

PROGRESS SOFTWARE CORP /MA

Form 10-Q

July 10, 2007

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**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, 2007**

**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**  
(State or other jurisdiction of  
incorporation or organization)

**04-2746201**  
(I.R.S. Employer  
Identification No.)

**14 Oak Park  
Bedford, Massachusetts 01730**  
(Address of principal executive offices)(Zip code)  
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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 29, 2007, there were 41,654,000 shares of the registrant's common stock, \$.01 par value per share, outstanding.

**PROGRESS SOFTWARE CORPORATION**  
**FORM 10-Q**  
**FOR THE THREE MONTHS ENDED MAY 31, 2007**  
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Condensed Consolidated Balance Sheets (unaudited)***(In thousands)*

|  | May 31,<br>2007 | November<br>30,<br>2006 |
|--|-----------------|-------------------------|
| Assets                                 |                 |                         |
| Current assets:                        |                 |                         |
| Cash and equivalents                   | \$ 48,407       | \$ 46,449               |
| Short-term investments                 | 222,370         | 194,866                 |
| Total cash and short-term investments  | 270,777         | 241,315                 |
| Accounts receivable, net               | 84,415          | 82,762                  |
| Other current assets                   | 20,107          | 17,943                  |
| Deferred income taxes                  | 19,780          | 18,119                  |
| Total current assets                   | 395,079         | 360,139                 |
| Property and equipment, net            | 60,239          | 57,585                  |
| Acquired intangible assets, net        | 66,230          | 75,069                  |
| Goodwill                               | 157,632         | 157,858                 |
| Deferred income taxes                  | 13,509          | 14,153                  |
| Other assets                           | 5,056           | 5,435                   |
| Total                                  | \$ 697,745      | \$ 670,239              |
| Liabilities and Shareholders' Equity   |                 |                         |
| Current liabilities:                   |                 |                         |
| Current portion, long-term debt        | \$ 292          | \$ 281                  |
| Accounts payable                       | 12,332          | 15,034                  |
| Accrued compensation and related taxes | 37,277          | 48,398                  |
| Income taxes payable                   | 7,467           | 6,316                   |
| Other accrued liabilities              | 22,229          | 23,166                  |
| Short-term deferred revenue            | 133,237         | 120,974                 |
| Total current liabilities              | 212,834         | 214,169                 |
| Long-term debt, less current portion   | 1,508           | 1,657                   |
| Long-term deferred revenue             | 8,565           | 6,355                   |
| Other non-current liabilities          | 3,714           | 3,494                   |
| Commitments and contingencies          |                 |                         |

Shareholders' equity:

|  |            |            |
|--|------------|------------|
| Common stock and additional paid-in capital; authorized, 100,000 shares; issued and outstanding, 41,479 shares in 2007 and 41,177 shares in 2006 | 213,631    | 197,748    |
| Retained earnings, including accumulated other comprehensive gains of \$2,290 in 2007 and \$1,106 in 2006  | 257,493    | 246,816    |
| Total shareholders' equity   | 471,124    | 444,564    |
| Total  | \$ 697,745 | \$ 670,239 |

See notes to unaudited condensed consolidated financial statements.

**Table of Contents****Condensed Consolidated Statements of Operations (unaudited)***(In thousands, except per share data)*

|   | Three Months Ended |                 | Six Months Ended |                 |
|---|--------------------|-----------------|------------------|-----------------|
|   | May 31,<br>2007    | May 31,<br>2006 | May 31,<br>2007  | May 31,<br>2006 |
| Revenue:  |                    |                 |                  |                 |
| Software licenses   | \$ 44,555          | \$ 41,357       | \$ 89,284        | \$ 84,137       |
| Maintenance and services                                      | 75,087             | 68,229          | 145,587          | 129,370         |
| Total revenue   | 119,642            | 109,586         | 234,871          | 213,507         |
| Costs of revenue:   |                    |                 |                  |                 |
| Cost of software licenses                                     | 1,880              | 1,817           | 3,552            | 4,027           |
| Cost of maintenance and services                              | 16,871             | 15,125          | 33,133           | 29,356          |
| Amortization of acquired intangibles for purchased technology | 2,493              | 1,993           | 4,984            | 3,517           |
| Total costs of revenue  | 21,244             | 18,935          | 41,669           | 36,900          |
| Gross profit  | 98,398             | 90,651          | 193,202          | 176,607         |
| Operating expenses:   |                    |                 |                  |                 |
| Sales and marketing   | 45,745             | 44,983          | 90,390           | 87,627          |
| Product development   | 20,389             | 19,346          | 41,184           | 38,273          |
| General and administrative                                    | 19,029             | 13,034          | 34,060           | 26,232          |
| Amortization of other acquired intangibles                    | 1,946              | 1,984           | 3,926            | 3,367           |
| Acquisition-related expenses                                  |                    | 297             |                  | 1,831           |
| Total operating expenses                                      | 87,109             | 79,644          | 169,560          | 157,330         |
| Income from operations  | 11,289             | 11,007          | 23,642           | 19,277          |
| Other income (expense):                                       |                    |                 |                  |                 |
| Interest income and other                                     | 2,331              | 1,711           | 4,249            | 3,506           |
| Foreign currency loss   | (710)              | (1,193)         | (1,538)          | (2,291)         |
| Total other income, net                                       | 1,621              | 518             | 2,711            | 1,215           |
| Income before provision for income taxes                      | 12,910             | 11,525          | 26,353           | 20,492          |
| Provision for income taxes                                    | 4,519              | 3,807           | 9,224            | 6,865           |
| Net income  | \$ 8,391           | \$ 7,718        | \$ 17,129        | \$ 13,627       |

Earnings per share:

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|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | \$ 0.20 | \$ 0.19 | \$ 0.42 | \$ 0.33 |
| Diluted | \$ 0.19 | \$ 0.18 | \$ 0.39 | \$ 0.31 |

Weighted average shares outstanding:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 41,178 | 41,062 | 41,123 | 40,781 |
| Diluted | 43,636 | 43,473 | 43,537 | 43,265 |

See notes to unaudited condensed consolidated financial statements.

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**Table of Contents****Condensed Consolidated Statements of Cash Flows (unaudited)***(In thousands)*

|   | Six Months Ended May 31, |           |
|---|--------------------------|-----------|
|   | 2007                     | 2006      |
| Cash flows from operating activities:   |                          |           |
| Net income  | \$ 17,129                | \$ 13,627 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |           |
| Depreciation and amortization of property and equipment                           | 4,849                    | 4,313     |
| Write-down for asset impairment   | 2,388                    |           |
| Amortization of capitalized software costs  | 87                       | 87        |
| Amortization of acquired intangible assets  | 8,910                    | 6,884     |
| Stock-based compensation  | 12,408                   | 11,767    |
| Deferred income taxes   | (1,477)                  | (2,239)   |
| Tax benefit from stock options  | 230                      | 974       |
| In-process research and development   |                          | 900       |
| Changes in operating assets and liabilities, net of effects from acquisitions:    |                          |           |
| Accounts receivable, net  | (925)                    | 3,139     |
| Other current assets  | (879)                    | (2,538)   |
| Accounts payable and accrued expenses   | (17,927)                 | (22,400)  |
| Income taxes payable  | 1,178                    | 4,549     |
| Deferred revenue  | 13,047                   | 13,523    |
| Net cash provided by operating activities   | 39,018                   | 32,586    |
| Cash flows from investing activities:   |                          |           |
| Purchases of investments available for sale                                       | (108,061)                | (172,463) |
| Sales and maturities of investments available for sale                            | 80,557                   | 220,429   |
| Purchases of property and equipment   | (9,622)                  | (9,161)   |
| Acquisitions, net of cash acquired  |                          | (66,438)  |
| Decrease (increase) in other non-current assets                                   | (827)                    | 205       |
| Net cash used for investing activities  | (37,953)                 | (27,428)  |
| Cash flows from financing activities:   |                          |           |
| Issuance of common stock  | 17,359                   | 10,158    |
| Excess tax benefit from stock options   | 1,039                    | 843       |
| Payment of long-term debt   | (138)                    | (127)     |
| Repurchase of common stock  | (19,529)                 | (12,678)  |
| Net cash used for financing activities  | (1,269)                  | (1,804)   |
| Effect of exchange rate changes on cash   | 2,162                    | 4,857     |
| Net increase in cash and equivalents  | 1,958                    | 8,211     |
| Cash and equivalents, beginning of period   | 46,449                   | 40,398    |

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Cash and equivalents, end of period | \$ 48,407 | \$ 48,609 |
|-------------------------------------|-----------|-----------|

See notes to unaudited condensed consolidated financial statements.

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**Notes to Unaudited Condensed Consolidated Financial Statements**

**Note 1: Basis of Presentation**

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and these unaudited financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2006.

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

**Note 2: Revenue Recognition**

We recognize revenue when earned. We recognize software license revenue upon shipment of the product or, if delivered electronically, when the customer has the right to access the software, provided that the license fee is fixed or determinable, persuasive evidence of an arrangement exists and collection is probable. We do not consider software license arrangements with payment terms greater than ninety days beyond our standard payment terms to be fixed and determinable and therefore such software license fees are recognized upon due date. We do not license our software with a right of return and generally do not license our software with conditions of acceptance. If an arrangement does contain conditions of acceptance, we defer recognition of the revenue until the acceptance criteria are met or the period of acceptance has passed. We generally recognize revenue for products distributed through application partners and distributors when sold through to the end-user.

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

We generally recognize revenue from software licenses sold together with maintenance and/or consulting services upon shipment using the residual method, provided that the above criteria have been met. If VSOE of fair value for the undelivered elements cannot be established, we defer all revenue from the arrangement until the earlier of the point at which such sufficient VSOE does exist or all elements of the arrangement have been delivered, or if the only undelivered element is maintenance, then we recognize the entire fee ratably. 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 we recognize both the software license and consulting fees using the percentage of completion method.

We recognize maintenance revenue ratably over the term of the applicable agreement. We generally recognize revenue from services, primarily consulting and customer education, as the related services are performed.

**New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and

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transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We will adopt FIN 48 on December 1, 2007. We are currently evaluating the impact that the adoption of FIN 48 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands fair value measurement disclosures. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating whether adoption of SFAS 157 will have an impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides a Fair Value Option under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. This Fair Value Option will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. The effective date for SFAS 159 is the beginning of each reporting entity's first fiscal year end that begins after November 15, 2007. SFAS 159 also allows an entity to early adopt the statement as of the beginning of an entity's fiscal year that begins after the issuance of SFAS 159, provided that the entity also adopts the requirement of SFAS No. 157. We are currently evaluating whether adoption of SFAS 159 will have an impact on our consolidated financial statements.

**Note 3: Earnings Per Share**

We calculate basic earnings per share using the weighted average number of common shares outstanding. We compute diluted earnings per share on the basis of the weighted average number of common shares outstanding plus the effects of outstanding stock options using the treasury stock method. The following table provides the calculation of basic and diluted earnings per share on an interim basis:

*(In thousands, except per share data)*

|  | Three Months Ended May 31, |          | Six Months Ended May 31, |           |
|--|----------------------------|----------|--------------------------|-----------|
|  | 2007                       | 2006     | 2007                     | 2006      |
| Net income                                     | \$ 8,391                   | \$ 7,718 | \$ 17,129                | \$ 13,627 |
| Weighted average shares outstanding            | 41,178                     | 41,062   | 41,123                   | 40,781    |
| Dilutive impact from outstanding stock Options | 2,458                      | 2,411    | 2,414                    | 2,484     |
| Diluted weighted average shares outstanding    | 43,636                     | 43,473   | 43,537                   | 43,265    |
| Earnings per share:                            |                            |          |                          |           |
| Basic  | \$ 0.20                    | \$ 0.19  | \$ 0.42                  | \$ 0.33   |
| Diluted  | \$ 0.19                    | \$ 0.18  | \$ 0.39                  | \$ 0.31   |

Stock options to purchase approximately 2,156,000 shares and 1,997,000 shares of common stock were excluded from the calculation of diluted earnings per share in the second quarter of fiscal years 2007 and 2006, respectively, because these options were anti-dilutive. Stock options to purchase approximately 2,561,000 shares and 1,833,000 shares of common stock were excluded from the calculation of diluted earnings per share in the first six months of fiscal years 2007 and 2006, respectively, because these options were anti-dilutive.

**Note 4: Stock-based Compensation**

We account for stock-based compensation expense in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123R). Under SFAS 123R, stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. We estimate the fair value of each stock-based award on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates

assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield.

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SFAS 123R requires the cash flows resulting from excess tax benefits related to stock compensation to be classified as cash flows from financing activities when realized. In the first six months of fiscal 2007, the excess tax benefit from the exercise of stock options was \$1.0 million, which was classified as cash flows from financing activities compared to \$0.8 million in the first six months of fiscal 2006.

The following table provides the classification of stock-based compensation as reflected in our consolidated statements of operations:

*(In thousands)*

|  | Three Months Ended May |             | Six Months Ended May 31, |          |
|--|------------------------|-------------|--------------------------|----------|
|  | 2007                   | 31,<br>2006 | 2007                     | 2006     |
| Cost of software licenses              | \$ 44                  | \$ 37       | \$ 74                    | \$ 77    |
| Cost of maintenance and services       | 515                    | 427         | 862                      | 877      |
| Sales and marketing                    | 2,702                  | 2,161       | 4,498                    | 4,385    |
| Product development                    | 1,731                  | 1,335       | 2,850                    | 2,689    |
| General and administrative             | 2,539                  | 1,864       | 4,124                    | 3,739    |
| Total stock-based compensation expense | \$7,531                | \$5,824     | \$12,408                 | \$11,767 |

On April 12, 2007, we completed a tender offer to amend stock options issued in previous years for which it was determined that the exercise price was less than the fair value on the revised date of grant, in order to mitigate the unfavorable personal tax consequences under Section 409A. The impact of the amendment of such options resulted in a stock option modification under SFAS 123R. The terms of such offer require us to make cash payments to option holders in an amount equal to the difference between the exercise price of the original option and the amended price of the new option. We recorded a liability of approximately \$2.5 million in the second quarter for the present value of the fully vested cash payments to be paid in January 2008, of which \$0.5 million was recorded as stock-based compensation expense and \$2.0 million was recorded as a reduction in additional paid in capital. The stock-based compensation expense amount represents the incremental fair value of the new options, and was recognized in the second quarter due to the fact that the future cash payments were fully vested as of the conclusion of the tender offer. Also, as a result of the modification and subsequent remeasurement of the options included in the tender offer, we accelerated the recognition of \$0.4 million of unamortized stock-based compensation associated with the partial settlement of the unvested portion of the original award.

We also entered into option amendment agreements with a limited number of individuals for whom the deadline for such an amendment was December 31, 2006. These agreements contained similar terms to the tender offer except that the cash payment associated with unvested shares as of the date of the agreements require the individuals to be employed by us on the payment dates. In the first quarter of fiscal year 2007, we accounted for the impact of these option amendment agreements as a stock option modification under SFAS 123R. We recorded a liability of approximately \$0.7 million in the first quarter for the present value of the expected cash payments, which will be paid in up to five payments depending on the vest schedules of each individual through October 2009. Approximately \$0.2 million of this liability represents the incremental fair value of the new options, and will be recorded as stock-based compensation expense over the remaining vest period and \$0.5 million was recorded as a reduction in additional paid in capital.

**Note 5: Income Taxes**

We provide for income taxes during interim periods based on the estimated effective tax rate for the full fiscal year. We record cumulative adjustments to the tax provision in an interim period in which a change in the estimated annual effective rate is determined. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We have not provided for U.S. income taxes on the undistributed earnings of non-U.S.

subsidiaries, as these earnings have been permanently reinvested or would be principally offset by foreign tax credits.

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The components of comprehensive income include net income, foreign currency translation adjustments and unrealized gains and losses on investments. The following table provides the composition of comprehensive income on an interim basis:

*(In thousands)*

|  | Three Months Ended May |             | Six Months Ended May 31, |          |
|--|------------------------|-------------|--------------------------|----------|
|  | 2007                   | 31,<br>2006 | 2007                     | 2006     |
| Net income, as reported                              | \$8,391                | \$7,718     | \$17,129                 | \$13,627 |
| Foreign currency translation adjustments, net of tax | 1,386                  | 1,343       | 1,218                    | 1,703    |
| Unrealized gains (losses) on investments, net of tax | (17)                   | 22          | (34)                     | 49       |
| Total comprehensive income                           | \$9,760                | \$9,083     | \$18,313                 | \$15,379 |

**Note 7: Shareholders Equity  
Common Stock Repurchases**

In September 2006, the Board of Directors authorized, for the period from October 1, 2006 through September 30, 2007, the purchase of up to 10,000,000 shares of our common stock, at such times that management deems such purchases to be an effective use of cash. Approximately 9.3 million shares were available for repurchase under this repurchase authorization. We purchased and retired approximately 705,000 shares of our common stock for \$19.5 million in the first six months of fiscal 2007 as compared to approximately 470,000 shares of our common stock for \$12.7 million in the first six months of fiscal 2006.

**Note 8: Goodwill**

Goodwill is the amount by which the cost of acquired net assets in a business acquisition exceeded the fair value of net identifiable assets on the date of purchase. For purposes of the annual impairment test, we assigned goodwill of \$11.7 million to the operating divisions comprising the OpenEdge operating segment, \$56.9 million to the operating divisions comprising the Enterprise Infrastructure reporting segment and \$89.0 million to the reporting unit comprising the DataDirect reporting segment.

During the first quarter of fiscal 2007, we completed our annual testing for impairment of goodwill and, based on those tests, concluded that no impairment of goodwill existed as of December 15, 2006, the goodwill impairment measurement date for fiscal 2007. The decrease in goodwill from the end of fiscal 2006 was primarily related to changes to the preliminary allocation of the purchase price from previous acquisitions.

**Note 9: Segment Information**

At the end of fiscal 2006, we reorganized our business into five operating units. Our principal operating unit conducts business as the OpenEdge Division. The OpenEdge Division (OED) provides the Progress® OpenEdge platform, a set of development and deployment technologies, including the OpenEdge RDBMS, one of the leading embedded databases, for building business applications. Another significant operating unit, the Enterprise Infrastructure Division (EID), is responsible for the development, marketing and sales of our Sonic, Actional, DataXtend and ObjectStore product lines. The third significant operating unit, DataDirect Technologies, provides standards-based data connectivity software. Our other two operating units are the Apama Division and the EasyAsk Division.

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 our internal organization and disclosure of revenue and operating income based upon internal accounting methods. Our chief decision maker is our Chief Executive Officer.

Based upon the aggregation criteria for segment reporting, we have three reportable segments: the OpenEdge segment, which includes the OED and EasyAsk Division, the Enterprise Infrastructure segment, which includes the

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EID and Apama Division, and the DataDirect segment. We do not manage our assets, capital expenditures, interest income or provision for income taxes by segment. We manage such items on a company basis.

At the end of fiscal 2006, we changed the composition of our reporting segments from previous disclosures. We have restated our fiscal 2006 segment disclosure to conform to the current presentation.

The following table provides revenue and income from operations from our reportable segments on an interim basis:

*(In thousands)*

|                                   | Three Months Ended May 31, |           | Six Months Ended May 31, |           |
|-----------------------------------|----------------------------|-----------|--------------------------|-----------|
|                                   | 2007                       | 2006      | 2007                     | 2006      |
| Revenue:                          |                            |           |                          |           |
| OpenEdge segment                  | \$ 89,851                  | \$ 82,653 | \$177,105                | \$162,642 |
| Enterprise Infrastructure segment | 14,895                     | 14,313    | 28,430                   | 28,160    |
| DataDirect segment                | 16,892                     | 14,280    | 33,197                   | 26,185    |
| Reconciling items                 | (1,996)                    | (1,660)   | (3,861)                  | (3,480)   |
| Total                             | \$119,642                  | \$109,586 | \$234,871                | \$213,507 |
| Income (loss) from operations:    |                            |           |                          |           |
| OpenEdge segment                  | \$ 32,725                  | \$ 30,515 | \$ 63,970                | \$ 58,210 |
| Enterprise Infrastructure segment | (6,026)                    | (8,326)   | (12,654)                 | (15,131)  |
| DataDirect segment                | 2,084                      | (899)     | 3,539                    | (116)     |
| Reconciling items                 | (17,494)                   | (10,283)  | (31,214)                 | (23,686)  |
| Total                             | \$ 11,289                  | \$ 11,007 | \$ 23,641                | \$ 19,277 |

The reconciling items within revenue primarily represent intersegment sales, which are accounted for as if sold under an equivalent arms-length basis arrangement. Amounts included under reconciling items within income from operations represent expenses which are not charged to segments for internal reporting and include amortization of acquired intangibles, stock-based compensation, acquisition-related expenses and certain unallocated administrative expenses.

Total revenue by significant product line, regardless of which segment generated the revenue, is as follows:

*(In thousands)*

|                             | Three Months Ended May 31, |           | Six Months Ended May 31, |           |
|-----------------------------|----------------------------|-----------|--------------------------|-----------|
|                             | 2007                       | 2006      | 2007                     | 2006      |
| DataDirect                  | \$ 16,892                  | \$ 14,280 | \$ 33,197                | \$ 26,185 |
| Enterprise Infrastructure   | 20,894                     | 16,146    | 38,016                   | 32,202    |
| Progress OpenEdge and other | 81,856                     | 79,160    | 163,658                  | 155,120   |
| Total revenue               | \$119,642                  | \$109,586 | \$234,871                | \$213,507 |

**Note 10: Contingencies**

On June 23, 2006, we received written notice that the Enforcement Staff in the Boston, Massachusetts office of the SEC had begun an informal inquiry into our option-granting practices during the period December 1, 1995 through November 30, 2002. On December 19, 2006, the SEC informed us that it had issued a formal order of investigation

into our option-granting practices during the period December 1, 1995 through the present. We are unable to predict with certainty what consequences may arise from the SEC investigation. We have already incurred, and expect to continue to incur, significant legal expenses arising from the investigation. The investigation could also divert the attention of our management and harm our business. If the SEC institutes legal action, we could face significant fines and penalties and be required to take remedial actions determined by the SEC or a court. Although we have filed certain restated financial statements that we believe correct the accounting errors arising from our past option-granting practices, the filing of those financial statements did not resolve the pending SEC inquiry. The SEC has not

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indicated to us whether it has reviewed our restated financial statements, and any SEC review could lead to further restatements or other modifications of our financial statements.

On August 17, 2006, a derivative complaint styled *Arkansas Teacher Retirement System, Derivatively on Behalf of Progress Software Corporation, v. Joseph Alsop et al*, Civ. Act. No. 06-CA-11459 RCL was filed in the United States District Court for the District of Massachusetts by a party identifying itself as one of our shareholders purporting to act on our behalf against our directors and certain of our present and former officers. We are also named as a nominal defendant. The complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, breaches of fiduciary duty, aiding and abetting breaches of fiduciary duty and unjust enrichment arising from the allegedly improper backdating of certain stock option grants. The complaint seeks monetary damages, restitution, disgorgement, rescission of stock options, punitive damages and other relief. On January 23, 2007, we moved to dismiss the *Arkansas Teacher Retirement System* complaint on the grounds that the Plaintiff failed to make a proper pre-filing demand upon our Board of Directors. This motion is pending.

On January 16, 2007, another party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *Acuna, Derivatively on Behalf of Progress Software Corporation v. Joseph Alsop et al.*, Civ. Act. No. 07-0157 against our directors and certain of our present and former officers in Massachusetts Superior Court. We are named as a nominal defendant in this action as well. The complaint alleges breaches of fiduciary duty, aiding and abetting breaches of fiduciary duty and unjust enrichment arising from the allegedly improper backdating of certain stock option grants. The complaint seeks monetary damages and disgorgement, among other forms of relief. A Special Litigation Committee formed by our board of directors to investigate and determine the Company's response to the complaint.

Further, on March 28, 2007, an additional party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *White, Derivatively on Behalf Of Nominal Defendant Progress v. Progress Software Corporation et al.*, Civ 07-01172, in Massachusetts Superior Court. This complaint involves substantially the same defendants, allegations and demands for relief as the *Acuna* complaint described above. On June 26, 2007, the *White* and *Acuna* cases were consolidated. The consolidated case has been stayed while the Special Litigation Committee's investigation is ongoing.

The ultimate outcome of any of these matters could have a material adverse effect on our results of operations. These matters could divert the attention of our management and harm our business. In addition, we have incurred, and expect to incur legal expenses arising from these matters, which may be significant, including the advancement of legal expenses to our directors and officers. We have certain indemnification obligations to our directors and officers, and the outcome of derivative or any other litigation may require that we indemnify some or all of our directors and officers for expenses they may incur in defending the litigation and other losses.

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

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

### **Cautionary Note Regarding Forward-Looking Statements**

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Form 10-Q, and other information provided by us or statements made by our 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. Statements indicating that we expect, estimate, believe, are planning or plan 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 that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors include those described in Part II, Item 1A of this Form 10-Q under the heading Risk Factors. Although we have sought to identify the most significant risks to our business, we cannot predict whether,

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or to what extent, any of such risks may be realized. We also cannot assure you that we have identified all possible issues which we might face. We undertake no obligation to update any forward-looking statements that we make.

**Overview**

We develop, market and distribute software to simplify and accelerate the development, deployment, integration and management of business applications. Our mission is to deliver software products and services that empower partners and customers to improve their development, deployment, integration and management of quality applications worldwide. Our products include development tools, databases, application servers, messaging servers, application management tools, data connectivity products and integration products that enable the highly distributed deployment of responsive applications across internal networks, the Internet and occasionally-connected users. Through our various operating units, we market our products globally to a broad range of organizations in manufacturing, distribution, finance, retail, healthcare, telecommunications, government and many other fields.

We derive a significant portion of our revenue from international operations. In the first half of fiscal 2006, the strengthening of the U.S. dollar against most major currencies, primarily the euro and the British pound, negatively affected the translation of our results into U.S. dollars. In the second half of fiscal 2006 and the first half of fiscal 2007, the weakening of the U.S. dollar against most major currencies, primarily the euro and the British pound, positively affected the translation of our results into U.S. dollars.

**Critical Accounting Policies**

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

We have identified the following critical accounting policies that require the use of significant judgments and estimates in the preparation of our consolidated financial statements. This listing is not a comprehensive list of all of our 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 Item 8 of our Annual Report on Form 10-K for the year ended November 30, 2006, as well as the notes to our Consolidated Financial Statements included in Item 1 of this Form 10-Q.

**Revenue Recognition** Our 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, we are often required to exercise judgment regarding the application of our accounting policies to a particular arrangement. For example, judgment is required in determining whether a customer arrangement has multiple elements. When 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 we follow specific and detailed rules and guidelines related to revenue recognition, we make and use significant management judgments and estimates 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** We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. We establish this allowance using estimates that we make based on factors such as the composition of the accounts receivable aging, historical bad debts, changes in payment patterns, changes to customer creditworthiness and current economic trends. If we used different estimates, or if the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, we would require additional provisions for doubtful accounts that would increase bad debt expense.

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**Goodwill and Intangible Assets** We had goodwill and net intangible assets of approximately \$224 million at May 31, 2007. We assess the impairment of goodwill and identifiable intangible assets on an annual basis and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. We would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than the carrying value. Judgment is required in determining whether an event has occurred that may impair the value of goodwill or identifiable intangible assets. Factors that could indicate that an impairment may exist include significant underperformance relative to plan or long-term projections, changes in business strategy, significant negative industry or economic trends or a significant decline in our stock price or in the value of one of our reporting units for a sustained period of time. We utilize cash flow models to determine the fair value of our reporting units. We must make assumptions about future cash flows, future operating plans, discount rates and other factors in our models. Different assumptions and judgment determinations could yield different conclusions that would result in an impairment charge to income in the period that such change or determination was made.

**Income Tax Accounting** We had a net deferred tax asset of approximately \$30 million at May 31, 2007. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We consider scheduled reversals of temporary differences, projected future taxable income, ongoing tax planning strategies and other matters in assessing the need for and the amount of a valuation allowance. If we were to change our assumptions or otherwise determine that we were unable to realize all or part of our 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. On a quarterly basis we provide for income taxes based on the estimated effective tax rate for the full fiscal year.

**Stock-Based Compensation** We account for stock-based compensation expense in accordance with SFAS 123R. Under SFAS 123R, stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. We estimate the fair value of each stock-based award on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. Many of these assumptions are highly subjective and require the exercise of management judgment. Our management must also apply judgment in developing an estimate of awards that may be forfeited. If our actual experience differs significantly from our estimates and we choose to employ different assumptions in the future, the stock-based compensation expense that we record in future periods may differ materially from that recorded in the current period.

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The following table provides 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<br>May 31,<br>2007 | Three Months Ended<br>May 31,<br>2006 | Six Months Ended<br>May 31,<br>2007 | Six Months Ended<br>May 31,<br>2006 | Three<br>Month<br>Period | Six<br>Month<br>Period |
| Revenue:  |                                       |                                       |                                     |                                     |                          |                        |
| Software licenses   | 37%                                   | 38%                                   | 38%                                 | 39%                                 | 8%                       | 6%                     |
| Maintenance and services                                      | 63                                    | 62                                    | 62                                  | 61                                  | 10                       | 13                     |
| Total revenue   | 100                                   | 100                                   | 100                                 | 100                                 | 9                        | 10                     |
| Costs of revenue:   |                                       |                                       |                                     |                                     |                          |                        |
| Cost of software licenses                                     | 2                                     | 1                                     | 2                                   | 2                                   | 3                        | (12)                   |
| Cost of maintenance and services                              | 14                                    | 14                                    | 14                                  | 14                                  | 12                       | 13                     |
| Amortization of acquired intangibles for purchased technology | 2                                     | 2                                     | 2                                   | 1                                   | 25                       | 42                     |
| Total costs of revenue  | 18                                    | 17                                    | 18                                  | 17                                  | 12                       | 13                     |
| Gross profit  | 82                                    | 83                                    | 82                                  | 83                                  | 9                        | 9                      |
| Operating expenses:   |                                       |                                       |                                     |                                     |                          |                        |
| Sales and marketing   | 38                                    | 41                                    | 38                                  | 41                                  | 2                        | 3                      |
| Product development   | 17                                    | 18                                    | 18                                  | 18                                  | 5                        | 8                      |
| General and administrative                                    | 16                                    | 12                                    | 14                                  | 12                                  | 46                       | 30                     |
| Amortization of other acquired intangibles                    | 2                                     | 2                                     | 2                                   | 2                                   | (2)                      | 17                     |
| Acquisition-related expenses, net                             | 0                                     | 0                                     | 0                                   | 1                                   | (100)                    | (100)                  |
| Total operating expenses                                      | 73                                    | 73                                    | 72                                  | 74                                  | 9                        | 8                      |
| Income from operations  | 9                                     | 10                                    | 10                                  | 9                                   | 3                        | 23                     |
| Other income  | 2                                     | 1                                     | 1                                   | 1                                   | 213                      | 123                    |
| Income before provision for taxes                             | 11                                    | 11                                    | 11                                  | 10                                  | 12                       | 29                     |
| Provision for income taxes                                    | 4                                     | 4                                     | 4                                   | 3                                   | 19                       | 34                     |
| Net income  | 7%                                    | 7%                                    | 7%                                  | 7%                                  | 9%                       | 26%                    |

*Revenue.* Our total revenue increased 9% from \$109.6 million in the second quarter of fiscal 2006 to \$119.6 million in the second quarter of fiscal 2007. Total revenue would have increased by 5% if exchange rates had been constant in

the second quarter of fiscal 2007 as compared to exchange rates in effect in the second quarter of fiscal 2006. Total revenue increased 10% from \$213.5 million in the first six months of fiscal 2006 to \$234.9 million in the first six months of fiscal 2007. Total revenue would have increased by 5% if exchange rates had been constant in the first six months of fiscal 2007 as compared to exchange rates in effect in the first six months of fiscal 2007. In addition to the positive effect of changes in exchange rates, each of our major product lines experienced growth in the first six months of fiscal 2007.

Revenue from our Progress OpenEdge product line increased from \$79.2 million in the second quarter of fiscal 2006 to \$81.9 million in the second quarter of fiscal 2007 and increased from \$155.1 million in the first six months of fiscal 2006 to \$163.7 million in the first six months of fiscal 2007. Revenue derived from our Enterprise Infrastructure product lines increased 29% from \$16.1 million in the second quarter of fiscal 2006 to \$20.9 million in the second quarter of fiscal 2007 and increased 18% from \$32.2 million in the first six months of fiscal 2006 to \$38.0 million in the first six months of fiscal 2007. Revenue from our DataDirect product line increased 18% from \$14.3 million in the second quarter of fiscal 2006 to \$16.9 million in the second quarter of fiscal 2007 and increased 27% from \$26.2 million in the first six months of fiscal 2006 to \$33.2 million in the first six months of fiscal 2007.

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Software license revenue increased 8% from \$41.4 million in the second quarter of fiscal 2006 to \$44.6 million in the second quarter of fiscal 2007. Software license revenue would have increased by 4% if exchange rates had been constant in the second quarter of fiscal 2007 as compared to exchange rates in effect in the second quarter of fiscal 2006. Software license revenue increased 6% from \$84.1 million in the first six months of fiscal 2006 to \$89.3 million in the first six months of fiscal 2007. Software license revenue would have increased by 2% if exchange rates had been constant in the first six months of fiscal 2007 as compared to exchange rates in effect in the first six months of fiscal 2006. The increase in software license revenue in the six month period was primarily due to growth from the DataDirect and the Enterprise Infrastructure product lines. These product lines accounted for 46% of software license revenue in the second quarter of fiscal 2007 as compared to 39% in fiscal 2006. Software license revenue from the Progress OpenEdge product set increased year over year, primarily within the development products.

Maintenance and services revenue increased 10% from \$68.2 million in the second quarter of fiscal 2006 to \$75.1 million in the second quarter of fiscal 2007. Maintenance and services revenue would have increased by 5% if exchange rates had been constant in the second quarter of fiscal 2007 as compared to exchange rates in effect in the second quarter of fiscal 2006. Maintenance and services revenue increased 13% from \$129.4 million in the first six months of fiscal 2006 to \$145.6 million in the first six months of fiscal 2007. Maintenance and services revenue would have increased by 7% if exchange rates had been constant in the first six months of fiscal 2007 as compared to exchange rates in effect in the first six months of fiscal 2006. Excluding the impact of changes in exchange rates, the increase in maintenance and services revenue was primarily the result of an increase in professional services revenue, growth in our installed customer base and renewal of maintenance agreements.

Total revenue generated in markets outside North America increased 14% from \$59.6 million in the second quarter of fiscal 2006 to \$68.0 million in the second quarter of fiscal 2007 and represented 54% of total revenue in the second quarter of fiscal 2006 and 57% of total revenue in the second quarter of fiscal 2007. Revenue from the three major regions outside North America, consisting of EMEA, Latin America and Asia Pacific, each increased in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006. Total revenue generated in markets outside North America would have represented 55% of total revenue if exchange rates had been constant in the second quarter of fiscal 2007 as compared to the exchange rates in effect in the second quarter of fiscal 2006.

Total revenue generated in markets outside North America increased 14% from \$117.1 million in the first six months of fiscal 2006 to \$133.1 million in the first six months of fiscal 2007 and represented 55% of total revenue in the first six months of fiscal 2006 and 57% of total revenue in the first six months of fiscal 2007. Revenue from the three major regions outside North America, consisting of EMEA, Latin America and Asia Pacific, each increased in fiscal 2007 as compared to fiscal 2006. Total revenue generated in markets outside North America would have represented 55% of total revenue if exchange rates had been constant in the first six months of fiscal 2007 as compared to the exchange rates in effect in the first six months of fiscal 2006.

*Cost of Software Licenses.* Cost of software licenses consists primarily of costs of product media, documentation, duplication, packaging, electronic software distribution, royalties and amortization of capitalized software costs. Cost of software licenses increased 3% from \$1.8 million in the second quarter of fiscal 2006 to \$1.9 million in the second quarter of fiscal 2007, and remained the same as a percentage of software license revenue at 4%. The dollar increase for the second quarter was primarily due to a slight increase in royalty expense for products and technologies licensed or resold from third parties. Cost of software licenses decreased 12% from \$4.0 million in the first six months of fiscal 2006 to \$3.6 million in the first six months of fiscal 2007, and decreased as a percentage of software licenses revenue from 5% in the first six months of fiscal 2006 to 4% in the first six months of fiscal 2007. The dollar decrease in the first six months of fiscal 2007 compared to the first six months of fiscal 2006 was primarily due to a decrease in royalty expense for products and technologies licensed or resold from third parties. 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.* Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services increased 12% from \$15.1 million in the second quarter of fiscal 2006 to \$16.9 million in the second quarter of fiscal 2007, and remained the same as a percentage of maintenance and services revenue at 22%. Cost of maintenance and services increased 13% from \$29.4 million in the first six months of fiscal 2006 to \$33.1 million in the first six months of fiscal 2007, and



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remained the same as a percentage of maintenance and services revenue at 23%. The total dollar amount in the second quarter of fiscal 2007 and in the first six months of fiscal 2007 increased primarily due to higher usage of third-party contractors for service engagements. Our technical support, education and consulting headcount decreased by 3% from the end of the second quarter of fiscal 2006 to the end of the second quarter of fiscal 2007.

*Amortization of Acquired Intangibles for Purchased Technology.* Amortization of acquired intangibles for purchased technology primarily represents the amortization of the value assigned to technology-related intangible assets obtained in business combinations. Amortization of acquired intangibles for purchased technology increased from \$2.0 million in the second quarter of fiscal 2006 to \$2.5 million in the second quarter of fiscal 2007. Amortization of acquired intangibles for purchased technology increased from \$3.5 million in the first six months of fiscal 2006 to \$5.0 million in the first six months of fiscal 2007. The increase was due to a full six months of amortization expense associated with the acquisitions of NEON, Actional, Pantero and OpenAccess in fiscal 2006.

*Gross Profit.* Our gross profit increased 9% from \$90.7 million in the second quarter of fiscal 2006 to \$98.4 million in the second quarter of fiscal 2007. Our gross profit percentage of total revenue decreased from 83% in the second quarter of fiscal 2006 to 82% in the second quarter of fiscal 2007. Our gross profit increased 9% from \$176.6 million in the first six months of fiscal 2006 to \$193.2 million in the first six months of fiscal 2007. Our gross profit percentage of total revenue decreased from 83% in the first six months of fiscal 2006 to 82% in the first six months of fiscal 2007. The slight decrease in our gross profit percentage was due to professional services, the lowest margin revenue component, growing at the highest rate of our revenue components.

*Sales and Marketing.* Sales and marketing expenses increased 2% from \$45.0 million in the second quarter of fiscal 2006 to \$45.7 million in the second quarter of fiscal 2007, and decreased as a percentage of total revenue from 41% to 38%. Sales and marketing expenses increased 3% from \$87.6 million in the first six months of fiscal 2006 to \$90.4 million in the first six months of fiscal 2007, and decreased as a percentage of total revenue from 41% to 38%. The increase in sales and marketing expenses was due to higher average selling costs, partially offset by a decrease in marketing program expenses. Our sales support and marketing headcount remained relatively flat from the end of the second quarter of fiscal 2006 to the end of the second quarter of fiscal 2007.

*Product Development.* Product development expenses increased 5% from \$19.3 million in the second quarter of fiscal 2006 to \$20.4 million in the second quarter of fiscal 2007, and decreased as a percentage of revenue from 18% to 17%. Product development expenses increased 8% from \$38.3 million in the first six months of fiscal 2006 to \$41.2 million in the first six months of fiscal 2007, and remained the same as a percentage of revenue at 18%. The dollar increase in the first six months of fiscal 2007 as compared to the first six months of fiscal 2006 was primarily due to expenses related to the development teams associated with the acquisitions of NEON and Actional, which occurred at the end of the first quarter of fiscal 2006. Our product development headcount increased 2% from the end of the second quarter of fiscal 2006 to the end of the second quarter of fiscal 2007.

*General and Administrative.* General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased 46% from \$13.0 million in the second quarter of fiscal 2006 to \$19.0 million in the second quarter of fiscal 2007, and increased as a percentage of revenue from 12% to 16%. General and administrative expenses increased 30% from \$26.2 million in the first six months of fiscal 2006 to \$34.1 million in the first six months of fiscal 2007, and increased as a percentage of revenue from 12% to 14%. The dollar increase was primarily due to a write-down associated with a portion of the implementation of a new ERP system of \$2.4 million in the second quarter of fiscal 2007, payments made to compensation committee members for cancelled options of \$1.3 million, and professional services fees associated with the investigation and shareholder derivative lawsuits related to our historical stock option grant practices of \$0.8 million in the second quarter of fiscal 2007 and \$2.4 million in the first six months of fiscal 2007. The write-down was necessitated by the conclusion that it was not advisable to proceed further with the implementation of the third-party application. Our administrative headcount decreased 6% from the end of the second quarter of fiscal 2006 to the end of the second quarter of fiscal 2007.

*Amortization of Other Acquired Intangibles.* Amortization of other acquired intangibles primarily represents the amortization of value assigned to non-technology-related intangible assets obtained in business combinations. Amortization of other acquired intangibles decreased slightly from \$2.0 million in the second quarter of fiscal 2006



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to \$1.9 million in the second quarter of fiscal 2007. Amortization of other acquired intangibles increased from \$3.4 million in the first six months of fiscal 2006 to \$3.9 million in the first six months of fiscal 2007. The increase was due to amortization expense associated with the acquisitions of NEON and Actional in the first quarter of fiscal 2006.

*Acquisition-Related Expenses.* Acquisition-related expenses for the second quarter of fiscal 2006 include \$0.3 million of expenses for retention bonuses to Apama and EasyAsk employees who joined us in fiscal 2005. Acquisition-related expenses for the first six months of fiscal 2006 totaled \$1.8 million and include \$0.9 million of expenses for retention bonuses to Apama and EasyAsk employees who joined us in fiscal 2005 and \$0.9 million of in-process research and development from the acquisition of NEON, which 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 our future results of operations or cash flows. The value of in-process research and development was determined based on an appraisal from an independent third party.

*Income From Operations.* Income from operations increased 3% from \$11.0 million in the second quarter of fiscal 2006 to \$11.3 million in the second quarter of fiscal 2007 and decreased as a percentage of total revenue from 10% in the second quarter of fiscal 2006 to 9% in the second quarter of fiscal 2007. Income from operations increased 23% from \$19.3 million in the first six months of fiscal 2006 to \$23.6 million in the first six months of fiscal 2007 and increased as a percentage of total revenue from 9% in the first six months of fiscal 2006 to 10% in the first six months of fiscal 2007.

Income from operations increased from \$30.5 million in the second quarter of fiscal 2006 to \$32.7 million in the second quarter of fiscal 2007 in our OpenEdge segment, which primarily includes OED and the EasyAsk Division. Income from operations in the same segment increased from \$58.2 million in the first six months of fiscal 2006 to \$64.0 million in the first six months of fiscal 2007. Losses from operations decreased from \$8.3 million in the second quarter of fiscal 2006 to \$6.0 million in the second quarter of fiscal 2007 in our Enterprise Infrastructure segment. Losses from operations in the same segment decreased from \$15.1 million in the first six months of fiscal 2006 to \$12.7 million in the first six months of fiscal 2007. Income from operations increased from a loss of \$0.9 million in the second quarter of fiscal 2006 to income of \$2.1 million in the second quarter of fiscal 2007 in our DataDirect segment. Income from operations in the same segment increased from a loss of \$0.1 million in the first six months of fiscal 2006 to income of \$3.5 million in the first six months of fiscal 2007. See Note 9 to the accompanying condensed consolidated financial statements for a reconciliation of income from operations for each segment to consolidated income from operations.

*Other Income.* Other income increased 213% from \$0.5 million in the second quarter of fiscal 2006 to \$1.6 million in the second quarter of fiscal 2007. Other income increased 123% from \$1.2 million in the first six months of fiscal 2006 to \$2.7 million in the first six months of fiscal 2007. The increase in each period was primarily due to an increase in interest income, resulting from slightly higher interest rates and higher average cash and short-term investment balances, and lower foreign exchange losses.

*Provision for Income Taxes.* Our effective tax rate was 35% in the first six months of fiscal 2007 as compared to 34% in the first six months of fiscal 2006. The increase in our effective tax rate was due to the loss of the ETI benefit, which was phased out as of December 31, 2006 (approximately 3%), partially offset by research and development credits. We estimate that our effective tax rate will be approximately 35% for all of fiscal 2007.

**Liquidity and Capital Resources**

At the end of the second quarter of fiscal 2007, our cash and short-term investments totaled \$270.8 million. The increase of \$29.5 million since the end of fiscal 2006 resulted primarily from cash generated from operations, partially offset by capital expenditures.

We generated \$39.0 million in cash from operations in the first six months of fiscal 2007 as compared to \$32.6 million in the first six months of fiscal 2006. The increase in cash generated from operations in the second quarter

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of fiscal 2007 over the second quarter of fiscal 2006 was primarily due to increased profitability and a lower reduction from working capital uses.

A summary of our cash flows from operations for the first six months of fiscal years 2007 and 2006 is as follows:

| <i>(In thousands)</i>                                | Six Months Ended May 31, |           |
|--|--------------------------|-----------|
|  | 2007                     | 2006      |
| Net income   | \$ 17,129                | \$ 13,627 |
| Depreciation, amortization and other noncash charges | 28,642                   | 23,951    |
| Tax benefit from stock plans                         | 230                      | 974       |
| Changes in operating assets and liabilities          | (6,983)                  | (5,966)   |
| Total  | \$ 39,018                | \$ 32,586 |

Accounts receivable increased by \$1.7 million from the end of fiscal 2006. Accounts receivable days sales outstanding, or DSO, increased by 3 days to 64 days at the end of the second quarter of fiscal 2007 as compared to 61 days at the end of fiscal 2006 and increased by 5 days from 59 days at the end of the second quarter of fiscal 2006. We target a DSO range of 60 to 80 days.

We purchased property and equipment totaling \$9.6 million in the first six months of fiscal 2007 as compared to \$9.2 million in the first six months of fiscal 2006. The purchases consisted primarily of computer equipment and software and building and leasehold improvements. The increase primarily related to costs associated with our ongoing ERP implementation.

In September 2006, our Board of Directors authorized, for the period from October 1, 2006 through September 30, 2007, the purchase of up to 10,000,000 shares of our common stock, at such times that we deem such purchases to be an effective use of cash. We purchased and retired approximately 705,000 shares of our common stock for \$19.5 million in the first six months of fiscal 2007 as compared to approximately 470,000 shares of our common stock for \$12.7 million in the first six months of fiscal 2006.

We received \$17.4 million in the first six months of fiscal 2007 from the exercise of stock options and the issuance of shares under our Employee Stock Purchase Plan as compared to \$10.2 million in the first six months of fiscal 2006. We believe that existing cash balances together with funds generated from operations will be sufficient to finance our operations and meet our foreseeable cash requirements (including planned capital expenditures, lease commitments, debt payments, potential cash acquisitions and other long-term obligations) through at least the next twelve months.

**Revenue Backlog** Our aggregate revenue backlog at May 31, 2007 was approximately \$167 million of which \$142 million was included on our balance sheet as deferred revenue, primarily related to unexpired maintenance and support contracts. At May 31, 2007, the remaining amount of backlog of approximately \$25 million was composed of multi-year licensing arrangements of approximately \$21 million and open software license orders received but not shipped of approximately \$4 million. Our backlog of orders not included on the balance sheet is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements. Our aggregate revenue backlog at May 31, 2006 was approximately \$154 million of which \$131 million was included on our balance sheet as deferred revenue, primarily related to unexpired maintenance and support contracts. At May 31, 2006, the remaining amount of backlog of approximately \$23 million was composed of multi-year licensing arrangements of approximately \$17 million and open software license orders received but not shipped of approximately \$6 million.

We typically fulfill most of our software license orders within 30 days of acceptance of a purchase order. Assuming all other revenue recognition criteria have been met, we recognize software license revenue upon shipment of the product, or if delivered electronically, when the customer has the right to access the software. Because there are many elements governing when revenue is recognized, including when orders are shipped, credit approval,



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completion of internal control processes over revenue recognition and other factors, management has some control in determining the period in which certain revenue is recognized. We frequently have open software license orders at the end of the quarter which have not shipped or have otherwise not met all the required criteria for revenue recognition. Although the amount of open software license orders may vary at any time, we generally do not believe that the amount, if any, of such software license orders at the end of a particular quarter is a reliable indicator of future performance. In addition, there is no industry standard for the definition of backlog and there may be an element of estimation in determining the amount. As such, direct comparisons with other companies may be difficult or potentially misleading.

**Guarantees and Indemnification Obligations**

We include standard intellectual property indemnification provisions in our licensing agreements in the ordinary course of business. Pursuant to our product license agreements, we 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 certain patent, copyright or other intellectual property infringement claims by third parties with respect to our products. Other agreements with our customers provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by us or our subcontractors. Historically, our 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.

**Legal and Other Regulatory Matters**

On June 23, 2006, we received written notice that the Enforcement Staff in the Boston, Massachusetts office of the SEC had begun an informal inquiry into our option-granting practices during the period December 1, 1995 through November 30, 2002. On December 19, 2006, the SEC informed us that it had issued a formal order of investigation into our option-granting practices during the period December 1, 1995 through the present. We are unable to predict with certainty what consequences may arise from the SEC investigation. We have already incurred, and expect to continue to incur, significant legal expenses arising from the investigation. The investigation could also divert the attention of our management and harm our business. If the SEC institutes legal action, we could face significant fines and penalties and be required to take remedial actions determined by the SEC or a court. Although we have filed certain restated financial statements that we believe correct the accounting errors arising from our past option-granting practices, the filing of those financial statements did not resolve the pending SEC inquiry. The SEC has not indicated to us whether it has reviewed our restated financial statements, and any SEC review could lead to further restatements or other modifications of our financial statements.

On August 17, 2006, a derivative complaint styled *Arkansas Teacher Retirement System, Derivatively on Behalf of Progress Software Corporation, v. Joseph Alsop et al, Civ. Act. No. 06-CA-11459 RCL* was filed in the United States District Court for the District of Massachusetts by a party identifying itself as one of our shareholders purporting to act on our behalf against our directors and certain of our present and former officers. We are also named as a nominal defendant. The complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5, breaches of fiduciary duty, aiding and abetting breaches of fiduciary duty and unjust enrichment arising from the allegedly improper backdating of certain stock option grants. The complaint seeks monetary damages, restitution, disgorgement, rescission of stock options, punitive damages and other relief. On January 23, 2007, we moved to dismiss the *Arkansas Teacher Retirement System* complaint on the grounds that the Plaintiff failed to make a proper pre-filing demand upon our Board of Directors. This motion is pending.

On January 16, 2007, another party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *Acuna, Derivatively on Behalf of Progress Software Corporation v. Joseph Alsop et al., Civ. Act. No. 07-0157* against our directors and certain of our present and former officers in Massachusetts Superior Court. We are named as a nominal defendant in this action as well. The complaint alleges breaches of fiduciary duty, aiding and abetting breaches of fiduciary duty and unjust enrichment arising from the allegedly improper backdating of certain stock option grants. The complaint seeks monetary damages and disgorgement, among other forms of relief. A Special Litigation Committee formed by our board of directors to investigate and determine the Company's response to the complaint.



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Further, on March 28, 2007, an additional party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *White, Derivatively on Behalf Of Nominal Defendant Progress v. Progress Software Corporation et al.*, Civ 07-01172, in Massachusetts Superior Court. This complaint involves substantially the same defendants, allegations and demands for relief as the *Acuna* complaint described above. On June 26, 2007, the *White* and *Acuna* cases were consolidated. The consolidated case has been stayed while the Special Litigation Committee's investigation is ongoing.

The ultimate outcome of any of these matters could have a material adverse effect on our results of operations. These matters could divert the attention of our management and harm our business. In addition, we have incurred, and expect to incur legal expenses arising from these matters, which may be significant, including the advancement of legal expenses to our directors and officers. We have certain indemnification obligations to our directors and officers, and the outcome of derivative or any other litigation may require that we indemnify some or all of our directors and officers for expenses they may incur in defending the litigation and other losses.

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

**Off-Balance Sheet Arrangements**

Our only significant off-balance sheet commitments relate to operating lease obligations. We have no off-balance sheet arrangements within the meaning of Item 303(a)(4) of Regulation S-K. Future annual minimum rental lease payments are detailed in Note 10 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended November 30, 2006.

**New Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. We will adopt FIN 48 on December 1, 2007. We are currently evaluating the impact that the adoption of FIN 48 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands fair value measurement disclosures. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating whether adoption of SFAS 157 will have an impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides a Fair Value Option under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. This Fair Value Option will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. The effective date for SFAS 159 is the beginning of each reporting entity's first fiscal year end that begins after November 15, 2007. SFAS 159 also allows an entity to early adopt the statement as of the beginning of an entity's fiscal year that begins after the issuance of SFAS 159, provided that the entity also adopts the requirement of SFAS No. 157. We are currently evaluating whether adoption of SFAS 159 will have an impact on our consolidated financial statements.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to a variety of market risks, including changes in interest rates affecting the return on our investments and foreign currency fluctuations. We have established policies and procedures to manage our exposure to fluctuations in interest rates and foreign currency exchange rates.

Exposure to market risk for changes in interest rates relates to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We seek to place our investments with high-quality issuers and have policies limiting, among other things, the amount of credit exposure to any one issuer. We seek to limit default risk by purchasing only investment-grade securities. Our investments have an average remaining maturity of less than two years and are primarily fixed-rate instruments. In addition, we have classified all of our debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk if such investments are held until their maturity date. 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 are immaterial.

We enter 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. We have not entered into foreign exchange option and forward contracts for speculative or trading purposes. We recognize market value increases and decreases on the foreign exchange option and forward contracts in income each period. We operate in certain countries where there are limited forward currency exchange markets and thus we have unhedged transaction exposures in these currencies. There were approximately \$111.1 million of outstanding foreign exchange option contracts at May 31, 2007. Major U.S. multinational banks are counterparties to the option contracts. We also hedge net intercompany balances. We generally do not hedge the net assets of our international subsidiaries. The foreign exchange exposure from a 10% movement of currency exchange rates would have a material impact on our revenue and net income. Based on a hypothetical 10% adverse movement in all foreign currency exchange rates, our revenue would be adversely affected by approximately 6% and our net income would be adversely affected by approximately 20% (excluding any offsetting positive impact from our 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, 2007 where the notional amount is determined using contract exchange rates:

*(In thousands)*

| Functional Currency: | Exchange<br>Foreign<br>Currency<br>For U.S.<br>Dollars<br>(Notional<br>Amount) | Exchange<br>U.S. Dollars<br>For Foreign<br>Currency<br>(Notional<br>Amount) | Notional<br>Weighted<br>Average<br>Exchange<br>Rate* |
|----------------------|--|---|--|
| Australian dollar    |  | \$ 3,558  | 1.22   |
| Brazilian real       | \$ 1,022   |   | 1.96   |
| Euro                 |  | 37,053  | 0.74   |
| Japanese yen         | 3,718  |   | 121.04   |
| South African rand   | 432  |   | 7.18   |
| U.K. pound           |  | 27,708  | 0.51   |
|                      | \$ 5,172   | \$ 68,319   |  |

\* expressed as  
local currency

unit per U.S.  
dollar

**Item 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* Our management, including the chief executive officer and the chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide a reasonable level of assurance that the information required to be disclosed in the reports filed or submitted by us under the Securities Exchange Act of 1934 was recorded, processed, summarized and reported within the requisite time periods.

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(b) *Changes in internal control over financial reporting.* No changes in our internal control over financial reporting occurred during the quarter ended May 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

On June 23, 2006, we received written notice that the Enforcement Staff in the Boston, Massachusetts office of the SEC had begun an informal inquiry into our option-granting practices during the period December 1, 1995 through November 30, 2002. On December 19, 2006, the SEC informed us that it had issued a formal order of investigation into our option-granting practices during the period December 1, 1995 through the present. We are unable to predict with certainty what consequences may arise from the SEC investigation. We have already incurred, and expect to continue to incur, significant legal expenses arising from the investigation. The investigation could also divert the attention of our management and harm our business. If the SEC institutes legal action, we could face significant fines and penalties and be required to take remedial actions determined by the SEC or a court. Although we have filed certain restated financial statements that we believe correct the accounting errors arising from our past option-granting practices, the filing of those financial statements did not resolve the pending SEC inquiry. The SEC has not indicated to us whether it has reviewed our restated financial statements, and any SEC review could lead to further restatements or other modifications of our financial statements.

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Further, on March 28, 2007, an additional party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *White, Derivatively on Behalf Of Nominal Defendant Progress v. Progress Software Corporation et al., Civ 07-01172*, in Massachusetts Superior Court. This complaint involves substantially the same defendants, allegations and demands for relief as the *Acuna* complaint described above. On June 26, 2007, the *White* and *Acuna* cases were consolidated. The consolidated case has been stayed while the Special Litigation Committee's investigation is ongoing.

The ultimate outcome of any of these matters could have a material adverse effect on our results of operations. These matters could divert the attention of our management and harm our business. In addition, we have incurred, and expect to incur legal expenses arising from these matters, which may be significant, including the advancement of legal expenses to our directors and officers. We have certain indemnification obligations to our directors and officers, and the outcome of derivative or any other litigation may require that we indemnify some or all of our directors and officers for expenses they may incur in defending the litigation and other losses.

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

**Item 1A. Risk Factors**

We operate in a rapidly changing environment that involves certain risks and uncertainties, some of which are beyond our control. You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under Part II, Item 1A (Risk Factors) in our Quarterly Report on Form 10Q for the period ending February 28, 2007. No material changes have occurred during the three months ended May 31, 2007 to the risk factors previously presented, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Items 2(a) and 2(b) are not applicable.

(c) Stock Repurchases

*(In thousands, except per share data)*

| Period:       | Total<br>Number<br>Of<br>Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid<br>Per Share | Total Number<br>of<br>Shares<br>Purchased<br>As Part of<br>Publicly<br>Announced<br>Plans<br>Or Programs | Maximum<br>Number of<br>Shares That May<br>Yet Be Purchased<br>Under the Plans<br>or<br>Programs (2) |
|---------------|---|---------------------------------------|--|--|
| Mar. 1, 2007  |   |                                       |  |  |
| Mar. 31, 2007 | 10  | \$ 27.82                              | 10   | 9,295  |
| Apr. 1, 2007  |   |                                       |  | 9,295  |
| Apr. 30, 2007 |   |                                       |  |  |
| May 1, 2007   |   |                                       |  | 9,295  |
| May 31, 2007  |   |                                       |  |  |
| Total         | 10  | \$ 27.82                              | 10   | 9,295  |

(1) All shares were purchased in open market transactions.

(2) In September 2006, the Board of Directors authorized, for the period from October 1, 2006 through September 30, 2007, the

purchase of up to  
10,000,000  
shares of our  
common stock.

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

At the annual meeting of our shareholders held on April 26, 2007, the shareholders voted on the items described below:

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

| For        | Against | Abstain |
|------------|---------|---------|
| 36,939,090 | 298,670 | 153,506 |

To elect the following six directors: Joseph W. Alsop, Barry N. Bycoff, Roger J. Heinen, Jr., Charles F. Kane, Michael L. Mark, and Scott A. McGregor:

| Nominee              | For        | Withhold Authority |
|----------------------|------------|--------------------|
| Joseph W. Alsop      | 33,011,789 | 4,379,477          |
| Barry N. Bycoff      | 36,681,671 | 709,595            |
| Roger J. Heinen, Jr. | 31,258,289 | 6,132,977          |

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| Nominee           | For        | Withhold Authority |
|-------------------|------------|--------------------|
| Charles F. Kane   | 34,745,236 | 2,646,030          |
| Michael L. Mark   | 32,785,368 | 4,605,898          |
| Scott A. McGregor | 31,500,966 | 5,890,300          |

To act upon a proposal to amend the Company's 1991 Employee Stock Purchase Plan, to increase the maximum number of shares that may be issued under such plan from 3,200,000 shares to 4,000,000 shares:

| For        | Against   | Abstain | Broker Non-Vote |
|------------|-----------|---------|-----------------|
| 30,868,592 | 1,826,882 | 39,010  | 4,656,782       |

To act upon a proposal to amend and restate the Company's 1997 Stock Incentive Plan:

| For        | Against   | Abstain | Broker Non-Vote |
|------------|-----------|---------|-----------------|
| 29,337,120 | 3,354,272 | 43,092  | 4,656,782       |

To act upon a shareholder proposal related to the Company's executive compensation plan:

| For        | Against    | Abstain | Broker Non-Vote |
|------------|------------|---------|-----------------|
| 14,686,920 | 17,975,685 | 71,879  | 4,656,782       |

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**Item 6. Exhibits**

The following exhibits are filed or furnished as part of this quarterly report on Form 10-Q:

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.1               | Progress Software Corporation 1991 Employee Stock Purchase Plan, as amended and restated (incorporated by reference to Annex A to our Proxy Statement filed with the SEC on March 27, 2007) |
| 10.2               | Progress Software Corporation 1997 Stock Incentive Plan, as amended and restated (incorporated by reference to Annex B to our Proxy Statement filed with the SEC on March 27, 2007)         |
| 10.3               | Employee Retention and Motivation Agreement, dated April 27, 2007, with Gordon Van Huizen   |
| 10.4               | Progress Software Corporation Corporate Executive Bonus Plan  |
| 10.5               | Progress Software Corporation 2007 Fiscal Year Director Compensation Program  |
| 10.6               | Form of Deferred Stock Unit Agreement under the Progress Software Corporation 1997 Stock Incentive Plan   |
| 10.7               | Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Progress Software Corporation 1997 Stock Incentive Plan (Initial Grant)                                   |
| 10.8               | Form of Non-Qualified Stock Option Agreement for Non-Employee Directors under the Progress Software Corporation 1997 Stock Incentive Plan (Annual Grant)                                    |
| 10.9               | Letter Agreement, dated March 29, 2007, executed by Roger J. Heinen, Jr. regarding Cancellation of Stock Options  |
| 10.10              | Letter Agreement, dated March 23, 2007, executed by Scott A. McGregor regarding Cancellation of Stock Options   |
| 31.1               | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act    Joseph W. Alsop  |
| 31.2               | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act    Norman R. Robertson  |
| 32.1               | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act   |

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**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 10, 2007

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

Dated: July 10, 2007

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

Dated: July 10, 2007

/s/ David H. Benton, Jr.  
David H. Benton, Jr.  
Vice President and Corporate Controller  
(Principal Accounting Officer)