the acquisition and decreased interest income related to cash paid for the acquisition purchase price, which the Company believes are reasonable. However, pro forma results are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the date indicated, or that may result in the future.

(In thousands, except per share data)

Three Months Ended May 31,	2002
Pro forma revenue	$78,692
Pro forma net income	$ 524
Pro forma diluted earnings per share	$ 0.01

In thousands, except per share data)

Six Months Ended May 31,	2002
Pro forma revenue	$156,992
Pro forma net income (loss)	$ (56,493)
Pro forma diluted earnings (loss) per share	$ (1.58)

The net loss of eXcelon for the six month period ended March 31, 2002 included an impairment charge of $54.4 million for goodwill from a previous acquisition.

Note 9: Commitments and Contingent Liabilities

In November 2002, the FASB issued FIN No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34” (FIN 45). FIN 45 requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee and requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The adoption of FIN 45 did not have a material effect on the Company’s financial position or results of operations.

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to the Company’s end user license agreement, the Company will indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally business partners or customers, in connection with patent, copyright or other intellectual property infringement claims by any third party with respect to the Company’s products. Other agreements provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by the Company or its subcontractors. Historically, the Company’s costs to defend lawsuits or settle claims relating to such indemnity agreements have been insignificant. Accordingly, the estimated fair value of these indemnification provisions is immaterial.

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

Cautionary Statements

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding "forward-looking statements." This Form 10-Q contains, and other information provided by the Company or statements made by its directors, officers or employees from time to time may contain, forward-looking statements and information, which involve risks and uncertainties. Actual future results may differ materially. Forward-looking statements include statements concerning plans, objectives, goals, strategies, expectations, intentions, projections, developments, future events, performance or products, underlying assumptions and other statements which are other than statements of historical facts. In some cases, forward-looking statements are identified by terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "estimates," "believes," "contemplates," "predicts," "projects," "continue" and other similar terminology or the negative of these terms. All such forward-looking statements, whether written or oral, are expressly qualified by the cautionary statements contained in this Form 10-Q, including those set forth below under the heading "Factors That May Affect Future Results" and any other cautionary statements which may accompany the forward-looking statements. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that the Company has identified all possible issues which the Company might face. The Company undertakes no obligation to update any forward-looking statements it makes.

Overview

The Company develops, markets and distributes software to simplify and accelerate the development, deployment, integration and management of business applications. The mission of the Company is to deliver software products and services that empower partners and customers to improve their development, deployment, integration and management of quality applications worldwide. The Company's products include development tools, databases, application servers, messaging servers, application management tools and integration products for distributed and Web-based applications as well as for client/server and host/terminal applications.

The Company has three principal operating units and a supporting research and business development unit. The first operating unit conducts business as the Progress Company and is a division of the Company. The other two operating units, Sonic Software Corporation and PeerDirect Corporation, seek to address the needs of emerging markets and operate as subsidiaries of the Company. PSC Labs, a division of the Company based in Cambridge, Massachusetts, focuses on new business development, research and strategic investments.

The Progress Company provides the OpenEdge™ platform, a set of development and deployment technologies, including the Progress® RDBMS, one of the leading embedded databases. Sonic Software is a provider of standards-based integration products and services. Sonic Software delivers a standards-based, flexible infrastructure that connects applications and orchestrates business processes across the extended enterprise. PeerDirect Corporation is a supplier of technology for distributed application deployment and management. Its flagship product suite, PeerDirect™ Distributed Enterprise, allows companies to centrally manage distributed applications with synchronized databases deployed across widely distributed locations.

In December 2002, the Company completed its acquisition of eXcelon Corporation, which had two principal product groups: object-oriented database products, principally ObjectStore, and XML (eXtensible Markup Language) technology-based products. The Company is managing the ObjectStore group within the Progress Company and combining the XML-related products and functions with Sonic Software.

Critical Accounting Policies

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

The Company has identified the following critical accounting policies that require the use of significant judgments and estimates in the preparation of its consolidated financial statements. This listing is not a comprehensive list of all of the Company's accounting policies. For further information regarding the application of these and other accounting policies, see Note 1 in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended November 30, 2002.

Revenue Recognition — The Company's revenue recognition policy is significant because revenue is a key component affecting results of operations. In determining when to recognize revenue from a customer arrangement, the Company is often required to exercise judgment regarding the application of its accounting policies to a particular arrangement. For example, judgment is required in determining whether a customer arrangement has multiple elements. If such a situation exists, judgment is also involved in determining whether vendor-specific objective evidence (VSOE) of fair value for the undelivered elements exists. While the Company follows specific and detailed rules and guidelines related to revenue recognition, significant management judgments and estimates are made and used in connection with the revenue recognized in any reporting period, particularly in the areas described above as well as collectibility. If management made different estimates or judgments, material differences in the timing of the recognition of revenue could occur.

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

Deferred Income Taxes — The Company had a net deferred tax asset of $22.1 million at May 31, 2003. The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company considers scheduled reversals of deferred tax liabilities, projected future taxable income, ongoing tax planning strategies and other matters in assessing the need for and the amount of a valuation allowance. If the Company were to change its assumptions or otherwise determine that it was unable to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period that such change or determination was made.

Results of Operations

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

	Percentage of Total Revenue				Period-to-Period Change	
	Three Months Ended		Six Months Ended			
	May 31, 2003	May 31, 2002	May 31, 2003	May 31, 2002	Three Month Period	Six Month Period
Revenue:						
Software licenses	35%	34%	35%	34%	18%	15%
Maintenance and services	65	66	65	66	13	12
Total revenue	100	100	100	100	15	13
Costs and expenses:						
Cost of software licenses	3	4	3	4	(6)	(13)
Cost of maintenance and services	16	21	17	22	(11)	(10)
Sales and marketing	41	36	41	38	31	22
Product development	17	16	17	16	21	19
General and administrative	11	11	12	11	17	20
In-process research and development	0	0	0	0	—	*
Total costs and expenses	88	88	90	91	16	12
Income from operations	12	12	10	9	9	23
Other income	0	0	0	0	*	*
Income before provision for taxes	12	12	10	9	16	33
Provision for income taxes	3	3	3	3	16	33
Net income	9%	9%	7%	6%	16%	33%

* not meaningful

The Company’s total revenue increased 15% from $67.6 million in the second quarter of fiscal 2002 to $77.6 million in the second quarter of fiscal 2003. Total revenue would have increased by approximately 6% in the second quarter of fiscal 2003 as compared to the second quarter of fiscal 2002 if exchange rates had been constant in the second quarter of fiscal 2003 as compared to the exchange rates in effect in the second quarter of fiscal 2002.

The Company’s total revenue increased 13% from $132.0 million in the first six months of fiscal 2002 to $149.4 million in the first six months of fiscal 2003. Total revenue would have increased by approximately 5% in the first six months of fiscal 2003 as compared to the first six months of fiscal 2002 if exchange rates had been constant in the first six months of fiscal 2003 as compared to the exchange rates in effect in the first six months of fiscal 2002. In addition to the positive effect of changes in exchange rates, the Company’s revenue increased due to software licenses and services derived from the products acquired from eXcelon and the continued growth of the Sonic product line.

Total revenue derived from the Sonic product line, including the XML-based products acquired in the acquisition of eXcelon, increased from $4.3 million in the second quarter of fiscal 2002 to $6.4 million in the second quarter of fiscal 2003 and increased from $7.2 million in the first six months of fiscal 2002 to $11.0 million in the first six months of fiscal 2003. Revenue from the ObjectStore product line, which was also acquired in the acquisition of eXcelon, contributed $3.8 million of revenue in the second quarter of fiscal 2003 and $6.4 million for the first six months of fiscal 2003. Revenue from the PeerDirect product line in any period presented was not significant.

Software license revenue increased 18% from $23.0 million in the second quarter of fiscal 2002 to $27.1 million in the second quarter of fiscal 2003 and increased 15% from $45.5 million in the first six months of fiscal 2002 to $52.5 million in the first six months of fiscal 2003. The increase in software license revenue was primarily due to an increase in revenue from sales to direct end users and, to a lesser extent, Application Partners (APs), companies that have written software applications utilizing Progress Software technology and that resell the Company’s products in conjunction with the sale of their applications. Software license revenue from the Progress product set increased year over year in both periods, primarily within the database product and other deployment products. Software license revenue also increased from new products such as the Sonic product line. In addition, the Company’s license revenue was positively affected in the second quarter and first six months of the fiscal year by the year-over-year exchange movements of the U.S. dollar.

Maintenance and services revenue increased 13% from $44.5 million in the second quarter of fiscal 2002 to $50.5 million in the second quarter of fiscal 2003 and increased 12% from $86.5 million in the first six months of fiscal 2002 to $96.8 million in the first six months of fiscal 2003. 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 the positive affect of year-over-year changes in foreign exchange rates, partially offset by a decline in services revenue. The decline in services revenue was primarily the result of decreases in consulting revenue in the Europe, Middle East and Africa (EMEA) and Latin American regions as a result of economic conditions and a slower overall market for professional services.

Total revenue generated in markets outside North America increased 15% from $41.2 million in the second quarter of fiscal 2002 to $47.3 million in the second quarter of fiscal 2003 and represented 61% of total revenue in the second quarter of fiscal 2002 and fiscal 2003. Total revenue generated in markets outside North America would have represented 58% of total revenue in the second quarter of fiscal 2003 if exchange rates had been constant in the second quarter of fiscal 2003 as compared to the exchange rates in effect in the second quarter of fiscal 2002.

Total revenue generated in markets outside North America increased 17% from $77.9 million in the first six months of fiscal 2002 to $91.4 million in the first six months of fiscal 2003 and represented 61% of total revenue in the first six months of fiscal 2003 as compared to 59% in the first six months of fiscal 2002. Total revenue generated in markets outside North America would have represented 58% of total revenue in the first six months of fiscal 2003 if exchange rates had been constant in the first six months of fiscal 2003 as compared to the exchange rates in effect in the first six months of fiscal 2002. The dollar increase in revenue in fiscal 2003 for each period presented was primarily the result of higher revenue in the EMEA region, partially offset by lower amounts from the Latin American region.

The Company anticipates an increase in total revenue in the third quarter of fiscal 2003 in the range of 12% to 14%, including the positive impact from favorable changes in year-over-year foreign exchange rates, as compared to the third quarter of fiscal 2002. This revenue expectation is based on the continued success of the Company's APs, continued improvement in the Company's ability to generate new business in end user accounts, the addition of and the ability to successfully integrate the products and personnel from eXcelon and continued growth from new product sets, especially the Sonic product line. However, external factors, such as a worsening of economic conditions in North America or EMEA or a strengthening of the U.S. dollar against currencies from which the Company derives a significant portion of its business, could negatively impact this revenue expectation.

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 6% from $2.6 million in the second quarter of fiscal 2002 to $2.4 million in the second quarter of fiscal 2003 and decreased as a percentage of software license revenue from 11% to 9%. Cost of software licenses decreased 13% from $5.5 million in the first six months of fiscal 2002 to $4.8 million in the first six months of fiscal 2003 and decreased as a percentage of software license revenue from 12% to 9%. The percentage and dollar decreases were primarily due to lower royalty expense for products and technologies licensed from third parties and lower amortization expense from previously capitalized software costs. Cost of software licenses as a percentage of software license revenue may vary from period to period depending upon the relative product mix.

Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services decreased 11% from $14.4 million in the second quarter of fiscal 2002 to $12.8 million in the second quarter of fiscal 2003 and decreased as a percentage of maintenance and services revenue from 32% to 25%. Cost of maintenance and services decreased 10% from $28.6 million in the first six months of fiscal 2002 to $25.9 million in the first six months of fiscal 2003 and decreased as a percentage of maintenance and services revenue from 33% to 27%. The maintenance and services revenue margin improvement was due to maintenance revenue, which has a substantially higher margin than professional services revenue, representing a greater proportion of the total maintenance and services revenue in each period presented of fiscal 2003. The dollar decrease was due to lower usage of third-party contractors for service engagements and lower headcount-related expenses in the professional services group, partially offset by increased headcount-related expenses in technical support, primarily related to the addition of eXcelon personnel. The Company's technical support, education and consulting headcount increased by 3% from the end of the second quarter of fiscal 2002 to the end of the second quarter of fiscal 2003.

Sales and marketing expenses increased 31% from $24.5 million in the second quarter of fiscal 2002 to $32.0 million in the second quarter of fiscal 2003 and increased as a percentage of total revenue from 36% to 41%. Sales and marketing expenses increased 22% from $50.4 million in the first six months of fiscal 2002 to $61.3 million in the first six months of fiscal 2003 and increased as a percentage of total revenue from 38% to 41%. The dollar increase in sales and marketing expenses was due to the addition of sales and marketing personnel and related expenses assumed in the acquisition of eXcelon, user conference event expenses, as well as a slight increase in the level of discretionary marketing spending for trade shows, advertising campaigns, lead generation, direct mail solicitations and other events. Expenses also increased in each period presented for fiscal 2003 due to year-over-year changes in exchange rates as a significant percentage of sales and marketing expenses are incurred outside of North America. The Company’s sales, sales support and marketing headcount increased by 7% from the end of the second quarter of fiscal 2002 to the end of the second quarter of fiscal 2003.

Product development expenses increased 21% from $10.6 million in the second quarter of fiscal 2002 to $12.8 million in the second quarter of fiscal 2003 and increased as a percentage of total revenue from 16% to 17%. Product development expenses increased 19% from $21.3 million in the first six months of fiscal 2002 to $25.3 million in the first six months of fiscal 2003 and increased as a percentage of total revenue from 16% to 17%. The dollar and percentage increases were primarily due to an increase in headcount and related expenses assumed in the acquisition of eXcelon, including the ObjectStore development group and the XML development group. There were no capitalized software development costs in the first six months of either fiscal 2002 or fiscal 2003, due to the timing and stage of development of projects that might qualify for capitalization under the Company’s software capitalization policy. The Company’s product development headcount increased 17% from the end of the second quarter of fiscal 2002 to the end of the second quarter of fiscal 2003.

General and administrative expenses include the costs of the finance, human resources, legal, information systems and administrative departments of the Company. General and administrative expenses increased 17% from $7.2 million in the second quarter of fiscal 2002 to $8.3 million in the second quarter of fiscal 2003, but remained the same percentage of revenue at 11%. General and administrative expenses increased 20% from $14.5 million in the first six months of fiscal 2002 to $17.5 million in the first six months of fiscal 2003 and increased as a percentage of total revenue from 11% to 12%. The expense increase in the second quarter and first six months was due to the impact of changes in exchange rates and an increase in amortization expense from acquired intangible assets. The expense increase in the first six months also was due to transition and integration costs associated with the acquisition of eXcelon. The Company’s administrative headcount increased 1% from the end of the second quarter of fiscal 2002 to the end of the second quarter of fiscal 2003.

Acquired in-process research and development of $0.2 million was expensed when the acquisition of eXcelon was consummated because the technological feasibility of several products under development at the time of the acquisition had not been achieved and no alternate future uses had been established. Research and development costs to bring the acquired products to technological feasibility are not expected to have a material impact on the Company’s future results of operations or cash flows.

Income from operations remained the same percentage of total revenue in the second quarter of fiscal 2002 and fiscal 2003 at 12% and increased as a percentage of revenue from 9% in the first six months of fiscal 2002 to 10% in the first six months of fiscal 2003. The increase in operating income as a percentage of revenue was primarily due to revenue growth in the period. If the Company is able to meet its forecasted revenue target and expenses occur as planned for the remainder of the fiscal year, the Company expects operating income as a percentage of revenue to be between 11% and 12% for all of fiscal 2003.

Other income increased from $(0.2) million in the second quarter of fiscal 2002 to $0.4 million in the second quarter of fiscal 2003 and increased from $0.1 million in the first six months of fiscal 2002 to $1.2 million in the first six months of fiscal 2003. The second quarter of fiscal 2002 included a noncash impairment charge of $1.0 million related to the Company’s investment in a related party, EasyAsk, Inc. Other income, excluding the investment writedown, decreased in the second quarter due to a decline in interest income and slightly higher foreign exchange transaction losses. Interest income decreased in each period presented due to lower interest rates. Other income, excluding the investment writedown, increased in the first six months of fiscal 2003 as compared to the first six months of fiscal 2002 due to lower foreign exchange transaction losses.

The Company's effective tax rate was 30% in each period presented for fiscal 2002 and fiscal 2003. The Company expects its effective tax rate to remain at approximately 30% for the remainder of fiscal 2003. This expected effective tax rate assumes no significant changes in the current tax laws. In particular, the US government is considering alternatives to the extraterritorial income exclusion rules, which currently provide a four to six absolute percentage point reduction in the Company's effective tax rate.

Liquidity and Capital Resources

At the end of the second quarter of fiscal 2003, the Company's cash and short-term investments totaled $190.6 million. The increase of $13.4 million since the end of fiscal 2002 resulted primarily from cash generated from operations and proceeds from exercise of stock options and stock issuances under the Company's stock purchase plan, partially offset by the acquisition of eXcelon and common stock repurchases.

The Company generated $22.2 million in cash from operations in the first six months of fiscal 2002 and $29.9 million in the first six months of fiscal 2003. The increase in cash generated from operations was primarily due to higher net income and increases in deferred revenue from maintenance billings.

Accounts receivable increased by $5.3 million from the end of fiscal 2002. This increase resulted from higher revenue and accounts receivable days sales outstanding (DSO) increasing to 63 days at the end of the second quarter of fiscal 2003 as compared to 61 days at the end of fiscal 2002 and at the end of the second quarter of fiscal 2002. The Company targets a DSO range of 60 to 80 days.

On December 19, 2002, the Company completed its acquisition of eXcelon, a provider of data management software. The acquisition was accounted for as a purchase, and accordingly, the results of operations of eXcelon are included in the Company's operating results from the date of acquisition. The acquisition was structured as a merger of a wholly owned subsidiary of the Company with and into eXcelon. Pursuant to the terms of the acquisition, each outstanding share of eXcelon common stock was converted into the right to receive $3.19 in cash, without interest. In addition, as a result of the acquisition, holders of outstanding options to purchase eXcelon common stock with an exercise price of less than $3.19 per share were entitled to receive a cash payment equal to the number of shares of eXcelon common stock subject to such option multiplied by the amount by which $3.19 exceeded the exercise price per share of such option. The aggregate purchase price of approximately $34.9 million included $10.2 million for facilities closures and employee severance and $0.7 million for direct transaction costs. The Company financed this acquisition from cash on hand.

The Company purchased $4.0 million of property and equipment in the first six months of fiscal 2002 and $2.1 million in the first six months of fiscal 2003. The purchases consisted primarily of computer equipment and software. The Company financed these purchases primarily from cash generated from operations.

The Company purchased and retired approximately 408,000 shares of its common stock for $6.8 million in the first six months of fiscal 2002 and approximately 323,000 shares of its common stock for $4.9 million in the first six months of fiscal 2003. The Company financed these purchases primarily from cash generated from operations.

In September 2002, the Board of Directors authorized, for the period from October 1, 2002 through September 30, 2003, the purchase of up to 10,000,000 shares of the Company's common stock, at such times that 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 May 31, 2003, approximately 8,700,000 shares of common stock remained available for repurchase under this authorization.

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

The Company's only significant long-term financial commitment relates to operating lease obligations. Future annual minimum rental lease payments are detailed in Note 9 of the Notes to Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended November 30, 2002.

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

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 enterprise application integration and messaging, size and timing of significant orders, budgeting cycles of customers, mix of distribution channels, mix of products and services sold, mix of international and North American revenues, fluctuations in currency exchange rates, changes in the level of operating expenses, changes in the Company's sales incentive plans, customer order deferrals in anticipation of new products announced by the Company or its competitors and general economic conditions. Revenue forecasting is uncertain, in large part, because the Company generally ships its products shortly after receipt of orders. Most of the Company's expenses are relatively fixed, including costs of personnel and facilities, and are not easily reduced. Thus, an unexpected reduction in the Company's revenue, or failure to achieve the anticipated rate of growth, would have a material adverse effect on the profitability of the Company.

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

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

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

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, financial condition and operating results.

Some of the Company's products, such as the Sonic and PeerDirect product sets, require a higher level of development, distribution and support expenditures, on a percentage of revenue basis. If revenue generated from these products becomes a greater percentage of the Company's total revenue and if the expenses associated with these products on a percentage of revenue basis do not decrease, then the Company's operating margins will be adversely affected.

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

The Company completed its acquisition of eXcelon in December 2002. The success of the acquisition will depend, to some extent, on the Company's ability to effectively integrate the products and personnel from eXcelon. If the integration efforts take longer than expected or if unforeseen contingencies and obligations are subsequently discovered, the Company's business and operating results could be adversely affected.

ObjectStore Revenue — Revenue from the ObjectStore product line, an object-oriented database acquired in the eXcelon acquisition in December 2002, has declined in recent years. The future revenue from the ObjectStore product line offering will depend to a substantial degree on the Company's ability to keep existing customers and to attract and retain new customers for this product. A significant portion of ObjectStore revenue historically has been derived from sales to customers in a limited number of industries, such as the telecommunications industry, some of which have been decreasing their rate of capital expenditures, including expenditures for products such as ObjectStore. If revenue from sales to customers in these traditional markets continues to decline and the Company is unable to create increased demand for ObjectStore in new markets, revenue from this product line could further decline and there could be a material adverse effect on the Company's business, financial condition and operating results.

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

The Company is currently developing and enhancing the Sonic product set and other new products and services. The market for enterprise application integration, Web services, messaging products and other Internet business-to-business products is highly competitive. Many potential customers have made significant investments in proprietary or internally developed systems and would incur significant costs in switching to the Sonic product set or other 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.

XML Market Acceptance — Extensible Markup Language, or XML, is an emerging standard for sharing data over the Internet. To date, the acceptance of XML has been slower than expected. If a competing standard for sharing data over the Internet is perceived to be superior to XML, the market may not continue to accept XML-based products. Some of the Company's products might not be compatible with this competing standard or the Company might not be able to develop products using this standard in a timely manner, which could materially harm revenues, results of operations and financial condition.

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 – The Company generally derives approximately 60% of its total revenue from sales outside of North America. Because a majority of the Company's total revenue is derived from international operations that are primarily conducted in foreign currencies, changes in the value of these foreign currencies relative to the U.S. dollar may affect the Company's results of operations and financial position. There can be no assurance that the Company's currency hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. If for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, the Company's business could be adversely affected.

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

Taxation of Extraterritorial Income — The Company currently receives significant benefits from the extraterritorial income (ETI) exclusion provisions of the current U.S. tax law. The World Trade Organization (WTO) has ruled that these provisions constitute a prohibited export subsidy and that the European Union may impose trade sanctions if U.S. rules are not brought into compliance. President Bush has stated the U.S. will bring its tax laws into compliance with the WTO ruling, but the Administration and Congress have not decided on a solution for this issue. It is not possible to predict what impact the WTO decision will have on future results pending final resolution of these matters. If the ETI exclusion is repealed and replacement legislation is not enacted, the loss of this tax benefit, which currently provides approximately a four to six absolute percentage point reduction in the Company's effective tax rate, would have a material adverse effect on the profitability of the Company.

Hiring and Retention of Skilled Employees — The Company's future success will depend in large part upon its ability to attract and retain highly skilled technical, managerial and marketing personnel. There is significant competition for such personnel in the software industry. There can be no assurance that the Company will continue to be successful in attracting and retaining the personnel it requires to 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. Such litigation could also result in the Company being prohibited from selling one or more of its products.

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Exposure to market rate risk for changes in interest rates relates to the Company's investment portfolio. The Company has not used derivative financial instruments in its investment portfolio. The Company places its investments with high-quality issuers and has policies limiting, among other things, the amount of credit exposure to any one issuer. The Company limits default risk by purchasing only investment-grade securities. The Company's investments have an average remaining maturity of less than two years and are primarily fixed-rate instruments. In addition, the Company has classified all its debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk. Based on a hypothetical 10% adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive instruments, and cash flows would be immaterial, although the actual effects may differ materially from the hypothetical analysis.

The Company has entered into foreign exchange option and forward contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific) against fluctuations in exchange rates. The Company has not entered into foreign exchange option and forward contracts for speculative or trading purposes. The Company's accounting policies for these contracts are based on the designation of the contracts as hedging instruments. The criteria the Company uses for designating a contract as a hedge include the contract's effectiveness in risk reduction and matching of derivative instruments to the underlying transactions. Market value increases and decreases on the foreign exchange option and forward contracts are generally recognized in income in the same period as gains and losses on the underlying transactions. The Company operates in certain countries where there are limited forward currency exchange markets and thus the Company has unhedged transaction exposures in these currencies. The Company generally does not hedge the net assets of its international subsidiaries. The notional principal amount of outstanding foreign exchange option contracts at May 31, 2003 was $60.4 million. There were no unrealized market value gains on such contracts at May 31, 2003. Based on a hypothetical 10% 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 20% (excluding any offsetting positive impact from the Company's ongoing hedging programs), although the actual effects may differ materially from the hypothetical analysis.

The table below details outstanding forward contracts, which mature in ninety days or less, at May 31, 2003 where the notional amount is determined using contract exchange rates:

(In thousands) Functional Currency:	Exchange Foreign Currency For U.S. Dollars (Notional Amount)	Exchange U.S. Dollars For Foreign Currency (Notional Amount)	Notional Weighted Average Exchange Rate
Australian dollar	$ 1,361	—	1.54
Brazilian real	520	—	3.07
Euro	—	$2,600	0.84
Japanese yen	4,789	—	119.02
South African rand	490	—	8.37
UK pound	3,625	—	0.61
	$10,785	$2,600	

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders of the Company held on April 24, 2003, the shareholders voted on the items described below:

- To fix the number of directors constituting the full board at six:

For	Against	Abstain
27,392,192	1,188,912	93,264

- To elect the following six directors: Joseph W. Alsop, Larry R. Harris, Roger J. Heinen, Jr., Michael L. Mark, Scott A. McGregor and Amram Rasiel:

Nominee	For	Withhold Authority
Joseph W. Alsop	24,158,693	4,515,676
Larry R. Harris	28,052,690	621,678
Roger J. Heinen, Jr.	24,154,092	4,520,276
Michael L. Mark	24,154,092	4,520,276
Scott A. McGregor	28,141,671	532,697
Amram Rasiel	24,153,042	4,521,326

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

99.1 — Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended May 31, 2003.

Table of Contents

SIGNATURES

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

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated: July 14, 2003	/s/ Joseph W. Alsop
	Joseph W. Alsop Chief Executive Officer (Principal Executive Officer)
Dated: July 14, 2003	/s/ Norman R. Robertson
	Norman R. Robertson Senior Vice President, Finance and Administration and Chief Financial Officer (Principal Financial Officer)
Dated: July 14, 2003	/s/ David H. Benton, Jr.
	David H. Benton, Jr. Vice President and Corporate Controller (Principal Accounting Officer)

CERTIFICATIONS

I, Joseph W. Alsop, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: July 14, 2003

/s/ Joseph W. Alsop

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

I, Norman R. Robertson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: July 14, 2003

/s/ Norman R. Robertson

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

EXHIBIT 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Progress Software Corporation (the Company) for the three months ended May 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned, Joseph W. Alsop, Chief Executive Officer, and Norman R. Robertson, Senior Vice President, Finance and Administration and Chief Financial Officer, of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOSEPH W. ALSOP	/s/ NORMAN R. ROBERTSON
Chief Executive Officer	Senior Vice President, Finance and Administration and Chief Financial Officer
Date: July 14, 2003	Date: July 14, 2003