

PROGRESS SOFTWARE CORP /MA

Form 10-Q

April 09, 2007

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

FORM 10-Q

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended February 28, 2007**

OR

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 0-19417
PROGRESS SOFTWARE CORPORATION
(Exact name of registrant as specified in its charter)**

MASSACHUSETTS
(State or other jurisdiction of
incorporation or organization)

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

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

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of March 30, 2007, there were 41,022,000 shares of the registrant's common stock, \$.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION
FORM 10-Q
FOR THE THREE MONTHS ENDED FEBRUARY 28, 2007
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Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Unaudited Consolidated Financial Statements
Condensed Consolidated Balance Sheets (unaudited)***(In thousands)*

| | February 28, 2007 | November 30, 2006 |
|--|-------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 56,445 | \$ 46,449 |
| Short-term investments | 177,375 | 194,866 |
| Total cash and short-term investments | 233,820 | 241,315 |
| Accounts receivable, net | 91,663 | 82,762 |
| Other current assets | 16,351 | 17,943 |
| Deferred income taxes | 19,280 | 18,119 |
| Total current assets | 361,114 | 360,139 |
| Property and equipment, net | 61,215 | 57,585 |
| Acquired intangible assets, net | 70,578 | 75,069 |
| Goodwill | 157,343 | 157,858 |
| Deferred income taxes | 14,263 | 14,153 |
| Other assets | 4,770 | 5,435 |
| Total | \$ 669,283 | \$ 670,239 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion, long-term debt | \$ 287 | \$ 281 |
| Accounts payable | 13,994 | 15,034 |
| Accrued compensation and related taxes | 29,561 | 48,398 |
| Income taxes payable | 8,159 | 6,316 |
| Other accrued liabilities | 21,972 | 23,166 |
| Short-term deferred revenue | 136,758 | 120,974 |
| Total current liabilities | 210,731 | 214,169 |
| Long-term debt, less current portion | 1,583 | 1,657 |
| Long-term deferred revenue | 9,179 | 6,355 |
| Other non-current liabilities | 3,778 | 3,494 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |

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| | | |
|--|------------|------------|
| Common stock and additional paid-in capital; authorized, 100,000 shares; issued and outstanding, 40,866 shares in 2007 and 41,177 shares in 2006 | 196,279 | 197,748 |
| Retained earnings, including accumulated other comprehensive gains of \$921 in 2007 and \$1,106 in 2006 | 247,733 | 246,816 |
| Total shareholders equity | 444,012 | 444,564 |
| Total | \$ 669,283 | \$ 670,239 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended Feb. 28, | |
|---|-----------------------------|--------------|
| | 2007 | 2006 |
| Revenue: | | |
| Software licenses | \$ 44,729 | \$ 42,780 |
| Maintenance and services | 70,500 | 61,141 |
| Total revenue | 115,229 | 103,921 |
| Costs of revenue: | | |
| Cost of software licenses | 1,672 | 2,210 |
| Cost of maintenance and services | 16,262 | 14,231 |
| Amortization of acquired intangibles for purchased technology | 2,491 | 1,524 |
| Total costs of revenue | 20,425 | 17,965 |
| Gross profit | 94,804 | 85,956 |
| Operating expenses: | | |
| Sales and marketing | 44,645 | 42,644 |
| Product development | 20,795 | 18,927 |
| General and administrative | 15,031 | 13,198 |
| Amortization of other acquired intangibles | 1,980 | 1,383 |
| Acquisition-related expenses | | 1,534 |
| Total operating expenses | 82,451 | 77,686 |
| Income from operations | 12,353 | 8,270 |
| Other income (expense): | | |
| Interest income and other | 1,918 | 1,795 |
| Foreign currency loss | (828) | (1,098) |
| Total other income, net | 1,090 | 697 |
| Income before provision for income taxes | 13,443 | 8,967 |
| Provision for income taxes | 4,705 | 3,058 |
| Net income | \$ 8,738 | \$ 5,909 |
| Earnings per share: | | |
| Basic | \$ 0.21 | \$ 0.15 |
| Diluted | \$ 0.20 | \$ 0.14 |

Weighted average shares outstanding:

| | | |
|---------|--------|--------|
| Basic | 41,069 | 40,499 |
| Diluted | 43,437 | 43,057 |

See notes to unaudited condensed consolidated financial statements.

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

| | Three Months Ended Feb. 28, | |
|---|-----------------------------|-----------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 8,738 | \$ 5,909 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 2,492 | 2,084 |
| Amortization of capitalized software costs | 44 | 44 |
| Amortization of acquired intangible assets | 4,471 | 2,907 |
| Stock-based compensation | 4,877 | 5,943 |
| Deferred income taxes | (1,151) | (1,136) |
| Tax benefit from stock options | 77 | 504 |
| In-process research and development | | 900 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, net | (8,970) | (5,285) |
| Other current assets | 2,047 | (3,677) |
| Accounts payable and accrued expenses | (20,781) | (19,930) |
| Income taxes payable | 1,880 | 985 |
| Deferred revenue | 18,526 | 16,553 |
| Net cash provided by operating activities | 12,250 | 5,801 |
| Cash flows from investing activities: | | |
| Purchases of investments available for sale | (43,050) | (86,961) |
| Sales and maturities of investments available for sale | 60,541 | 159,460 |
| Purchases of property and equipment | (6,103) | (4,878) |
| Acquisitions, net of cash acquired | | (62,033) |
| Increase in other non-current assets | 200 | 26 |
| Net cash provided by investing activities | 11,588 | 5,614 |
| Cash flows from financing activities: | | |
| Issuance of common stock | 5,681 | 4,166 |
| Excess tax benefit from stock options | 233 | 374 |
| Payment of long-term debt | (65) | (65) |
| Repurchase of common stock | (19,238) | (3,361) |
| Net cash (used for) provided by financing activities | (13,389) | 1,114 |
| Effect of exchange rate changes on cash | (453) | 659 |
| Net increase in cash and equivalents | 9,996 | 13,188 |
| Cash and equivalents, beginning of period | 46,449 | 40,398 |
| Cash and equivalents, end of period | \$ 56,445 | \$ 53,586 |

See notes to unaudited condensed consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements

Note 1: Basis of Presentation

We have prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2006. In the opinion of management, we have prepared the accompanying unaudited condensed consolidated financial statements on the same basis as the audited financial statements, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full fiscal year.

Note 2: Revenue Recognition

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

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

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

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

Table of Contents**Note 3: Earnings Per Share**

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

(In thousands, except per share data)

| | Three Months Ended Feb. 28, | |
|--|-----------------------------|----------|
| | 2007 | 2006 |
| Net income | \$ 8,738 | \$ 5,909 |
| Weighted average shares outstanding | 41,069 | 40,499 |
| Dilutive impact from outstanding stock options | 2,368 | 2,558 |
| Diluted weighted average shares outstanding | 43,437 | 43,057 |
| Earnings per share: | | |
| Basic | \$ 0.21 | \$ 0.15 |
| Diluted | \$ 0.20 | \$ 0.14 |

Stock options to purchase approximately 2,965,000 shares and 1,669,000 shares of common stock were excluded from the calculation of diluted earnings per share in the first quarter of fiscal years 2007 and 2006, respectively, because these options were anti-dilutive.

Note 4: Stock-based Compensation

We account for stock-based compensation expense in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123R). Under SFAS 123R, stock-based compensation expense reflects the fair value of stock-based awards measured at the grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. We estimate the fair value of each stock-based award on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield.

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

(In thousands)

| | Three Months Ended Feb. 28, | |
|--|-----------------------------|----------|
| | 2007 | 2006 |
| Cost of software licenses | \$ 30 | \$ 40 |
| Cost of maintenance and services | 347 | 450 |
| Sales and marketing | 1,796 | 2,224 |
| Product development | 1,119 | 1,354 |
| General and administrative | 1,585 | 1,875 |
| Total stock-based compensation expense | \$ 4,877 | \$ 5,943 |

Note 5: Income Taxes

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

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

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

Note 6: Comprehensive Income

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

(In thousands)

| | Three Months Ended Feb. 28, | |
|--|--------------------------------|----------|
| | 2007 | 2006 |
| Net income, as reported | \$ 8,738 | \$ 5,909 |
| Foreign currency translation adjustments, net of tax | (168) | 359 |
| Unrealized (losses) gains on investments, net of tax | (17) | 27 |
| Total comprehensive income | \$ 8,553 | \$ 6,295 |

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

In September 2006, the Board of Directors authorized, for the period from October 1, 2006 through September 30, 2007, the purchase of up to 10,000,000 shares of our common stock, at such times that management deems such purchases to be an effective use of cash. We purchased and retired approximately 695,000 shares of our common stock for \$19.2 million in the first three months of fiscal 2007 as compared to approximately 119,000 shares of our common stock for \$3.4 million in the first three months of fiscal 2006.

Tender Offer Disclosure

We recently determined that the exercise price of some of our stock options from previous years were less than the fair market value of our common stock on the date of grant. Options determined to have been granted with an exercise price below the fair market value of our common stock on the actual grant date and vesting subsequent to December 2004 result in nonqualified deferred compensation for purposes of Section 409A of the Internal Revenue Code, and holders are subject to an excise tax on the value of the options in the year in which they vest. We have determined that options to purchase approximately 2.8 million shares of our common stock held by current and former employees may be subject to adverse tax consequences under Section 409A.

In order to mitigate the unfavorable personal tax consequences under Section 409A, we offered holders of these options the opportunity to amend their affected options. Specifically, on December 22, 2006, we commenced a tender offer in which we offered to amend the affected options to increase the exercise price to the fair market value of our common stock on the revised grant date, and to give the option holders (excluding certain executive officers and employees) a cash payment, to be paid in increments on certain dates in fiscal years 2008 through 2010, for the increase in the exercise price. The tender offer is expected to be completed in April 2007.

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We also entered into option amendment agreements containing similar terms with a limited number of individuals for whom the deadline for such an amendment was December 31, 2006. In the first quarter of fiscal year 2006, we accounted for the impact of these option amendment agreements as a stock option modification under SFAS 123R.

We will recognize additional stock-based compensation expense, with a corresponding offset to additional paid-in capital, over the vesting period of the modified options. We recorded a liability of approximately \$0.7 million for the present value of the expected cash payments associated with the option amendment agreements, with a corresponding reduction in additional paid-in capital. We will recognize interest expense through the period up to each payment date.

Note 8: Goodwill

Goodwill is the amount by which the cost of acquired net assets in a business acquisition exceeded the fair value of net identifiable assets on the date of purchase. For purposes of the annual impairment test, we assigned goodwill of \$11.6 million to the operating divisions comprising the OpenEdge operating segment, \$56.8 million to the operating divisions comprising the Enterprise Infrastructure reporting segment and \$88.9 million to the reporting unit comprising the DataDirect reporting segment.

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

Note 9: Segment Information

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

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

Our chief decision maker is our Chief Executive Officer.

Based upon the aggregation criteria for segment reporting, we have three reportable segments: the OpenEdge segment, which includes the OED and EasyAsk Division, the Enterprise Infrastructure segment, which includes the EID and Apama Division, and the DataDirect segment. We do not manage our assets, capital expenditures, interest income or provision for income taxes by segment. We manage such items on a company basis.

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

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

| | Three Months Ended Feb. 28, | |
|-----------------------------------|-----------------------------|------------|
| | 2007 | 2006 |
| Revenue: | | |
| OpenEdge segment | \$ 87,254 | \$ 79,989 |
| Enterprise Infrastructure segment | 13,535 | 13,847 |
| DataDirect segment | 16,305 | 11,905 |
| Reconciling items | (1,865) | (1,820) |
| Total | \$ 115,229 | \$ 103,921 |
| Income (loss) from operations: | | |
| OpenEdge segment | \$ 31,245 | \$ 27,695 |
| Enterprise Infrastructure segment | (6,628) | (6,805) |
| DataDirect segment | 1,455 | 783 |
| Reconciling items | (13,719) | (13,403) |
| Total | \$ 12,353 | \$ 8,270 |

The reconciling items within revenue primarily represent intersegment sales, which are accounted for as if sold under an equivalent arms-length basis arrangement, generated by the Enterprise Infrastructure segment. Amounts included under reconciling items within income from operations represent amortization of acquired intangibles, stock-based compensation, acquisition-related expenses and certain unallocated administrative expenses.

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

| | Three Months Ended Feb. 28, | |
|-----------------------------|-----------------------------|------------|
| | 2007 | 2006 |
| DataDirect | \$ 16,305 | \$ 11,905 |
| Enterprise Infrastructure | 17,122 | 16,056 |
| Progress OpenEdge and other | 81,802 | 75,960 |
| Total | \$ 115,229 | \$ 103,921 |

Note 10: Contingencies

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

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

On August 17, 2006, a derivative complaint styled *Arkansas Teacher Retirement System, Derivatively on Behalf of Progress Software Corporation, v. Joseph Alsop et al, Civ. Act. No. 06-CA-11459 RCL* was filed in the United States District Court for the District of Massachusetts by a party identifying itself as one of our shareholders purporting to act on our behalf against our directors and certain of our present and former officers. We are also named as a nominal defendant. The complaint alleges violations of Section 10(b) of the Securities Exchange Act of

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1934 and Rule 10b-5, breaches of fiduciary duty, aiding and abetting breaches of fiduciary duty and unjust enrichment arising from the allegedly improper backdating of certain stock option grants. The complaint seeks monetary damages, restitution, disgorgement, rescission of stock options, punitive damages and other relief. On January 23, 2007, we moved to dismiss the *Arkansas Teacher Retirement System* complaint on the grounds that the Plaintiff failed to make a proper pre-filing demand upon our Board of Directors. This motion is pending.

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

Further, on March 28, 2007, an additional party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *White, Derivatively on Behalf Of Nominal Defendant Progress v. Progress Software Corporation et al., Civ 07-01172*. This complaint involves substantially the same defendants, allegations and demands for relief as the *Acuna* complaint described above.

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

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

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

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Form 10-Q, and other information provided by us or statements made by our directors, officers or employees from time to time, may contain forward-looking statements and information, which involve risks and uncertainties. Actual future results may differ materially. Statements indicating that we expect, estimate, believe, are planning or plan to are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors include those described in Part II, Item 1A of this Form 10-Q under the heading Risk Factors. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized. We also cannot assure you that we have identified all possible issues which we might face. We undertake no obligation to update any forward-looking statements that we make.

Overview

We develop, market and distribute software to simplify and accelerate the development, deployment, integration and management of business applications. Our mission is to deliver software products and services that empower partners and customers to improve their development, deployment, integration and management of quality applications worldwide. Our products include development tools, databases, application servers, messaging servers, application management tools, data connectivity products and integration products that enable the highly distributed

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deployment of responsive applications across internal networks, the Internet and occasionally-connected users. Through our various operating units, we market our products globally to a broad range of organizations in manufacturing, distribution, finance, retail, healthcare, telecommunications, government and many other fields. We derive a significant portion of our revenue from international operations. In the first half of fiscal 2006, the strengthening of the U.S. dollar against most major currencies, primarily the euro and the British pound, negatively affected the translation of our results into U.S. dollars. In the second half of fiscal 2006 and the first quarter of fiscal 2007, the weakening of the U.S. dollar against most major currencies, primarily the euro and the British pound, positively affected the translation of our results into U.S. dollars.

Critical Accounting Policies

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

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

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

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

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Goodwill and Intangible Assets We have goodwill and net intangible assets of approximately \$228 million at February 28, 2007. We assess the impairment of goodwill and identifiable intangible assets on an annual basis and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. We would record an impairment charge if such an assessment were to indicate that the fair value of such assets was less than the carrying value. Judgment is required in determining whether an event has occurred that may impair the value of goodwill or identifiable intangible assets. Factors that could indicate that an impairment may exist include significant underperformance relative to plan or long-term projections, changes in business strategy, significant negative industry or economic trends or a significant decline in our stock price or in the value of one of our reporting units for a sustained period of time. We utilize cash flow models to determine the fair value of our reporting units. We must make assumptions about future cash flows, future operating plans, discount rates and other factors in our models. Different assumptions and judgment determinations could yield different conclusions that would result in an impairment charge to income in the period that such change or determination was made.

Income Tax Accounting We have a net deferred tax asset of approximately \$30 million at February 28, 2007. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We consider scheduled reversals of temporary differences, projected future taxable income, ongoing tax planning strategies and other matters in assessing the need for and the amount of a valuation allowance. If we were to change our assumptions or otherwise determine that we were unable to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period that such change or determination was made. On a quarterly basis we provide for income taxes based on the estimated effective tax rate for the full fiscal year.

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

Table of Contents**Results of Operations**

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

| | Percentage of Total Revenue | | Period-to-Period Change |
|---|-----------------------------|------|-------------------------|
| | Three Months Ended Feb. 28, | | 2007 |
| | 2007 | 2006 | Compared to 2006 |
| Revenue: | | | |
| Software licenses | 39% | 41% | 5% |
| Maintenance and services | 61 | 59 | 15 |
| Total revenue | 100 | 100 | 11 |
| Costs of revenue: | | | |
| Cost of software licenses | 1 | 2 | (24) |
| Cost of maintenance and services | 14 | 14 | 14 |
| Amortization of acquired intangibles for purchased technology | 2 | 1 | 63 |
| Total costs of revenue | 17 | 17 | 14 |
| Gross profit | 83 | 83 | 10 |
| Operating expenses: | | | |
| Sales and marketing | 39 | 41 | 5 |
| Product development | 18 | 18 | 10 |
| General and administrative | 13 | 13 | 14 |
| Amortization of other acquired intangibles | 2 | 1 | 43 |
| Acquisition-related expenses | | 2 | (100) |
| Total operating expenses | 72 | 75 | 6 |
| Income from operations | 11 | 8 | 49 |
| Other (expense) income, net | 1 | 1 | 56 |
| Income before provision for income taxes | 12 | 9 | 50 |
| Provision for income taxes | 4 | 3 | 54 |
| Net income | 8% | 6% | 48% |

Revenue. Our total revenue increased 11% from \$103.9 million in the first quarter of fiscal 2006 to \$115.2 million in the first quarter of fiscal 2007. Total revenue would have increased by 6% if exchange rates had been constant in the first quarter of fiscal 2007 as compared to exchange rates in effect in the first quarter of fiscal 2006. In addition to the

positive effect of changes in exchange rates, each of our major product lines experienced growth in the first quarter of fiscal 2007.

Revenue from our Progress OpenEdge product line increased from \$76.0 million in the first quarter of fiscal 2006 to \$81.8 million in the first quarter of fiscal 2007. Revenue derived from our Enterprise Infrastructure product line increased 7% from \$16.1 million in the first quarter of fiscal 2006 to \$17.1 million in the first quarter of fiscal 2007. Revenue from our DataDirect product line increased 37% from \$11.9 million in the first quarter of fiscal 2006 to \$16.3 million in the first quarter of fiscal 2007. Approximately half of the increase in the DataDirect product line was attributable to Shadow products which were acquired as part of the NEON acquisition in the latter part of the first quarter of fiscal 2006.

Software license revenue increased 5% from \$42.8 million in the first quarter of fiscal 2006 to \$44.7 million in the first quarter of fiscal 2007. Software license revenue would have been flat if exchange rates had been constant in the first quarter of fiscal 2007 as compared to exchange rates in effect in the first quarter of fiscal 2006. The DataDirect and the Enterprise Infrastructure product lines accounted for 39% of software license revenue in each of the first

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quarters of fiscal 2007 and fiscal 2006. Software license revenue from direct end users increased in the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006. Software license revenue from the Progress OpenEdge product set increased year over year, primarily within the development and the database products.

Maintenance and services revenue increased 15% from \$61.1 million in the first quarter of fiscal 2006 to \$70.5 million in the first quarter of fiscal 2007. The increase in maintenance and services revenue was primarily the result of growth in our installed customer base, renewal of maintenance agreements and greater professional services revenue. Maintenance revenue increased 12% and professional services revenue increased 33% in the first quarter of fiscal 2007 as compared to the first quarter of fiscal 2006. Maintenance and services revenue would have increased by 10% if exchange rates had been constant in the first quarter of fiscal 2007 as compared to exchange rates in effect in the first quarter of fiscal 2006.

Total revenue generated in markets outside North America increased 13% from \$57.5 million in the first quarter of fiscal 2006 to \$65.0 million in the first quarter of fiscal 2007 and represented 55% of total revenue in the first quarter of fiscal 2006 and 56% of total revenue in the first quarter of fiscal 2007. Revenue from the Europe, Middle East and Africa region (EMEA), and the Asia Pacific region increased in fiscal 2007 as compared to fiscal 2006, while the Latin America region was essentially flat. Total revenue generated in markets outside North America would have represented 54% of total revenue if exchange rates had been constant in the first quarter of fiscal 2007 as compared to the exchange rates in effect in the first quarter of fiscal 2006.

Cost of Software Licenses. Cost of software licenses consists primarily of costs of product media, documentation, duplication, packaging, electronic software distribution, royalties and amortization of capitalized software costs. Cost of software licenses decreased 24% from \$2.2 million in the first quarter of fiscal 2006 to \$1.7 million in the first quarter of fiscal 2007, and decreased as a percentage of software license revenue from 5% to 4%. The dollar decrease for the first quarter was primarily due to lower royalty expense for products and technologies licensed or resold from third parties. Cost of software licenses as a percentage of software license revenue varies from period to period depending upon the relative product mix.

Cost of Maintenance and Services. Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services increased 14% from \$14.2 million in the first quarter of fiscal 2006 to \$16.3 million in the first quarter of fiscal 2007, and remained the same as a percentage of maintenance and services revenue at 23%. The total dollar amount in fiscal 2007 increased due to higher usage of third-party contractors for service engagements. Our technical support, education and consulting headcount decreased by 11% from the end of the first quarter of fiscal 2006 to the end of the first quarter of fiscal 2007.

Amortization of Acquired Intangibles for Purchased Technology. Amortization of acquired intangibles for purchased technology primarily represents the amortization of the value assigned to technology-related intangible assets obtained in business combinations. Amortization of acquired intangibles for purchased technology increased from \$1.5 million in the first quarter of fiscal 2006 to \$2.5 million in the first quarter of fiscal 2007. The increase was due to amortization expense associated with the acquisitions of NEON, Actional, Pantero and OpenAccess in fiscal 2006.

Gross Profit. Our gross profit increased 10% from \$86.0 million in the first quarter of fiscal 2006 to \$94.8 million in the first quarter of fiscal 2007. The gross profit percentage remained the same at 83% of total revenue in each of the first quarters of fiscal 2007 and fiscal 2006.

Sales and Marketing. Sales and marketing expenses increased 5% from \$42.6 million in the first quarter of fiscal 2006 to \$44.6 million in the first quarter of fiscal 2007, and decreased as a percentage of total revenue from 41% to 39%. The increase in sales and marketing expenses was due to higher average selling costs, partially offset by a decrease in marketing program expenses. Our sales and marketing headcount decreased by 3% from the end of the first quarter of fiscal 2006 to the end of the first quarter of fiscal 2007.

Product Development. Product development expenses increased 10% from \$18.9 million in the first quarter of fiscal 2006 to \$20.8 million in the first quarter of fiscal 2007, and remained the same as a percentage of revenue at 18%. The dollar increase was primarily due to expenses related to the development teams associated with the acquisitions

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of NEON and Actional which occurred at the end of the first quarter of fiscal 2006. Our product development headcount remained the same from the end of the first quarter of fiscal 2006 to the end of the first quarter of fiscal 2007.

General and Administrative. General and administrative expenses include the costs of our finance, human resources, legal, information systems and administrative departments. General and administrative expenses increased 14% from \$13.2 million in the first quarter of fiscal 2006 to \$15.0 million in the first quarter of fiscal 2007, and remained the same as a percentage of revenue at 13%. The dollar increase was primarily due to professional services fees related to the stock option review of \$1.7 million in the first quarter of fiscal 2007. Our administrative headcount decreased 6% from the end of the first quarter of fiscal 2006 to the end of the first quarter of fiscal 2007.

Amortization of Other Acquired Intangibles. Amortization of other acquired intangibles primarily represents the amortization of value assigned to non-technology-related intangible assets obtained in business combinations. Amortization of other acquired intangibles increased from \$1.4 million in the first quarter of fiscal 2006 to \$2.0 million in the first quarter of fiscal 2007. The increase was due to amortization expense associated with the acquisitions of NEON and Actional in the first quarter of fiscal 2006.

Acquisition-Related Expenses. Acquisition-related expenses for the first three months of fiscal 2006 include \$0.6 million of expenses for retention bonuses to Apama and EasyAsk employees who joined us in fiscal 2005 and \$0.9 million of in-process research and development from the acquisition of NEON, which was expensed when the acquisition was consummated because the technological feasibility of several products under development at the time of the acquisition had not been achieved and no alternate future uses had been established. Research and development costs to bring the acquired products to technological feasibility are not expected to have a material impact on our future results of operations or cash flows. The value of in-process research and development was determined based on an appraisal from an independent third party.

Income From Operations. Income from operations increased 49% from \$8.3 million in the first quarter of fiscal 2006 to \$12.4 million in the first quarter of fiscal 2007 and increased as a percentage of total revenue from 8% in the first quarter of fiscal 2006 to 11% in the first quarter of fiscal 2007.

Income from operations increased from \$27.7 million in the first quarter of fiscal 2006 to \$31.2 million in the first quarter of fiscal 2007 in our OpenEdge segment, which primarily includes OED and the EasyAsk Division. Losses from operations decreased from \$6.8 million in the first quarter of fiscal 2006 to \$6.6 million in the first quarter of fiscal 2007 in our Enterprise Infrastructure segment. Income from operations increased from \$0.8 million in the first quarter of fiscal 2006 to \$1.5 million in the first quarter of fiscal 2007 in our DataDirect segment. See Note 9 to the accompanying condensed consolidated financial statements for a reconciliation of income from operations for each segment to consolidated income from operations.

Other Income. Other income increased 56% from \$0.7 million in the first quarter of fiscal 2006 to \$1.1 million in the first quarter of fiscal 2007. The increase was primarily due to an increase in interest income resulting from slightly higher interest rates, higher average cash and short-term investment balances and lower foreign exchange losses.

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

Liquidity and Capital Resources

At the end of the first quarter of fiscal 2007, our cash and short-term investments totaled \$233.8 million. The decrease of \$7.5 million since the end of fiscal 2006 resulted primarily from common stock repurchases partially offset by an increase in cash generated from operations.

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We generated \$12.3 million in cash from operations in the first three months of fiscal 2007 as compared to \$5.8 million in the first three months of fiscal 2006. The increase in cash generated from operations in the first quarter of fiscal 2007 over the first quarter of fiscal 2006 was primarily due to increased profitability and a lower reduction from working capital uses.

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

(In thousands)

| | Three Months Ended Feb. 28, | |
|--|--------------------------------|-----------------|
| | 2007 | 2006 |
| Net income | \$ 8,738 | \$ 5,909 |
| Depreciation, amortization and other noncash charges | 12,022 | 11,878 |
| Tax benefit from stock plans | 77 | 504 |
| Changes in operating assets and liabilities | (8,587) | (12,490) |
| Total | \$ 12,250 | \$ 5,801 |

Accounts receivable increased by \$8.9 million from the end of fiscal 2006. Accounts receivable days sales outstanding, or DSO, increased by 11 days to 72 days at the end of the first quarter of fiscal 2007 as compared to 61 days at the end of fiscal 2006 and increased by 5 days from 67 days at the end of the first quarter of fiscal 2006. The increase in DSO is primarily related to the impact of maintenance renewal billings, as the first quarter of each fiscal year typically has the highest portion of such billings relative to the full year and to the impact of assuming opening accounts receivable balances from recent acquisitions. We target a DSO range of 60 to 80 days.

We purchased property and equipment totaling \$6.1 million in the first three months of fiscal 2007 as compared to \$4.9 million in the first three months of fiscal 2006. The purchases consisted primarily of computer equipment and software and building and leasehold improvements. The increase primarily related to costs associated with our ongoing ERP implementation.

In September 2006, the Board of Directors authorized, for the period from October 1, 2006 through September 30, 2007, the purchase of up to 10,000,000 shares of our common stock, at such times that we deem such purchases to be an effective use of cash. We purchased and retired approximately 695,000 shares of our common stock for \$19.2 million in the first three months of fiscal 2007 as compared to approximately 119,000 shares of our common stock for \$3.4 million in the first three months of fiscal 2006.

We received \$5.7 million in the first three months of fiscal 2007 from the exercise of stock options and the issuance of ESPP shares as compared to \$4.2 million in the first three months of fiscal 2006.

We believe that existing cash balances together with funds generated from operations will be sufficient to finance our operations and meet our foreseeable cash requirements (including planned capital expenditures, lease commitments, debt payments, potential cash acquisitions and other long-term obligations) through at least the next twelve months.

Revenue Backlog Our aggregate revenue backlog at February 28, 2007 was approximately \$171 million of which \$146 million was included on our balance sheet as deferred revenue, primarily related to unexpired maintenance and support contracts. At February 28, 2007, the remaining amount of backlog of approximately \$25 million was composed of multi-year licensing arrangements of approximately \$23 million and open software license orders received but not shipped of approximately \$2 million. Our backlog of orders not included on the balance sheet is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements.

Our aggregate revenue backlog at February 28, 2006 was approximately \$148 million of which \$131 million was included on our balance sheet as deferred revenue, primarily related to unexpired maintenance and support contracts. At February 28, 2006, the remaining amount of backlog of approximately \$17 million was composed of multi-year licensing arrangements of approximately \$15 million and open software license orders received but not shipped of

approximately \$2 million.

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We typically fulfill most of our software license orders within 30 days of acceptance of a purchase order. Assuming all other revenue recognition criteria have been met, we recognize software license revenue upon shipment of the product, or if delivered electronically, when the customer has the right to access the software. Because there are many elements governing when revenue is recognized, including when orders are shipped, credit approval, completion of internal control processes over revenue recognition and other factors, management has some control in determining the period in which certain revenue is recognized. We frequently have open software license orders at the end of the quarter which have not shipped or have otherwise not met all the required criteria for revenue recognition. Although the amount of open software license orders may vary at any time, we generally do not believe that the amount, if any, of such software license orders at the end of a particular quarter is a reliable indicator of future performance. In addition, there is no industry standard for the definition of backlog and there may be an element of estimation in determining the amount. As such, direct comparisons with other companies may be difficult or potentially misleading.

Guarantees and Indemnification Obligations

We include standard intellectual property indemnification provisions in our licensing agreements in the ordinary course of business. Pursuant to our product license agreements, we will indemnify, hold harmless, and agree to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally business partners or customers, in connection with certain patent, copyright or other intellectual property infringement claims by third parties with respect to our products. Other agreements with our customers provide indemnification for claims relating to property damage or personal injury resulting from the performance of services by us or our subcontractors. Historically, our costs to defend lawsuits or settle claims relating to such indemnity agreements have been insignificant. Accordingly, the estimated fair value of these indemnification provisions is immaterial.

Legal and Other Regulatory Matters

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

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

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

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among other forms of relief. A Special Litigation Committee formed by our board of directors to investigate and determine the Company's response to the complaint has moved to stay the action, while the investigation is ongoing. Further, on March 28, 2007, an additional party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *White, Derivatively on Behalf Of Nominal Defendant Progress v. Progress Software Corporation et al.*, Civ 07-01172. This complaint involves substantially the same defendants, allegations and demands for relief as the *Acuna* complaint described above.

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

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

Off-Balance Sheet Arrangements

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

New Accounting Pronouncements

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

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

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

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

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

Exposure to market risk for changes in interest rates relates to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. We seek to place our investments with high-quality issuers and have policies limiting, among other things, the amount of credit exposure to any one issuer. We seek to limit default risk by purchasing only investment-grade securities. Our investments have an average remaining maturity of less than two years and are primarily fixed-rate instruments. In addition, we have classified all of our debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk if such investments are held until their maturity date. Based on a hypothetical 10% adverse movement in interest rates, the potential losses in future earnings, fair value of risk-sensitive instruments and cash flows are immaterial.

We enter into foreign exchange option and forward contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific) against fluctuations in exchange rates. We have not entered into foreign exchange option and forward contracts for speculative or trading purposes. We recognize market value increases and decreases on the foreign exchange option and forward contracts in income each period. We operate in certain countries where there are limited forward currency exchange markets and thus we have unhedged transaction exposures in these currencies. There were approximately \$111.1 million of outstanding foreign exchange option contracts at February 28, 2007. Major U.S. multinational banks are counterparties to the option contracts. We also hedge net intercompany balances. We generally do not hedge the net assets of our international subsidiaries. The foreign exchange exposure from a 10% movement of currency exchange rates would have a material impact on our revenue and net income. Based on a hypothetical 10% adverse movement in all foreign currency exchange rates, our revenue would be adversely affected by approximately 6% and our net income would be adversely affected by approximately 20% (excluding any offsetting positive impact from our ongoing hedging programs), although the actual effects may differ materially from the hypothetical analysis.

The table below details outstanding forward contracts, which mature in ninety days or less, at February 28, 2007 where the notional amount is determined using contract exchange rates:

(In thousands)

| Functional Currency: | Exchange Foreign Currency For U.S. Dollars (Notional Amount) | Exchange U.S. Dollars For Foreign Currency (Notional Amount) | Notional Weighted Average Exchange Rate* |
|----------------------|--|---|--|
| Australian dollar | | \$ 3,811 | 1.26 |
| Brazilian real | \$ 1,867 | | 2.14 |
| Euro | | 34,656 | 0.75 |
| Japanese yen | 3,895 | | 118.09 |
| South African rand | 193 | | 7.26 |
| U.K. pound | | 25,518 | 0.51 |
| | \$ 5,955 | \$ 63,985 | |

* expressed as
local currency
unit per U.S.

dollar

Item 4. Controls and Procedures

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

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(b) *Changes in internal control over financial reporting.* No changes in our internal control over financial reporting occurred during the quarter ended February 28, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

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

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

Further, on March 28, 2007, an additional party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *White, Derivatively on Behalf Of Nominal Defendant Progress v. Progress Software Corporation et al., Civ 07-01172*. This complaint involves substantially the same defendants, allegations and demands for relief as the *Acuna* complaint described above.

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

We are subject to various other legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these other claims cannot be predicted with certainty,

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management does not believe that the outcome of any of these other legal matters will have a material adverse effect on our consolidated financial position or results of operations.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves certain risks and uncertainties, some of which are beyond our control. The following discussion highlights some of these risks.

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

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

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

Further, on March 28, 2007, an additional party identifying itself as one of our shareholders purporting to act on our behalf filed a derivative complaint styled *White, Derivatively on Behalf Of Nominal Defendant Progress v. Progress Software Corporation et al.*, Civ 07-01172. This complaint involves substantially the same defendants, allegations and demands for relief as the *Acuna* complaint described above.

The ultimate outcome of these complaints could have a material adverse effect on our results of operations. We expect to incur additional legal expenses arising from the derivative actions, which may be significant, including the advancement of legal expenses to our directors and officers in connection with the derivative actions. This and any other litigation may divert the attention of our management, which could impair our ability to operate our business. We have certain indemnification obligations to our directors and officers, and the outcome of the derivative or any

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other litigation may require that we indemnify some or all of our directors and officers for expenses they may incur in defending the litigation and other losses.

We amended our Annual Report on Form 10-K for the year ended November 30, 2005 and included in that filing, among other things, restated financial statements for the years ended November 30, 2005, 2004 and 2003 and restated selected financial data for each of the five years in the period November 30, 2005. We similarly restated our quarterly reports on Form 10-Q for 2005 and the three months ended February 28, 2006 to restate the financial statements in that filing. These restatements may lead to new litigation, may strengthen and expand the claims in the pending litigation, and may increase the cost of defending or resolving the current litigation.

Our revenue and quarterly results may fluctuate, which could adversely affect our stock price. We have experienced, and may in the future experience, significant fluctuations in our quarterly operating results that may be caused by many factors. These factors include:

changes in demand for our products;

introduction, enhancement or announcement of products by us or our competitors;

market acceptance of our new products;

the growth rates of certain market segments in which we compete;

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;

the amount of our stock-based compensation;

changes in our sales incentive plans;

completion or announcement of acquisitions by us or competitors;

customer order deferrals in anticipation of new products announced by us or our competitors; and

general economic conditions in regions in which we conduct business.

Revenue forecasting is uncertain, in large part, because we generally ship our products shortly after receipt of orders. Most of our expenses are relatively fixed, including costs of personnel and facilities, and are not easily reduced. Thus, an unexpected reduction in our revenue, or failure to achieve the anticipated rate of growth, would have a material adverse effect on our profitability. If our operating results do not meet our publicly stated guidance, if any, or the expectations of investors, our stock price may decline.

Our international operations expose us to additional risks, and changes in global economic and political conditions could adversely affect our international operations, our revenue and our net income. We typically generate between

55% and 60% of our total revenue from sales outside North America. Political instability, oil price shocks and armed conflict in various regions of the world can lead to economic uncertainty and may adversely influence our business. If customers' buying patterns, such as decision-making processes, timing of expected deliveries and timing of new projects, unfavorably change due to economic or political conditions, there will be a material adverse effect on our business, financial condition and operating results. Other potential risks inherent in our international business 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

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world;

economic instability in emerging markets; and

potentially adverse tax consequences.

Any one or more of these factors could have a material adverse effect on our international operations, and, consequently, on our business, financial condition and operating results.

Fluctuations in foreign currency exchange rates could continue to have an adverse impact on our financial condition and results of operations. Because a majority of our total revenue is derived from international operations that are primarily conducted in foreign currencies, changes in the value of these foreign currencies relative to the U.S. dollar may adversely affect our results of operations and financial position. We seek to reduce our exposure to fluctuations in foreign currency exchange rates by entering into foreign exchange option and forward contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific). Our currency hedging transactions may not be effective in reducing any adverse impact of fluctuations in foreign currency exchange rates. Further, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, our business could be adversely affected.

Technology and customer requirements evolve rapidly in our industry, and if we do not continue to develop new products and enhance our existing products in response to these changes, our business could be harmed. Ongoing enhancements to our product sets will be required to enable us to maintain our competitive position. We may not be successful in developing and marketing enhancements to our products on a timely basis, and any enhancements we develop may not adequately address the changing needs of the marketplace. Overlaying the risks associated with our existing products and enhancements are ongoing technological developments and rapid changes in customer requirements. Our future success will depend upon our ability to develop and introduce in a timely manner new products that take advantage of technological advances and respond to new customer requirements. The development of new products is increasingly complex and uncertain, which increases the risk of delays. We may not be successful in developing new products incorporating new technology on a timely basis, and any new products may not adequately address the changing needs of the marketplace. Failure to develop new products and product enhancements that meet market needs in a timely manner could have a material adverse effect on our business, financial condition and operating results.

We are substantially dependent on our core product, Progress OpenEdge. We derive a significant portion of our revenue from software license and maintenance revenue attributable to our core product line, Progress OpenEdge, and other products that complement OpenEdge and are generally licensed only in conjunction with OpenEdge. Accordingly, our future results depend on continued market acceptance of OpenEdge, and any factor adversely affecting the market for OpenEdge could have a material adverse effect on our business, financial condition and operating results.

Higher costs associated with some of our newer products could adversely affect our operating margins. Some of our newer products, such as the Enterprise Infrastructure product sets, require a higher level of development, distribution and support expenditures, on a percentage of revenue basis, than the OpenEdge or DataDirect product lines. If revenue generated from these products grows as a percentage of our total revenue and if the expenses associated with these products do not decrease on a percentage of revenue basis, then our operating margins will be adversely affected.

We may make acquisitions or investments in new businesses, products or technologies that involve additional risks, which could disrupt our business or harm our financial condition or results of operations. As part of our business strategy, we have made, and expect to continue to make, acquisitions of businesses or investments in companies that offer complementary products, services and technologies, such as the acquisitions of DataDirect and Persistence in fiscal 2004, Apama and EasyAsk in fiscal 2005 and the acquisitions of Actional, NEON, Pantero and OpenAccess in fiscal 2006. These acquisitions involve a number of risks, including the risks of assimilating the operations and personnel of acquired companies, realizing the value of the acquired assets relative to the price paid, distraction of management from our ongoing businesses and potential product disruptions associated with the sale of the acquired

company's products. These factors could have a material adverse effect on our business, financial condition and operating results. As in the Actional acquisition, consideration paid for any future acquisitions could

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include our stock. As a result, future acquisitions could cause dilution to existing shareholders and to earnings per share.

We recognize a substantial portion of our revenue from sales made through third parties, including our application partners and original equipment manufacturers (OEMs), and adverse developments in the businesses of these third parties or in our relationships with them could harm our revenues and results of operations. Our future results depend upon our continued successful distribution of our products through our application partner and OEM channels. Application partners utilize our technology to create their applications and resell our products along with their own applications. OEMs embed our products within their software products or technology devices. The activities of these third parties are not within our direct control. Our failure to manage our relationships with these third parties effectively could impair the effectiveness of our sales, marketing and support activities. A reduction in the sales efforts, technical capabilities or financial viability of these parties, a misalignment of interest between us and them, or a termination of our relationship with a major application partner or OEM could have a negative effect on our sales and financial results. Any adverse effect on the application partners or OEMs businesses related to competition, pricing and other factors could also have a material adverse effect on our business, financial condition and operating results.

The segments of the software industry in which we participate are intensely competitive, and our inability to compete effectively would harm our business. We experience significant competition from a variety of sources with respect to the marketing and distribution of our products. Many of our competitors have greater financial, marketing or technical resources than we do 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 we can. Increased competition could make it more difficult for us to maintain our market presence or lead to downward pricing pressure. The marketplace for new products is intensely competitive and characterized by low barriers to entry. As a result, new competitors possessing technological, marketing or other competitive advantages may emerge and rapidly acquire market share.

In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their ability to deliver products that better address the needs of our prospective customers. Current and potential competitors also may be more successful than we are in having their products or technologies widely accepted. We may be unable to compete successfully against current and future competitors, and our failure to do so could have a material adverse effect on our business, prospects, financial condition and operating results.

The market for enterprise integration and messaging products and services is rapidly evolving and highly competitive, and failure of our SonicESB and other enterprise infrastructure products to achieve and maintain market acceptance could harm our business. We are currently developing and enhancing the Sonic product set and other related new products and services. The market for enterprise application integration, Web services, messaging products and other Internet business-to-business products is highly competitive. Many potential customers have made significant investments in proprietary or internally developed systems and would incur significant costs in switching to the Sonic product set or other third-party products. Global e-commerce and online exchange of information on the Internet and other similar open wide area networks continue to evolve. If our Sonic products are not successful in penetrating these evolving markets, our results of operations will be adversely affected.

The market for enterprise software products and services in which our Apama division participates is rapidly evolving and highly competitive, and failure of our Apama products to achieve and maintain market acceptance could harm our business. We are currently developing and enhancing the Apama product set and other related new products and services. The market for event processing business-to-business products is highly competitive, and continues to evolve rapidly. If our Apama products are not successful in penetrating these evolving markets, our results of operations will be adversely affected.

We rely on the experience and expertise of our skilled employees, and must continue to attract and retain qualified technical, marketing and managerial personnel in order to succeed. Our future success will depend in a large part upon our ability to attract and retain highly skilled technical, managerial and marketing personnel. There is significant competition for such personnel in the software industry. We may not continue to be successful in

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attracting and retaining the personnel we require to develop new and enhanced products and to continue to grow and operate profitably.

Our success is dependent upon our proprietary software technology, and our inability to protect it would harm our business. We rely principally on a combination of contract provisions and copyright, trademark, patent and trade secret laws to protect our proprietary technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult. The steps we take to protect our proprietary rights may be inadequate to prevent misappropriation of our technology; moreover, others could independently develop similar technology.

We could be subject to claims that we infringe intellectual property rights of others, or incur substantial cost in protecting our own technology, either of which could harm our business, financial condition or results of operations. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement. Third parties could assert infringement claims in the future with respect to our products and technology, and such claims might be successful. Such litigation could result in substantial costs and diversion of resources, whether or not we ultimately prevail on the merits. Such litigation could also lead to our being prohibited from selling one or more of our products, cause reluctance by potential customers to purchase our products, or result in liability to our customers and could have a material adverse effect on our business, financial condition and operating results.

The loss of technology licensed from third parties could adversely affect our ability to deliver our products. We utilize certain technology that we license from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. This technology, or functionally similar technology, may not continue to be available on commercially reasonable terms in the future, or at all. The loss of any significant third-party technology license could cause delays in our ability to deliver our products or services until equivalent technology is developed internally or equivalent third-party technology, if available, is identified, licensed and integrated.

Our common stock price may continue to be volatile, which could result in losses for investors. The market price of our 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 us or our competitors, changes in financial estimates by securities analysts or other events or factors. Our stock price may also be affected by broader market trends unrelated to our performance. As a result, purchasers of our common stock may be unable at any given time to sell their shares at or above the price they paid for them.

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

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

(c) Stock Repurchases

(In thousands, except per share data)

| Period: | Total Number Of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans Or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2) |
|----------------------------|---|---------------------------------------|--|--|
| Dec. 1, 2006 Dec. 31, 2006 | 20 | \$ 28.13 | 20 | 9,980 |
| Jan. 1, 2007 Jan. 31, 2007 | 606 | \$ 27.59 | 606 | 9,374 |
| Feb. 1, 2007 Feb. 28, 2007 | 69 | \$ 28.33 | 69 | 9,305 |
| Total | 695 | \$ 27.68 | 695 | 9,305 |

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

(2) In September 2006, the Board of Directors authorized, for the period from October 1, 2006 through September 30, 2007, the purchase of up to 10,000,000 shares of our common stock.

Item 6. Exhibits

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

Exhibit No. Description

10.1 Employee Retention and Motivation Agreement, amended and restated as of March 22, 2007, executed by Norman R. Robertson

- 10.2 Employee Retention and Motivation Agreement, amended and restated as of March 22, 2007, executed by James D. Freedman
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Joseph W. Alsop
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act Norman R. Robertson
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

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SIGNATURES

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

PROGRESS SOFTWARE CORPORATION

(Registrant)

Dated: April 9, 2007

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

Dated: April 9, 2007

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

Dated: April 9, 2007

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