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 May 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 July 9, 1998, there were 11,562,778 shares of the Registrant's Common Stock, $.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MAY 31, 1998

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PROGRESS SOFTWARE CORPORATION

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

	May 31, 1998	November 30, 1997
ASSETS		
Current assets:		
Cash and equivalents	$ 27,373	$ 39,451
Short-term investments	68,890	54,034
Accounts receivable (less allowance for doubtful accounts of $7,321 in 1998 and $4,928 in 1997)	36,682	35,651
Inventories	1,177	1,394
Other current assets	8,122	6,081
Deferred income taxes	5,505	5,166
Total current assets	147,749	141,777
Property and equipment-net	21,922	23,183
Capitalized software costs-net	3,826	4,545
Other assets	6,258	2,228
Total	$ 179,755	$ 171,733
LIABILITIES AND SHAREHOLDERS' EQUITY Current liabilities:		
Accounts payable	$ 9,635	$ 10,712
Accrued compensation and related taxes	17,069	17,088
Income taxes payable	6,426	6,450
Other current liabilities	8,026	6,924
Deferred revenue	45,125	32,843
Total current liabilities	86,281	74,017
Deferred income taxes	1,069	1,009
Minority interest in subsidiary	213	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, 11,401,275 shares in 1998 and 11,812,023 shares in 1997	114	118
Additional paid-in capital	15,089	25,901
Retained earnings	77,426	70,673
Unrealized gain on short-term investments	252	245
Cumulative translation adjustments	(689)	(498)
Total shareholders' equity	92,192	96,439
Total	$ 179,755	$ 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 May 31,		Six Months Ended May 31,	
	1998	1997	1998	1997
Revenue:				
Software licenses	$ 27,686	$ 22,975	$ 55,332	$47,616
Maintenance and services	29,420	21,856	55,920	42,559
Total revenue	57,106	44,831	111,252	90,175
Costs and expenses:				
Cost of software licenses	2,438	2,388	5,273	4,737
Cost of maintenance and services	11,833	7,222	21,471	14,180
Sales and marketing	22,036	21,364	44,588	42,922
Product development	8,133	6,776	15,247	13,181
General and administrative	6,727	5,698	13,866	11,576
Total costs and expenses	51,167	43,448	100,445	86,596
Income from operations	5,939	1,383	10,807	3,579
Other income (expense):				
Interest income	996	1,043	1,898	1,918
Foreign currency gain (loss)	42	471	(437)	283
Minority interest	2	182	55	296
Other income (expense)	(5)	16	(54)	15
Total other income	1,035	1,712	1,462	2,512
Income before provision for income taxes	6,974	3,095	12,269	6,091
Provision for income taxes	2,301	1,053	4,049	2,071
Net income	$ 4,673	$ 2,042	$ 8,220	$ 4,020
Basic earnings per share	$ 0.41	$ 0.17	$ 0.71	$ 0.32
Weighted average shares outstanding (basic)	11,526	12,267	11,525	12,450
Diluted earnings per share	$ 0.36	$ 0.16	$ 0.65	$ 0.31
Weighted average shares outstanding (diluted)	12,994	13,002	12,649	12,946

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

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

	Six Months Ended May 31, 1998	1997
Cash flows from operating activities:		
Net income	$ 8,220	$ 4,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	5,942	5,379
Amortization of capitalized software costs	892	1,069
Amortization of intangible assets	653	138
Deferred income taxes	(295)	(183)
Minority interest in subsidiary	(55)	(296)
Noncash compensation	--	16
Changes in operating assets and liabilities:		
Accounts receivable	(1,505)	2,076
Inventories	217	(109)
Other current assets	(2,083)	(3,849)
Accounts payable and accrued expenses	2,573	1,623
Income taxes payable	1,044	(622)
Deferred revenue	10,492	7,145
Total adjustments	17,875	12,387
Net cash provided by operating activities	26,095	16,407
Cash flows from investing activities:		
Purchases of investments available for sale	(19,901)	(15,475)
Maturities of investments available for sale	4,861	1,075
Sales of investments available for sale	100	9,839
Purchase of property and equipment	(4,831)	(4,646)
Capitalized software costs	(173)	(1,257)
Acquisition of distributor	(5,000)	--
Decrease in other noncurrent assets	128	131
Net cash used for investing activities	(24,816)	(10,333)
Cash flows from financing activities:		
Proceeds from issuance of common stock	5,244	2,455
Repurchase of common stock	(18,561)	(14,396)
Contributions from minority interest	--	603
Payment of obligations under capital leases	--	(116)
Net cash used for financing activities	(13,317)	(11,454)
Effect of exchange rate changes on cash	(40)	(406)
Net decrease in cash and equivalents	(12,078)	(5,786)
Cash and equivalents, beginning of period	39,451	30,872
Cash and equivalents, end of period	$ 27,373	$ 25,086
Supplemental disclosure of noncash financing activities:		
Income tax benefit from employees' exercise of stock options	$ 1,033	$ 302

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.

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 $5,000,000. 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. Subsequent Event

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. Share and per share amounts have not been restated for the stock split.

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 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 May 31,		Six Months Ended May 31,		Three Months 1998 Compared to 1997	Six Months 1998 Compared to 1997
	1998	1997	1998	1997		
Revenue:						
Software licenses	48%	51%	50%	53%	21%	16%
Maintenance and services	52	49	50	47	35	31
Total revenue	100	100	100	100	27	23
Cost and expenses:						
Cost of software licenses	4	5	5	5	2	11
Cost of maintenance and services	21	16	19	16	64	51
Sales and marketing	39	48	40	47	3	4
Product development	14	15	14	15	20	16
General and administrative	12	13	12	13	18	20
Total costs and expenses	90	97	90	96	18	16
Income from operations	10	3	10	4	329	202
Other income	2	4	2	3	(40)	(42)
Income before provision for income taxes	12	7	12	7	125	101
Provision for income taxes	4	2	4	2	119	96
Net income	8%	5%	8%	5%	129%	104%

The Company's total revenue increased 27% from $44,831,000 in the second quarter of fiscal 1997 to $57,106,000 in the second quarter of fiscal 1998. The Company's total revenue increased 23% from $90,175,000 in the first six months of fiscal 1997 to $111,252,000 in the first six months of fiscal 1998. Software license revenue increased 21% from $22,975,000 in the second quarter of fiscal 1997 to $27,686,000 in the second quarter of fiscal 1998. Software license revenue increased 16% from $47,616,000 in the first six months of fiscal 1997 to $55,332,000 in the first six months of fiscal 1998.

The increase in software license revenue in the second quarter and first six 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 8.2 is providing customers with increased capabilities through its 32-bit architecture and enhanced database features. The Company also experienced an increase in sales to its Application Partners, value-added resellers who resell the Company's products in conjunction with the sale of their applications. The increase in sales to Application Partners is primarily due to greater deployment revenue from database, dataservers and reporting tools products.

Maintenance and services revenue increased 35% from $21,856,000 in the second quarter of fiscal 1997 to $29,420,000 in the second quarter of fiscal 1998. Maintenance and services revenue increased 31% from $42,559,000 in the first six months of fiscal 1997 to $55,920,000 in the first six 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 21% from $27,461,000 in the second quarter of fiscal 1997 to $33,267,000 in the second quarter of fiscal 1998 and represented 58% of total revenue in the second quarter of fiscal 1998 as compared to 61% of total revenue in the second quarter of fiscal 1997. Total revenue generated in markets outside North America would have represented 59% of total revenue in the second quarter of fiscal 1998 if exchange rates had been constant as compared to the exchange rates in effect in the second quarter of fiscal 1997.

Total revenue generated in markets outside North America increased 19% from $53,630,000 in the first six months of fiscal 1997 to $63,605,000 in the first six months of fiscal 1998 and represented 57% of total revenue in the first six months of fiscal 1998 as compared to 59% in the first six months of fiscal 1997. Total revenue generated in markets outside North America would have represented 59% of total revenue in the first six months of fiscal 1998 if exchange rates had been constant as compared to the exchange rates in effect in the first six 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 2% from $2,388,000 in the second quarter of fiscal 1997 to $2,438,000 in the second quarter of fiscal 1998, but decreased as a percentage of software license revenue from 10% to 9%. Cost of software licenses increased 11% from $4,737,000 in the first six months of fiscal 1997 to $5,273,000 in the first six months of fiscal 1998, but remained approximately the same percentage of software license revenue in each period. The dollar increase was due to higher royalty expense for products and technologies licensed from third parties. 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 64% from $7,222,000 in the second quarter of fiscal 1997 to $11,833,000 in the second quarter of fiscal 1998 and increased as a percentage of maintenance and services revenue from 33% to 40%. Cost of maintenance and services increased 51% from $14,180,000 in the first six months of fiscal 1997 to $21,471,000 in the first six months of 1998 and increased as a percentage of maintenance and services revenue from 33% to 38%. 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 half of fiscal 1998 as compared to the first half of fiscal 1997 and greater usage of outside contractors to fulfill demand for consulting services. The Company increased its technical support, education, and consulting staff from 211 at the end of the first half of fiscal 1997 to 265 at the end of the first half 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 3% from $21,364,000 in the second quarter of fiscal 1997 to $22,036,000 in the second quarter of fiscal 1998, but decreased as a percentage of total revenue from 48% to 39%. Sales and marketing expenses increased 4% from $42,922,000 in the first six months of fiscal 1997 to $44,588,000 in the first six months of fiscal 1998, but decreased as a percentage of total revenue from 47% 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 20% from $6,776,000 in the second quarter of fiscal 1997 to $8,133,000 in the second quarter of fiscal 1998, but decreased as a percentage of total revenue from 15% to 14%. Product development expenses increased 16% from $13,181,000 in the first six months of fiscal 1997 to $15,247,000 in the first six months of fiscal 1998, but decreased as a percentage of total revenue from 15% to 14%. The dollar increase was primarily due to a lower rate of capitalization of software costs and increased personnel costs. The increase in personnel costs was primarily due to slightly higher average compensation costs and increased headcount to support continued new product development efforts. The major product development efforts in the first half of fiscal 1998 related to the development of the next versions of the Company's various product lines, including the release of Apptivity Version 2.1. The product development staff increased from 201 at the end of the first half of fiscal 1997 to 210 at the end of the first half of fiscal 1998.

The Company capitalized $1,257,000 of software development costs in the first six months of fiscal 1997 and $173,000 in the first six 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 9% of total product development costs in the first six months of fiscal 1997 and 1% in the first six months of fiscal 1998. The decrease in the percentage of capitalized software costs in the first six months of fiscal 1998 as compared to the first six 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 18% from $5,698,000 in the second quarter of fiscal 1997 to $6,727,000 in the second quarter of fiscal 1998, but decreased as a percentage of total revenue from 13% to 12%. General and administrative expenses increased 20% from $11,576,000 in the first six months of fiscal 1997 to $13,866,000 in the first six 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 and increased goodwill charges resulting from recent acquisitions. The Company increased its administrative staff from 180 at the end of the first half of fiscal 1997 to 185 at the end of the first half of fiscal 1998.

Other income decreased $677,000 from $1,712,000 in the second quarter of fiscal 1997 to $1,035,000 in the second quarter of fiscal 1998. Other income decreased $1,050,000 from $2,512,000 in the first six months of fiscal 1997 to $1,462,000 in the first six months of fiscal 1998. The decreases in each period were due primarily to foreign currency gains in fiscal 1997 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 and 33% in each period of 1998 and was based upon the estimated effective tax rate for the full fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $96,263,000 in cash and short-term investments at May 31, 1998. The increase of $2,778,000 in cash and short-term investments from $93,485,000 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 3,000,000 shares of the Company's common stock, at such times as the Company deems such purchases to be an effective use of cash, for various purposes including the issuance of shares pursuant to the Company's stock option plans. The Company purchased 760,957 shares of its common stock for $18,561,000 in the first six months of fiscal 1998. At May 31, 1998, there remained approximately 2,200,000 shares of common stock available for repurchase under this authorization.

The Company purchased $4,831,000 of property and equipment in the first six months of fiscal 1998 and $4,646,000 in the first six 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 and renovations to various locations.

On December 10, 1997, the Company, through a wholly-owned subsidiary, acquired certain assets of its distributor in Brazil for $5,000,000. 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. 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 Application Partner channel and may be impacted by downward pressure on pricing, which may not be offset by increases in volume. Application Partners 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.

With the exception of the Crescent product line as discussed below, the Company believes that all of its products are fully year 2000 compliant. The Company's products use four digit years for all internal manipulations and representations. In addition, for customers who require the storage and manipulation of two digit years, the Company's current 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 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 Application Partners, 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 the PROGRESS product line is fully year 2000 compliant, improper programming techniques used in creating a PROGRESS-based application could result in such application not being year 2000 compliant. 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, it is uncertain whether or to what extent the Company may be affected by it.

The Company is currently evaluating the Crescent product line for year 2000 compliance. During the course of these evaluations, the Company will provide customers with information regarding testing procedures and results for each tested product. Following the evaluations, to the extent that any tested Crescent products are found not to be year 2000 compliant, the Company will provide information concerning its plans to upgrade or modify such products. The Company does not believe that the cost of the evaluations or 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 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 software and which also include third party software and hardware technology. The Company has not assessed fully the impact of year 2000 compliance issues on the entities with which the Company interacts. However, the Company does not anticipate that these issues will have a material adverse effect on the Company's business, financial condition and operating results.

Approximately 53% of the Company's total revenue in the first six 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders of the Company held on April 24, 1998, the shareholders voted on the items described below:

* To fix the numbers of directors at eight:

Affirmative Votes Cast	Negative Votes Cast	Votes Abstaining
9,853,052	24,446	183,657

* To elect the following eight directors: Joseph W. Alsop, Larry R. Harris, Robert J. Lepkowski, Michael L. Mark, Arthur J. Marks, Scott A. McGregor, Amram Rasiel and James W. Storey:

Nominee	For	Withhold Authority
Joseph W. Alsop	9,926,392	134,763
Larry R. Harris	9,926,504	134,651
Robert J. Lepkowski	9,926,504	134,651
Michael L. Mark	9,926,504	134,651
Arthur J. Marks	9,926,504	134,651
Scott A. McGregor	9,926,304	134,851
Amram Rasiel	9,926,504	134,651
James W. Storey	9,926,504	134,651

* 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 300,000 shares to 500,000 shares:

Affirmative Votes Cast	Negative Votes Cast	Votes Abstaining
9,745,128	216,514	99,513

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

10.8	-	1991 Employee Stock Purchase Plan, as amended
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 May 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: July 10, 1998

/s/ Joseph W. Alsop

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

Dated: July 10, 1998

/s/ Norman R. Robertson

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

Dated: July 10, 1998

/s/ David H. Benton, Jr.

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

EXHIBIT 10.8

PROGRESS SOFTWARE CORPORATION
1991 EMPLOYEE STOCK PURCHASE PLAN
(Amended and Restated as of March 10, 1998)

1. PURPOSE

The Progress Software Corporation Employee Stock Purchase Plan (the "Plan") is intended to provide a method whereby employees of Progress Software Corporation (the "Company") will have an opportunity to acquire an ownership interest (or increase an existing ownership interest) in the Company through the purchase of shares of the Common Stock of the Company. It is the intention of the Company that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. DEFINITIONS

(a) "Eligible Compensation" for purposes of the Plan means: (i) with respect to individuals who are hourly employees, base salary plus payments for overtime and bonuses or (ii) with respect to individuals who are salaried employees, base salary plus sales commissions and bonuses. Eligible Compensation shall not include any deferred compensation other than contributions by an individual through a salary reduction agreement to a cash or deferred plan pursuant to Section 401(k) of the Code or to a cafeteria plan pursuant to Section 125 of the Code.

(b) "Board" means the Board of Directors of the Company.

(c) "Committee" means the Compensation Committee of the Board.

(d) "Common Stock" means the common stock, $.01 par value per share, of the Company.

(e) "Company" shall also include any subsidiary of Progress Software Corporation designated as a participant in the Plan by the Board, unless the context otherwise requires.

(f) "Employee" means any person who is customarily employed at least 20 hours per week and more than five months in a calendar year by (i) the Company or (ii) any subsidiary corporation.

(g) "Subsidiary Corporation" shall mean any present or future corporation which is or would constitute a "subsidiary corporation" as that term is defined in Section

424(f) of the Code.

3. ELIGIBILITY

(a) Participation in the Plan is completely voluntary. Participation during any one or more of the Offering Periods, as hereafter defined, under the Plan shall neither limit, nor require, participation during any other Offering Period.

(b) Each Employee of the Company and its Subsidiary Corporations shall be eligible to participate in the Plan on any Offering Period commencement date, as hereafter identified, following the completion of three months of continuous service with the Company and/or its Subsidiary Corporations; provided, however, that no Employee shall be granted an option under the Plan:

(i) if, immediately after the grant, such Employee would own stock, and/or hold outstanding options to purchase stock, possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or any Subsidiary Corporation; for purposes of this Paragraph the rules of Section 424(d) of the Code shall apply in determining stock ownership of any employee; or

(ii) which permits his/her rights to purchase stock under all Section 423 employee stock purchase plans of the Company and its Subsidiary Corporations to exceed US $25,000 of the fair market value of the stock (determined at the time such option is granted) for each calendar year in which such option is outstanding; for purposes of this Paragraph, the rules of Section 423 (b)(8) of the Code shall apply.

4. OFFERING PERIOD / EXERCISE PERIOD

The right to purchase stock hereunder shall be made available by a series of "Exercise Periods" during an "Offering Period" to employees eligible in accordance with Paragraph 3 hereof.

Offering Period. Each participant in the Plan will be enrolled in an Offering Period. An Offering Period has a duration of 27 consecutive months unless a participant: withdraws from the Plan, ceases to be an eligible employee, or is automatically transferred to a new Offering Period. Offering Periods commence on each of the following dates: January 1, April 1, July 1, or October 1.

Exercise Period. Each 27-month Offering Period consists of nine consecutive Exercise Periods lasting three months each. Exercise Periods start on January 1, April 1, July 1, and October 1.

Exercise Date. During each 27-month Offering Period there will be nine Exercise Dates. An Exercise Date is the last date of each Exercise Period. Therefore, Exercise

Dates will be as follows: March 31, June 30, September 30, and December 31.

5. PARTICIPATION

Any eligible employee may become a participant by completing a payroll deduction authorization form provided by the Company and filing it with their payroll department and the Plan administrator 20 days prior to an Offering Period commencement date.

A participant may be enrolled in only one Offering Period at a time. A participant will be re-enrolled automatically as a participant in future Offering Periods when an Offering Period in which such participant is currently enrolled ends, unless such participant withdraws from participation, is terminated or terminates employment, becomes ineligible to participate for any reason, or the Plan terminates.

6. PAYROLL DEDUCTIONS

(a) At the time a participant files his/her authorization for a payroll deduction, he/she shall specify a percentage of his/her Eligible Compensation to be deducted from his/her pay on each payday during any Offering Period in which he/she is a participant in the Plan. Such percentage shall be in increments of one percent (1%) up to a maximum percentage to be established for each Offering Period by the Committee.

(b) Payroll deductions for participants shall commence on the Offering Period commencement date following the effective date of his/her authorization for such payroll deductions.

(c) A participant may, at any time, reduce the percentage (but not below 1%) of his/her Eligible Compensation to be deducted on each payday that he/she participates in the Plan. A reduction in payroll deductions will be effective on the seventh business day following receipt of notice by the Company and will apply to the first full pay period commencing after such date.

(d) A participant may, at any time, increase the percentage (but not above the maximum established by the Committee) of his/her Eligible Compensation to be deducted on each payday that the he/she participates in the Plan. An increase in payroll deductions will be effective on the seventh business day following receipt of notice by the Company and will apply to the first full Exercise Period commencing after such date.

(e) All payroll deductions made for a participant shall be credited to his/her account under the Plan. A participant may not make any separate cash payment into such account.

7. GRANTING OF OPTION / EXERCISE PRICE

(a) On the commencement date of each Offering Period, a participant in such Offering Period shall be deemed to have been granted an option to purchase on each Exercise Date during such Offering Period (at the per share exercise price) up to a number of shares of the Company's Common Stock determined by dividing such participant's payroll deductions accumulated during the applicable Exercise Period by eighty-five (85%) of the market value per share of the Company's Common Stock on the Offering Period commencement date or on the Exercise Date, whichever is lower, provided that the number of shares subject to the option shall not exceed 200% of the number of shares determined by dividing 10% of the participant's Eligible Compensation over the Offering Period (determined as of the Offering Period commencement date) by 85% of the market value per share of the Company's Common Stock on the Offering Period commencement date, subject to the limitations set forth in Section 3 (b) and 12 hereof. The Market value per share of the Company's Common Stock shall be determined as provided in Section

7(b) herein.

(b) The exercise price per share to be paid for Common Stock purchased under the Plan shall be equal to the lower of 85% of the market value per share of the Common Stock on the first day of the Offering Period in which the Exercise Date falls, or 85% of the market value per share of the Common Stock on the Exercise Date. Market value per share of the Common Stock on a particular date is the closing price (or closing bid, if no sales were reported) of the Common Stock on the National Association of Securities Dealers Automated Quotation System, Inc. ("NASDAQ"), or, in the event the Common Stock is listed on a stock exchange, the market value per share shall be the closing price on such exchange, for that date, as reported in the Wall Street Journal. If a closing price is not available for a particular date, then the market value per share to be used for that date will be the closing stock price as of the last preceding trading day on the NASDAQ or a stock exchange for which a closing price is available. If the Common Stock is not listed on the NASDAQ or a stock exchange then the market value per share will be determined by the Committee.

For purpose of calculating the number of shares of Common Stock to be purchased with payroll deductions from participants outside of the United States, the Company will use the exchange rate published in the Wall Street Journal on the Exercise Date.

8. EXERCISE OF OPTION

Unless a participant withdraws from the Plan or is terminated from participating in the Plan pursuant to paragraph 10 hereof, his/her option for the purchase of Common Stock will be deemed to have been exercised automatically on each Exercise Date for the purchase of the number of full shares of Common Stock which the accumulated payroll deductions in his/her account at that time will purchase at the price of the Common Stock as

determined in Paragraph 7 (b). Fractional shares will not be issued under the Plan and any excess funds in a participant's account representing any fractional shares after Common Stock purchases made on each Exercise Date will be automatically carried forward to the next Exercise Period unless the participant elects, by written notice to their payroll department, to have the excess returned to him/her.

9. NEW OFFERING PERIOD

If the market value of the Common Stock is lower on an Exercise Date than it was on the first day of the Offering Period, then all participants in such Offering Period will be automatically withdrawn from that Offering Period immediately after the participants' exercise of the option on such Exercise Date, and such participants will be automatically re-enrolled in a new Offering Period commencing immediately after that Exercise Date. The old Offering Period terminates upon such automatic re-enrollment.

10. WITHDRAWAL AND TERMINATION

(a) Prior to the Exercise Date for each Exercise Period, any participant may withdraw all but not less than all of his/her payroll deductions under the Plan for such Exercise Period by giving written notice to his/her payroll department. All of the participant's payroll deductions credited to such account will be paid to him/her after receipt of notice of withdrawal, without interest, and no future payroll deductions will be made. Withdrawal from an Exercise Period will be deemed to be a withdrawal from the Offering Period which includes such Exercise Period. The Company will treat any attempt to borrow by a participant on the security of accumulated payroll deductions as an election to withdraw such deductions.

(b) A participant may elect not to exercise an option by giving written notice to their payroll department no less than seven (7) business days prior to the applicable Exercise Date. Any such election will be treated as a withdrawal pursuant to section (a) above.

(c) A participant's election not to participate in, or withdrawal from, any Offering Period or Exercise Period within such Offering Period will not have any effect upon his/her eligibility to participate in any succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

(d) Upon termination of the participant's employment for any reason, including retirement but excluding death, all of his/her payroll deductions accrued during the relevant Exercise Period will be returned to the participant.

(e) Upon termination of the participant's employment because of death, the participant's beneficiary (as defined in Paragraph 14) shall have the right to elect, by written notice given to the participant's former payroll department prior to the expiration of a period of 90 days commencing with the date of the death of the participant but in no event later than the applicable Offering Period, either

(i) to withdraw all of the payroll deductions credited to the participant's account under the Plan; or

(ii) to exercise the participant's option for the purchase of stock on the Exercise Date next following the date of the participant's death for the purchase of the number of full shares which the participant's accumulated payroll deductions, at the date of the participant's death, will purchase at the applicable price, and any excess deductions will be returned to said beneficiary. In the event that no such written notice of election shall be duly received by the appropriate payroll department of the Company, the beneficiary shall automatically be deemed to have elected to withdraw the payroll deductions credited to the participant at the date of the participant's death and the same will be paid promptly to said beneficiary.

11. INTEREST

No interest will be paid or allowed on any money paid into the Plan or credited to any participant.

12. STOCK

(a) The maximum number of shares of Common Stock available for issuance and purchase by participants under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in Paragraph 17, shall be 500,000 shares of Common Stock, par value $.01 per share, of the Company. If on a given Exercise Date the number of shares with respect to which options are to be exercised exceeds the number of shares then available, the Company shall make a pro rata allocation of the shares available for delivery and distribution in an equitable manner, with the balances of payroll deductions credited to each participant under the Plan carried forward to the next Exercise Period in the applicable Offering Period or returned to the participant if the participant so chooses, by giving written notice to their payroll department to this effect.

(b) The participant will have no interest in stock underlying his/her option until such option has been exercised.

(c) The Committee, in its sole discretion, may establish a minimum holding period, if any, for shares of stock acquired pursuant hereto by any participant or his beneficiary pursuant to Paragraph 14 hereof. Certificates representing said shares of stock issued pursuant to this

Plan may bear legends to that effect.

13. ADMINISTRATION

The Plan shall be administered by the Committee. The interpretation and construction of any provision of the Plan and adoption of rules and regulations for administering the Plan shall be made by the Committee. Determinations made by the Committee with respect to any matter or provision contained in the Plan shall be final, conclusive and binding upon the Company and upon all participants, their heirs or legal representatives. Any rule or regulation adopted by the Committee shall remain in full force and effect unless and until altered, amended, or repealed by the Committee.

14. DESIGNATION OF BENEFICIARY

A participant shall file with their payroll department a written designation of a beneficiary who is to receive any Common Stock and/or cash under the Plan. Such designation of beneficiary may be changed by the participant at any time by written notice. Upon the death of a participant and upon receipt by the Company of proof of the identity and existence at the participant's death of a beneficiary validly designated by him under the Plan, the Company shall deliver such Common Stock and/or cash to such beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such Common Stock and/or cash to the executor or administrator of the estate of the participant. No beneficiary shall prior to the death of the participant by whom he has been designated, acquire any interest in the Common Stock and/or cash credited to the participant under the Plan.

15. TRANSFERABILITY

Neither payroll deductions credited to a participant nor any rights with regard to the exercise of an option or to receive Common Stock under the Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the participant other than by will or the laws of descent and distribution. Any such attempted assignment, transfer, pledge, or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Paragraph 10(a).

16. USE OF FUNDS

All payroll deductions received or held by the Company under this Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

17. EFFECT OF CHANGES OF COMMON STOCK

If the Company shall subdivide or reclassify the Common Stock which has been or may be optioned under this Plan, or shall declare thereon any dividend payable in shares of such Common Stock, or shall take any other action of a similar nature affecting such Common Stock, then the number and class of shares of Common Stock which may thereafter be optioned (in the aggregate and to any participant) shall be adjusted accordingly and in the case of each option outstanding at the time of any such action, the number and class of

shares which may thereafter be purchased pursuant to such option and the option price per share shall be adjusted to such extent as may be determined by the Committee, with the approval of independent public accountants and counsel, to be necessary to preserve the rights of the holder of such option.

18. AMENDMENT OR TERMINATION

The Board may at any time terminate or amend the Plan. No such termination shall affect options previously granted, nor may an amendment make any change in any option theretofore granted which would adversely affect the rights of any participant holding options under the Plan.

19. NOTICES

All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received by the participant's payroll department.

20. MERGER OR CONSOLIDATION

If the Company shall at any time merge into or consolidate with another corporation, the holder of each option then outstanding will thereafter be entitled to receive at the next Exercise Date upon the exercise of such option for each share as to which such option shall be exercised, the securities or property which a holder of one share of the Common Stock was entitled to upon and at the time of such merger or consolidation. In accordance with this Paragraph and Paragraph 17, the Committee shall determine the kind and amount of such securities or property which such holder of an option shall be entitled to receive. A sale of all or substantially all of the assets of the Company shall be deemed a merger or consolidation for the foregoing purposes.

21. APPROVAL OF STOCKHOLDERS

The Plan is subject to the approval of the stockholders of the Company at their next annual meeting or at any special meeting of the stockholders for which one of the purposes of such a special meeting shall be to act upon the Plan.

22. GOVERNMENTAL AND OTHER REGULATIONS

The Plan, and the grant and exercise of the rights to purchase shares hereunder, and the Company's obligation to sell and deliver shares upon the exercise of rights to purchase shares, shall be subject to all applicable federal, state and foreign laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel for the Company, be required. The Plan shall be governed by, and

construed and enforced in accordance with, the provisions of Sections 421, 423 and 424 of the Code and the substantive laws of the Commonwealth of Massachusetts. In the event of any inconsistency between such provisions of the Code and any such laws, said provisions of the Code shall govern to the extent necessary to preserve favorable federal income tax treatment afforded employee stock purchase plans under Section 423 of the Code.

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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 MAY 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS
NOV-30-1998
DEC-01-1997
MAY-31-1998
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