SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the Quarterly Period Ended August 31, 1998

OR

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

Commission File Number: 0-19417

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

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

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

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

Yes X No

As of October 9, 1998, there were 17,091,720 shares of the Registrant' Common Stock, $.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE THREE MONTHS ENDED AUGUST 31, 1998

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROGRESS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(Unaudited)

	August 31, 1998	November 30, 1997
ASSETS		
Current assets:		
Cash and equivalents	$ 33,096	$ 39,451
Short-term investments	74,598	54,034
Accounts receivable (less allowance for doubtful accounts of $7,495 in 1998 and $4,928 in 1997)	36,151	35,651
Inventories	710	1,394
Other current assets	7,466	6,081
Deferred income taxes	5,579	5,166
Total current assets	157,600	141,777
Property and equipment-net	22,220	23,183
Capitalized software costs-net	4,287	4,545
Other assets	6,071	2,228
Total	$ 190,178	$ 171,733
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,150	$ 10,712
Accrued compensation and related taxes	18,355	17,088
Income taxes payable	7,522	6,450
Other current liabilities	9,312	6,924
Deferred revenue	47,981	32,843
Total current liabilities	92,320	74,017
Deferred income taxes	1,076	1,009
Minority interest in subsidiary	194	268
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized, 1,000,000 shares; issued, none		
Common stock, $.01 par value; authorized, 50,000,000 shares; issued and outstanding, 17,137,123 shares in 1998 and 11,832,023 shares in 1997	171	118
Additional paid-in capital	15,926	25,901
Retained earnings	80,812	70,673
Unrealized gain on short-term investments	411	245
Cumulative translation adjustments	(732)	(498)
Total shareholders' equity	96,588	96,439
Total	$ 190,178	$ 171,733

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	1998	1997	1998	1997
Revenue:				
Software licenses	$ 27,171	$ 22,371	$ 82,503	$ 69,987
Maintenance and services	32,311	23,509	88,231	66,068
Total revenue	59,482	45,880	170,734	136,055
Costs and expenses:				
Cost of software licenses	2,442	2,232	7,715	6,969
Cost of maintenance and services	11,571	7,879	33,042	22,059
Sales and marketing	23,422	21,963	68,010	64,885
Product development	7,276	6,667	22,523	19,848
General and administrative	6,803	5,818	20,669	17,394
Non-recurring charges	-	11,537	-	11,537
Total costs and expenses	51,514	56,096	151,959	142,692
Income (loss) from operations	7,968	(10,216)	18,775	(6,637)
Other income (expense):				
Interest income	1,221	977	3,119	2,888
Foreign currency gain (loss)	(32)	443	(469)	726
Minority interest	18	172	73	468
Other income (expense)	20	(5)	(34)	17
Total other income	1,227	1,587	2,689	4,099
Income (loss) before provision for income taxes	9,195	(8,629)	21,464	(2,538)
Provision for income taxes	3,034	740	7,083	2,811
Net income (loss)	$ 6,161	$ (9,369)	$ 14,381	$ (5,349)
Basic earnings (loss) per share	$ 0.36	$ (0.53)	$ 0.83	$ (0.29)
Weighted average shares outstanding (basic)	17,227	17,654	17,267	18,335
Diluted earnings (loss) per share	$ 0.31	$ (0.53)	$ 0.75	$ (0.29)
Weighted average shares outstanding (diluted)	19,633	17,654	19,193	18,335

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended August 31, 1998	1997
Cash flows from operating activities:		
Net income (loss)	$ 14,381	$ (5,349)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	8,837	8,002
Non-recurring charges	-	11,537
Amortization of capitalized software costs	1,327	1,592
Amortization of intangible assets	844	201
Deferred income taxes	(373)	(260)
Minority interest in subsidiary	(73)	(468)
Noncash compensation	-	16
Changes in operating assets and liabilities:		
Accounts receivable	(894)	3,182
Inventories	685	(369)
Other current assets	(1,406)	(4,360)
Accounts payable and accrued expenses	2,330	2,796
Income taxes payable	3,047	(1,222)
Deferred revenue	15,617	4,991
Total adjustments	29,941	25,638
Net cash provided by operating activities	44,322	20,289
Cash flows from investing activities:		
Purchases of investments available for sale	(44,278)	(25,816)
Maturities of investments available for sale	23,455	26,000
Sales of investments available for sale	400	10,528
Purchase of property and equipment	(8,012)	(6,212)
Capitalized software costs	(1,069)	(1,778)
Acquisitions	(5,000)	(3,847)
Decrease in other noncurrent assets	35	102
Net cash used for investing activities	(34,469)	(1,023)
Cash flows from financing activities:		
Proceeds from issuance of common stock	8,542	3,224
Repurchase of common stock	(24,639)	(26,453)
Contributions from minority interest	-	603
Payment of obligations under capital leases	-	(116)
Net cash used for financing activities	(16,097)	(22,742)
Effect of exchange rate changes on cash	(111)	(499)
Net decrease in cash and equivalents	(6,355)	(3,975)
Cash and equivalents, beginning of period	39,451	30,872
Cash and equivalents, end of period	$ 33,096	$ 26,897
Supplemental disclosure of noncash financing activities:		
Income tax benefit from employees' exercise of stock options	$ 1,933	$ 1,033

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Progress Software Corporation (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report and Form 10-K for the fiscal year ended November 30, 1997.

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

Certain amounts for 1997 have been reclassified to conform to the 1998 presentation.

On June 17, 1998, the Board of Directors approved a three-for-two stock split in the form of a 50% stock dividend, effective July 13, 1998 for shareholders of record on June 29, 1998. All share and per share amounts for all periods presented have been restated for the stock split.

2. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and are comprised of product media, documentation, and packaging.

3. Income Taxes

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

4. Earnings Per Share

On December 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the treasury stock method. Earnings per share for all prior periods presented herein have been restated to conform to SFAS 128.

5. Revenue Recognition

On December 1, 1997, the Company adopted American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition." Adoption of this pronouncement did not have a material effect on the revenue recognition practices of the Company.

6. Litigation

Naf Naf S.A. commenced an expert proceeding in the Paris Trade Court, Paris, France against Progress Software S.A., Timeless S.A. and Digital Equipment France in May 1996. In June 1997, Naf Naf petitioned the court to add Progress Software Corporation as a party to the expert proceeding, which petition has been granted. The basis of the proceeding is alleged late availability of products from Progress Software and alleged product deficiencies after delivery by Timeless to Naf Naf of such products. At this time, no specific damage claim has been formally filed under French legal proceeding rules with the Paris Trade Court. The Company is vigorously defending itself in this proceeding and the costs of such defense are being reimbursed to the Company by the Company's insurer. The Company's insurer has agreed to reimburse such costs under a reservation of rights as to coverage. While the outcome of this claim cannot be predicted with certainty, management does not believe that the outcome will have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company is also 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 claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

7. Acquisition

On December 10, 1997, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in Brazil for $5.0 million. The acquisition was accounted for as a purchase, and accordingly, the results of operations are included in the Company's operating results from the date of acquisition. The purchase price was allocated primarily to goodwill, which is being amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest period presented, the effect on the consolidated financial statements would not have been significant.

8. New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 130, "Reporting Comprehensive Income" (SFAS 130) and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131). SFAS 130 requires the presentation of an additional primary financial statement in the format prescribed by the standard. SFAS 131 requires disclosure about the Company's operations on a disaggregated basis consistent with management's internal reporting structure. The Company will adopt these standards in the first quarter of fiscal 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which establishes standards for derivative instruments and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The Company is currently evaluating the requirements and impact of SFAS 133.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. From time to time, information provided by the Company or statements made by its directors, officers or employees may contain "forward-looking" information that involves risks and uncertainties. Actual future results may differ materially. Statements indicating that the Company "expects," "estimates," "believes," "is planning" or "plans to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors which could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors, some of which are described in greater detail below under the heading "Factors That May Affect Future Results," include, but are not limited to, the receipt and shipment of new orders, the timely release of enhancements to the Company's products, which could be subject to software release delays, the growth rates of certain market segments, the positioning of the Company's products in those market segments, variations in the demand for customer service, professional consulting services and technical support, pricing pressures and the competitive environment in the software industry, the adoption rate of Java for business application development, consumer use of the Internet, issues related to the Year 2000 and the Company's ability to penetrate international markets and manage its international operations. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized nor can there be any assurance that the Company has identified all possible issues that it might face.

RESULTS OF OPERATIONS

The Company's total revenue and net income for the third quarter of fiscal 1998 increased 30% and 221%, respectively, from the total revenue and net income (before non-recurring charges) for the third quarter of fiscal 1997. The Company's total revenue and net income for the first nine months of fiscal 1998 increased 25% and 142%, respectively, from the total revenue and net income (before non-recurring charges) for the first nine months of fiscal 1997. In the third quarter of fiscal 1997, the Company recorded non-recurring charges of $11.5 million related to the acquisition of Apptivity Corporation for in-process software development and the writedown of certain capitalized software costs and other intangible assets. The acquisition was accounted for as a purchase. After including the effect of the non-recurring charges of $11.5 million, the Company recorded a net loss for the three and nine months ended August 31, 1997 of $9.4 million and $5.3 million, respectively.

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

	Percentage of Total Revenue				Period-to-Period Change	
	Three Months Ended Aug. 31,		Nine Months Ended Aug. 31,		Three Months 1998 Compared to 1997	Nine Months 1998 Compared to 1997
	1998	1997	1998	1997		
Revenue:						
Software licenses	46%	49%	48%	51%	21%	18%
Maintenance and services	54	51	52	49	37	34
Total revenue	100	100	100	100	30	25
Cost and expenses:						
Cost of software licenses	4	5	5	5	9	11
Cost of maintenance and services	20	17	19	16	47	50
Sales and marketing	39	48	40	48	7	5
Product development	12	14	13	15	9	13
General and administrative	12	13	12	13	17	19
Non-recurring charges	-	25	-	8	-	-
Total costs and expenses	87	122	89	105	(8)	6
Income (loss) from operations	13	(22)	11	(5)	*	*
Other income	2	3	2	3	(23)	(34)
Income (loss) before provision for income taxes	15	(19)	13	(2)	*	*
Provision for income taxes	5	1	4	2	*	*
Net income (loss)	10%	(20)%	9%	(4)%	*%	*%

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*Not meaningful

The Company's total revenue increased 30% from $45.9 million in the third quarter of fiscal 1997 to $59.5 million in the third quarter of fiscal 1998. The Company's total revenue increased 25% from $136.1 million in the first nine months of fiscal 1997 to $170.7 million in the first nine months of fiscal 1998. Software license revenue increased 21% from $22.4 million in the third quarter of fiscal 1997 to $27.2 million in the third quarter of fiscal 1998. Software license revenue increased 18% from $70.0 million in the first nine months of fiscal 1997 to $82.5 million in the first nine months of fiscal 1998.

The increase in software license revenue in the third quarter and first nine months of fiscal 1998 as compared to the periods one year ago is due to greater acceptance of the Company's flagship product family, PROGRESS, and, to a lesser extent, new products such as WebSpeed, Apptivity and ProtoSpeed. PROGRESS Version 8 is providing customers with increased capabilities through its 32-bit architecture and enhanced database features. The Company also experienced an increase in sales to Independent Software Vendors ("ISVs"), value-added resellers who resell the Company's products in conjunction with the sale of their applications. The increase in sales to ISVs is primarily due to greater deployment revenue from database, dataservers and reporting tools products.

Maintenance and services revenue increased 37% from $23.5 million in the third quarter of fiscal 1997 to $32.3 million in the third quarter of fiscal 1998. Maintenance and services revenue increased 34% from $66.1 million in the first nine months of fiscal 1997 to $88.2 million in the first nine months of fiscal 1998. The maintenance and services revenue increase was primarily a result of growth in the Company's installed customer base, renewal of maintenance contracts and increased consulting revenues. The Company is dedicating more resources to its service businesses in order to take advantage of the market opportunities associated with companies buying packaged applications and engaging service providers to customize such packages to provide them with a competitive advantage through systems that are uniquely designed for their business.

Total revenue generated in markets outside North America increased 26% from $26.2 million in the third quarter of fiscal 1997 to $33.1 million in the third quarter of fiscal 1998 and represented 56% of total revenue in the third quarter of fiscal 1998 as compared to 57% of total revenue in the third quarter of fiscal 1997. Total revenue generated in markets outside North America would have represented the same percentage of total revenue in the third quarter of fiscal 1998 if exchange rates had been constant as compared to the exchange rates in effect in the third quarter of fiscal 1997.

Total revenue generated in markets outside North America increased 21% from $79.8 million in the first nine months of fiscal 1997 to $96.7 million in the first nine months of fiscal 1998 and represented 57% of total revenue in the first nine months of fiscal 1998 as compared to 59% in the first nine months of fiscal 1997. Total revenue generated in markets outside North America would have represented 58% of total revenue in the first nine months of fiscal 1998 if exchange rates had been constant as compared to the exchange rates in effect in the first nine months of fiscal 1997.

Cost of software licenses consists primarily of cost of product media, documentation, duplication, packaging, royalties and amortization of capitalized software costs. Cost of software licenses increased 9% from $2.2 million in the third quarter of fiscal 1997 to $2.4 million in the third quarter of fiscal 1998, but decreased as a percentage of software license revenue from 10% to 9%. Cost of software licenses increased 11% from $7.0 million in the first nine months of fiscal 1997 to $7.7 million in the first nine months of fiscal 1998, but decreased as a percentage of software license revenue from 10% to 9%. The dollar increase was due to higher royalty expense for products and technologies licensed from third parties. The percentage decrease was due to lower documentation costs and less amortization of capitalized software costs. Cost of software licenses as a percentage of software license revenue can vary depending upon the relative product mix in a given period.

Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services increased 47% from $7.9 million in the third quarter of fiscal 1997 to $11.6 million in the third quarter of fiscal 1998 and increased as a percentage of maintenance and services revenue from 34% to 36%. Cost of maintenance and services increased 50% from $22.1 million in the first nine months of fiscal 1997 to $33.0 million in the first nine months of 1998 and increased as a percentage of maintenance and services revenue from 33% to 37%. The percentage increase was due primarily to a change in the mix of maintenance and service revenue as consulting revenue increased at a greater rate than maintenance and education revenue. Consulting revenue generally has a lower margin than either maintenance or education due to the amount of resources required to produce such revenue. The dollar increase was due primarily to an increase in the technical support, consulting and education staff in the first nine months of fiscal 1998 as compared to the first nine months of fiscal 1997 and greater usage of third-party contractors to fulfill demand for consulting services. The Company increased its technical support, education, and consulting staff from 212 at the end of the third quarter of fiscal 1997 to 281 at the end of the third quarter of fiscal 1998. The Company expects its headcount for technical support, consulting and education to continue to increase through the remainder of fiscal 1998 primarily due to the need to satisfy increased demand for consulting and training services. However, there can be no assurance that the Company will be successful in recruiting and retaining such personnel.

Sales and marketing expenses increased 7% from $22.0 million in the third quarter of fiscal 1997 to $23.4 million in the third quarter of fiscal 1998, but decreased as a percentage of total revenue from 48% to 39%. Sales and marketing expenses increased 5% from $64.9 million in the first nine months of fiscal 1997 to $68.0 million in the first nine months of fiscal 1998, but decreased as a percentage of total revenue from 48% to 40%. The percentage decrease in sales and marketing expenses was primarily due to improved productivity as revenue increased at a greater rate than sales and marketing expenses during each period of fiscal 1998 as compared to fiscal 1997. The dollar increase in sales and marketing expenses was primarily due to higher average compensation costs, including commissions, for the sales, sales support and marketing staff.

Product development expenses increased 9% from $6.7 million in the third quarter of fiscal 1997 to $7.3 million in the third quarter of fiscal 1998, but decreased as a percentage of total revenue from 14% to 12%. Product development expenses increased 13% from $19.8 million in the first nine months of fiscal 1997 to $22.5 million in the first nine months of fiscal 1998, but decreased as a percentage of total revenue from 15% to 13%. The dollar increase was primarily due to increased personnel costs. The increase in personnel costs was primarily due to higher average compensation costs and increased headcount to support continued new product development efforts. The major product development efforts in the first nine months of fiscal 1998 related to the development of the next versions of the Company's various product lines, including the release of PROGRESS Version 8.3 and Apptivity Version 2.1. The product development staff increased from 207 at the end of third quarter of fiscal 1997 to 229 at the end of third quarter of fiscal 1998.

The Company capitalized $1.8 million of software development costs in the first nine months of fiscal 1997 and $1.1 million in the first nine months of fiscal 1998 in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." The amounts capitalized represented 8% of total product development costs in the first nine months of fiscal 1997 and 5% in the first nine months of fiscal 1998. The decrease in the percentage of capitalized software costs in the first nine months of fiscal 1998 as compared to the first nine months of fiscal 1997 was due to the timing of when significant development projects qualify for capitalization under the Company's software capitalization policy. Capitalized software costs are amortized over the estimated life of the product (four years) and amounts amortized are included in cost of software licenses for the period.

General and administrative expenses include the costs of the finance, human resources, legal, information systems and administrative departments of the Company. General and administrative expenses increased 17% from $5.8 million in the third quarter of fiscal 1997 to $6.8 million in the third quarter of fiscal 1998, but decreased as a percentage of total revenue from 13% to 12%. General and administrative expenses increased 19% from $17.4 million in the first nine months of fiscal 1997 to $20.7 million in the first nine months of fiscal 1998, but decreased as a percentage of total revenue from 13% to 12%. The dollar increase in general and administrative expenses was primarily due to higher staff levels and average personnel costs, increased goodwill charges resulting from recent acquisitions and increased bad debt reserves. The Company increased its administrative staff from 185 at the end of the third quarter of fiscal 1997 to 192 at the end of the third quarter of fiscal 1998.

Other income decreased 23% from $1.6 million in the third quarter of fiscal 1997 to $1.2 million in the third quarter of fiscal 1998. Other income decreased 34% from $4.1 million in the first nine months of fiscal 1997 to $2.7 million in the first nine months of fiscal 1998. The decreases in each period were due primarily to foreign currency gains in fiscal 1997 versus foreign currency losses in fiscal 1998 and lower amounts for "other income-minority interest" in fiscal 1998. All revenue, costs and expenses attributable to the Company's joint venture in Japan are included in the Company's revenue, costs and expenses. To account for the fact that the Company owns only a 51% interest in the joint venture, other income (expense) reflects that portion of the joint venture's income or loss which is attributable to the 49% minority interest in the joint venture. The joint venture generated a net loss in each period presented and the Company recorded as "other income - minority interest" an amount equal to 49% of the joint venture's net loss. The foreign currency gain in each period of fiscal 1997 relates primarily to unrealized market gains on foreign currency option contracts related to the Company's hedging programs.

The Company's effective tax rate was 34% in the each period of fiscal 1997 (excluding the impact of nondeductible, non-recurring charges) and 33% in each period of 1998 and was based upon the estimated effective tax rate for the full fiscal year. The Company expects the effective tax rate to remain at 33% for fiscal 1998.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 130, "Reporting Comprehensive Income" (SFAS 130) and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" (SFAS 131). SFAS 130 requires the presentation of an additional primary financial statement in the format prescribed by the standard. SFAS 131 requires disclosure about the Company's operations on a disaggregated basis consistent with management's internal reporting structure. The Company will adopt these standards in the first quarter of fiscal 1999.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which establishes standards for derivative instruments and for hedging activities. It requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 is effective for fiscal years beginning after June 15, 1999. The Company is currently evaluating the requirements and impact of SFAS 133.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $107.7 million in cash and short-term investments at August 31, 1998. The increase of $14.2 million in cash and short-term investments from $93.5 million at November 30, 1997 was primarily due to cash generated from operations, offset by common stock repurchases, the acquisition of the Company's distributor in Brazil and the purchase of property and equipment.

In September 1997, the Board of Directors authorized, through September 30, 1998, the purchase of up to 4.5 million shares of the Company's common stock, at such times as the Company deems such purchases to be an effective use of cash, for various purposes including the issuance of shares pursuant to the Company's stock option plans. The Company purchased 1.4 million shares of its common stock for $24.6 million in the first nine months of fiscal 1998. At August 31, 1998, there remained approximately 3.1 million shares of common stock available for repurchase under this authorization.

In September 1998, the Board of Directors authorized, for the period October 1, 1998 through September 30, 1999, the purchase of up to 5.0 million shares of the Company's common stock, at such times as the Company deems such purchases to be an effective use of cash, for various purposes including the issuance of shares pursuant to the Company's stock option plans.

The Company purchased $8.0 million of property and equipment in the first nine months of fiscal 1998 and $6.2 million in the first nine months of fiscal 1997. The purchases consisted primarily of computer equipment and software, furniture and fixtures, and leasehold improvements. The property and equipment purchases were primarily for replacement of older equipment, renovations to various locations and to support the growth in the business.

On December 10, 1997, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in Brazil for $5.0 million. The acquisition was accounted for as a purchase, and accordingly, the results of operations are included in the Company's operating results from the date of acquisition. The purchase price was allocated primarily to goodwill, which will be amortized over a seven-year period. If this acquisition had been made at the beginning of the earliest period presented, the effect on the consolidated financial statements would not have been significant.

The Company is party to one significant legal proceeding. Such proceeding is detailed in Item 1 - Legal Proceedings in Part II of this report on Form 10-Q. The Company is also 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 claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

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

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

The Company develops, markets and supports its core product line, the PROGRESS Application Development Environment, the PROGRESS RDBMS and the PROGRESS Dataserver Architecture (collectively, "PROGRESS"). In May 1997, the Company began shipping the latest major enhancement to the PROGRESS product line, PROGRESS Version 8.2 and the Company began shipping PROGRESS Version 8.3 in August 1998. In October 1996, the Company began shipments of WebSpeed, an open development and deployment environment that enables organizations to build transaction processing applications on the Internet and corporate intranets. The Company began shipments of WebSpeed Version 2.0 in July 1997. The Company's Crescent Division develops and markets a collection of advanced tools and components to Visual Basic and Visual J++ development teams. The Company began commercial shipments of ProtoSpeed, an internally developed distributed debugging tool, in September 1997. The Company acquired Apptivity Corporation, a developer of multi-tier, Java-based business application tools, in July 1997. The Apptivity product line consists of Apptivity Developer and Apptivity Server. The Company began commercial shipments of Apptivity Version 2.1 in May 1998.

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

The Company has derived most of its revenue from PROGRESS and other products which complement PROGRESS and are generally licensed only in conjunction with PROGRESS. Accordingly, the Company's future results depend on continued market acceptance of PROGRESS and any factor adversely affecting the market for PROGRESS could have a material adverse effect on the Company's business and its financial results. Future results may also depend upon the Company's continued successful distribution of PROGRESS through its ISV channel and may be impacted by downward pressure on pricing, which may not be offset by increases in volume. ISVs resell PROGRESS along with their own applications, and any adverse effect on their business related to competition, pricing and other factors could have a material adverse effect on the Company's business, financial condition, and operating results.

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

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

The Company hopes that WebSpeed, Apptivity and other new products will contribute positively to the Company's future results. The market for Internet transaction processing products, such as WebSpeed, is highly competitive and will depend in large part on the commercial acceptance of the Internet as a medium for all types of commerce. Because global commerce and online exchange of information on the Internet and other similar open wide area networks are new and evolving, it is difficult to predict with any assurance that the infrastructure or complementary products necessary to make the Internet a viable medium for all types of commerce will be developed. The market for Java-based business application tools, such as Apptivity, is in the early stages of commercial adoption. There can be no assurance that Java will emerge as a viable programming language for large-scale business application deployment environments.

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

The Year 2000 presents potential concerns and issues for the Company as well as other companies in the information technology industry. In general, Year 2000 compliance issues typically arise in computer software and hardware systems that use two digit date formats, instead of four digits, to represent a particular year. Users must test their unique combination of hardware, system software (databases, transaction processors and operating systems) and application software in order for Year 2000 compliance to be achieved.

With the exception of the products discussed below, the Company believes that its current products are Year 2000 compliant. For example, the Company's PROGRESS products use four digit years for all internal manipulations and representations. In addition, for customers who require the entry and display of two digit years, the Company's PROGRESS products provide the ability to specify a range of years for comparison and calculation. Therefore, the Company does not believe that the Company's products, except those discussed below, will be adversely affected by date changes in the Year 2000. However, there can be no assurance that the Company's products contain and will contain all features and functionality considered necessary by customers, including ISVs, end users and distributors, to be Year 2000 compliant. In addition, there can be no assurances that the Company's current products do not contain undetected errors or defects associated with Year 2000 date functions that may result in material costs to the Company.

While the Company believes that its products are Year 2000 compliant, other factors may result in an application created using the Company's products not being Year 2000 compliant. Some of these factors include improper programming techniques used in creating the application or non-compliance of the underlying hardware or operating system on which the software runs. The Company does not believe that it would be liable in such an event. However, due to the unprecedented nature of potential litigation related to Year 2000 compliance as discussed in the industry and popular press, the most likely worst case scenario is that the Company would be subject to litigation. It is uncertain whether or to what extent the Company may be affected by such litigation.

The Company has tested the current versions of its three Crescent products and determined that one product is not Year 2000 ready. A free patch for that product will be available on the Company's website near the end of October 1998 that fixes the Year 2000 issues. The Company does not intend to test earlier versions of those Crescent products or retired Crescent products. The Company cautions users of such products to conduct their own testing to determine if the continued use of such products allows them to meet their own Year 2000 readiness objectives. The Company does not believe that the cost of any potential upgrades or modifications will have a material adverse effect on the Company's business, financial condition and operating results.

Although the Company is not aware of any material operational issues or costs associated with preparing its internal systems, both information technology (IT) and non-IT systems, for the Year 2000, there can be no assurance that the Company will not experience unanticipated negative consequences or material costs caused by undetected errors or defects in the technology used in its internal systems, which are based primarily on the Company's own software products with respect to applications and which also include third party software and hardware technology. The Company has not assessed fully the Year 2000 readiness of material third parties, such as public utilities and key suppliers, who provide external services to the Company. The Company expects to complete these assessments and testing, as well as the testing of its internal systems, by the Fall of 1999 and does not anticipate that any of these potential issues will have a material adverse effect on the Company's business, financial condition and operating results. All costs related to Year 2000 issues are being expensed as incurred and the Company does not expect the total costs of evaluation and testing to be material. The Company has not yet developed any detailed contingency plans, but intends to evaluate the necessity of such plans based on the outcome of its assessment and testing of the Year 2000 readiness of material third parties.

Approximately 52% of the Company's total revenue in the first nine months of fiscal 1998 was attributable to international sales made through its subsidiaries. Because a substantial portion of the Company's total revenue is derived from such international operations which are conducted in foreign currencies, changes in the value of these foreign currencies relative to the United States dollar may affect the Company's results of operations and financial position. The Company engages in certain currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on the Company's results of operations. However, there can be no assurance that such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. If for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, the Company's business could be adversely affected. Other potential risks inherent in the Company's international business generally include longer payment cycles, greater difficulties in accounts receivable collection, unexpected changes in regulatory requirements, export restrictions, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, political instability, reduced protection for intellectual property rights in some countries, seasonal reductions in business activity during the summer months in Europe and certain other parts of the world, and potentially adverse tax consequences, any of which could adversely impact the success of the Company's international operations. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international operations, and, consequently, on the Company's business, financial condition, and operating results.

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

The Company's success is heavily dependent upon its proprietary software technology. The Company relies principally on a combination of contract provisions and copyright, trademark and trade secret laws to protect its proprietary technology. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate to prevent misappropriation of its technology or independent development by others of similar technology. In addition, litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Although the Company believes that its products and technology do not infringe on any existing proprietary rights of others, there can be no assurance that third parties will not assert infringement claims in the future. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition and operating results.

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Naf Naf S.A. commenced an expert proceeding in the Paris Trade Court, Paris, France against Progress Software S.A., Timeless S.A. and Digital Equipment France in May 1996. In June 1997, Naf Naf petitioned the court to add Progress Software Corporation as a party to the expert proceeding, which petition has been granted. The basis of the proceeding is alleged late availability of products from Progress Software and alleged product deficiencies after delivery by Timeless to Naf Naf of such products. At this time, no specific damage claim has been formally filed under French legal proceeding rules with the Paris Trade Court. The Company is vigorously defending itself in this proceeding and the costs of such defense are being reimbursed to the Company by the Company's insurer. The Company's insurer has agreed to reimburse such costs under a reservation of rights as to coverage. While the outcome of this claim cannot be predicted with certainty, management does not believe that the outcome will have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company is also 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 claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

27.1 - Financial Data Schedule (EDGAR Version Only)

b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended August 31, 1998.

SIGNATURES

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

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated:October 14, 1998

/s/ Joseph W. Alsop
Joseph W. Alsop
President and Treasurer
(Principal Executive Officer)

Dated:October 14, 1998

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

Dated:October 14, 1998

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTAINED IN THE COMPANY'S FORM 10-Q FOR THE PERIOD ENDING AUGUST 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
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DEC-01-1997
AUG-31-1998
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