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

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**FORM 10-Q**

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(Mark One)

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

**For the Quarterly Period Ended May 31, 2007**

OR

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

Commission File Number: 0-19417

**PROGRESS SOFTWARE CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

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

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

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**PROGRESS SOFTWARE CORPORATION**  
**FORM 10-Q**  
**FOR THE THREE MONTHS ENDED MAY 31, 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)*

	May 31, 2007	November 30, 2006
<b>Assets</b>		
<b>Current assets:</b>		
Cash and equivalents	\$ 48,407	\$ 46,449
Short-term investments	222,370	194,866
Total cash and short-term investments	270,777	241,315
Accounts receivable, net	84,415	82,762
Other current assets	20,107	17,943
Deferred income taxes	19,780	18,119
Total current assets	395,079	360,139
Property and equipment, net	60,239	57,585
Acquired intangible assets, net	66,230	75,069
Goodwill	157,632	157,858
Deferred income taxes	13,509	14,153
Other assets	5,056	5,435
Total	\$ 697,745	\$ 670,239
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Current portion, long-term debt	\$ 292	\$ 281
Accounts payable	12,332	15,034
Accrued compensation and related taxes	37,277	48,398
Income taxes payable	7,467	6,316
Other accrued liabilities	22,229	23,166
Short-term deferred revenue	133,237	120,974
Total current liabilities	212,834	214,169
Long-term debt, less current portion	1,508	1,657
Long-term deferred revenue	8,565	6,355
Other non-current liabilities	3,714	3,494
<b>Commitments and contingencies</b>		
<b>Shareholders' equity:</b>		
Common stock and additional paid-in capital; authorized, 100,000 shares; issued and outstanding, 41,479 shares in 2007 and 41,177 shares in 2006	213,631	197,748
Retained earnings, including accumulated other comprehensive gains of \$2,290 in 2007 and \$1,106 in 2006	257,493	246,816
Total shareholders' equity	471,124	444,564
Total	\$ 697,745	\$ 670,239

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	May 31, 2007	May 31, 2006	May 31, 2007	May 31, 2006
<b>Revenue:</b>				
Software licenses	\$ 44,555	\$ 41,357	\$ 89,284	\$ 84,137
Maintenance and services	75,087	68,229	145,587	129,370
Total revenue	119,642	109,586	234,871	213,507
<b>Costs of revenue:</b>				
Cost of software licenses	1,880	1,817	3,552	4,027
Cost of maintenance and services	16,871	15,125	33,133	29,356
Amortization of acquired intangibles for purchased technology	2,493	1,993	4,984	3,517
Total costs of revenue	21,244	18,935	41,669	36,900
Gross profit	98,398	90,651	193,202	176,607
<b>Operating expenses:</b>				
Sales and marketing	45,745	44,983	90,390	87,627
Product development	20,389	19,346	41,184	38,273
General and administrative	19,029	13,034	34,060	26,232
Amortization of other acquired intangibles	1,946	1,984	3,926	3,367
Acquisition-related expenses	—	297	—	1,831
Total operating expenses	87,109	79,644	169,560	157,330
Income from operations	11,289	11,007	23,642	19,277
<b>Other income (expense):</b>				
Interest income and other	2,331	1,711	4,249	3,506
Foreign currency loss	(710)	(1,193)	(1,538)	(2,291)
Total other income, net	1,621	518	2,711	1,215
Income before provision for income taxes	12,910	11,525	26,353	20,492
Provision for income taxes	4,519	3,807	9,224	6,865
Net income	\$ 8,391	\$ 7,718	\$ 17,129	\$ 13,627
<b>Earnings per share:</b>				
Basic	\$ 0.20	\$ 0.19	\$ 0.42	\$ 0.33
Diluted	\$ 0.19	\$ 0.18	\$ 0.39	\$ 0.31
<b>Weighted average shares outstanding:</b>				
Basic	41,178	41,062	41,123	40,781
Diluted	43,636	43,473	43,537	43,265

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended May 31,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 17,129	\$ 13,627
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization of property and equipment	4,849	4,313
Write-down for asset impairment	2,388	—
Amortization of capitalized software costs	87	87
Amortization of acquired intangible assets	8,910	6,884
Stock-based compensation	12,408	11,767
Deferred income taxes	(1,477)	(2,239)
Tax benefit from stock options	230	974
In-process research and development	—	900
<b>Changes in operating assets and liabilities, net of effects from acquisitions:</b>		
Accounts receivable, net	(925)	3,139
Other current assets	(879)	(2,538)
Accounts payable and accrued expenses	(17,927)	(22,400)
Income taxes payable	1,178	4,549
Deferred revenue	13,047	13,523
Net cash provided by operating activities	39,018	32,586
<b>Cash flows from investing activities:</b>		
Purchases of investments available for sale	(108,061)	(172,463)
Sales and maturities of investments available for sale	80,557	220,429
Purchases of property and equipment	(9,622)	(9,161)
Acquisitions, net of cash acquired	—	(66,438)
Decrease (increase) in other non-current assets	(827)	205
Net cash used for investing activities	(37,953)	(27,428)
<b>Cash flows from financing activities:</b>		
Issuance of common stock	17,359	10,158
Excess tax benefit from stock options	1,039	843
Payment of long-term debt	(138)	(127)
Repurchase of common stock	(19,529)	(12,678)
Net cash used for financing activities	(1,269)	(1,804)
Effect of exchange rate changes on cash	2,162	4,857
Net increase in cash and equivalents	1,958	8,211
Cash and equivalents, beginning of period	46,449	40,398
Cash and equivalents, end of period	\$ 48,407	\$ 48,609

See notes to unaudited condensed consolidated financial statements.

## Notes to Unaudited Condensed Consolidated Financial Statements

### Note 1: Basis of Presentation

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

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

### Note 2: Revenue Recognition

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

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

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

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

### New Accounting Pronouncements

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

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

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

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

### **Note 3: Earnings Per Share**

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

*(In thousands, except per share data)*

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

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

### **Note 4: Stock-based Compensation**

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



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

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

(In thousands)

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

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

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

### **Note 5: Income Taxes**

We provide for income taxes during interim periods based on the estimated effective tax rate for the full fiscal year. We record cumulative adjustments to the tax provision in an interim period in which a change in the estimated annual effective rate is determined. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We have not provided for U.S. income taxes on the undistributed earnings of non-U.S. subsidiaries, as these earnings have been permanently reinvested or would be principally offset by foreign tax credits.

**Note 6: Comprehensive Income**

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

(In thousands)

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

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

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

**Note 8: Goodwill**

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

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

**Note 9: Segment Information**

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

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

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

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

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

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

(In thousands)

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

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

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

(In thousands)

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

### **Note 10: Contingencies**

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

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

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

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

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

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

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

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

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

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Form 10-Q, and other information provided by us or statements made by our directors, officers or employees from time to time, may contain "forward-looking" statements and information, which involve risks and uncertainties. Actual future results may differ materially. Statements indicating that we "expect," "estimate," "believe," "are planning" or "plan to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors include those described in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors." Although we have sought to identify the most significant risks to our business, we cannot predict whether,

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

### **Overview**

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

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

### **Critical Accounting Policies**

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

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

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

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

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

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

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

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

*Revenue.* Our total revenue increased 9% from \$109.6 million in the second quarter of fiscal 2006 to \$119.6 million in the second quarter of fiscal 2007. Total revenue would have increased by 5% if exchange rates had been constant in the second quarter of fiscal 2007 as compared to exchange rates in effect in the second quarter of fiscal 2006. Total revenue increased 10% from \$213.5 million in the first six months of fiscal 2006 to \$234.9 million in the first six months of fiscal 2007. Total revenue would have increased by 5% if exchange rates had been constant in the first six months of fiscal 2007 as compared to exchange rates in effect in the first six months of fiscal 2007. In addition to the positive effect of changes in exchange rates, each of our major product lines experienced growth in the first six months of fiscal 2007.

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

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

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

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

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

*Cost of Software Licenses.* Cost of software licenses consists primarily of costs of product media, documentation, duplication, packaging, electronic software distribution, royalties and amortization of capitalized software costs. Cost of software licenses increased 3% from \$1.8 million in the second quarter of fiscal 2006 to \$1.9 million in the second quarter of fiscal 2007, and remained the same as a percentage of software license revenue at 4%. The dollar increase for the second quarter was primarily due to a slight increase in royalty expense for products and technologies licensed or resold from third parties. Cost of software licenses decreased 12% from \$4.0 million in the first six months of fiscal 2006 to \$3.6 million in the first six months of fiscal 2007, and decreased as a percentage of software licenses revenue from 5% in the first six months of fiscal 2006 to 4% in the first six months of fiscal 2007. The dollar decrease in the first six months of fiscal 2007 compared to the first six months of fiscal 2006 was primarily due to a decrease in royalty expense for products and technologies licensed or resold from third parties. Cost of software licenses as a percentage of software license revenue may vary from period to period depending upon the relative product mix.

*Cost of Maintenance and Services.* Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services increased 12% from \$15.1 million in the second quarter of fiscal 2006 to \$16.9 million in the second quarter of fiscal 2007, and remained the same as a percentage of maintenance and services revenue at 22%. Cost of maintenance and services increased 13% from \$29.4 million in the first six months of fiscal 2006 to \$33.1 million in the first six months of fiscal 2007, and



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

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

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

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

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

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

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

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

*Acquisition-Related Expenses.* Acquisition-related expenses for the second quarter of fiscal 2006 include \$0.3 million of expenses for retention bonuses to Apama and EasyAsk employees who joined us in fiscal 2005. Acquisition-related expenses for the first six months of fiscal 2006 totaled \$1.8 million and include \$0.9 million of expenses for retention bonuses to Apama and EasyAsk employees who joined us in fiscal 2005 and \$0.9 million of in-process research and development from the acquisition of NEON, which was expensed when the acquisition was consummated because the technological feasibility of several products under development at the time of the acquisition had not been achieved and no alternate future uses had been established. Research and development costs to bring the acquired products to technological feasibility are not expected to have a material impact on our future results of operations or cash flows. The value of in-process research and development was determined based on an appraisal from an independent third party.

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

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

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

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

### **Liquidity and Capital Resources**

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

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

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

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

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

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

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

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

We received \$17.4 million in the first six months of fiscal 2007 from the exercise of stock options and the issuance of shares under our Employee Stock Purchase Plan as compared to \$10.2 million in the first six months of fiscal 2006.

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

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

Our aggregate revenue backlog at May 31, 2006 was approximately \$154 million of which \$131 million was included on our balance sheet as deferred revenue, primarily related to unexpired maintenance and support contracts. At May 31, 2006, the remaining amount of backlog of approximately \$23 million was composed of multi-year licensing arrangements of approximately \$17 million and open software license orders received but not shipped of approximately \$6 million.

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

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

### **Guarantees and Indemnification Obligations**

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

### **Legal and Other Regulatory Matters**

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

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

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

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

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

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

### **Off-Balance Sheet Arrangements**

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

### **New Accounting Pronouncements**

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

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

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

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

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

The table below details outstanding forward contracts, which mature in ninety days or less, at May 31, 2007 where the notional amount is determined using contract exchange rates:

(In thousands)

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

\* expressed as local currency unit per U.S. dollar

**Item 4. Controls and Procedures**

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

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

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

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

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

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

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

### Item 1A. Risk Factors

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

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

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

(c) Stock Repurchases

(In thousands, except per share data)

Period:	Total 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)
Mar. 1, 2007 – Mar. 31, 2007	10	\$ 27.82	10	9,295
Apr. 1, 2007 – Apr. 30, 2007	—	—	—	9,295
May 1, 2007 – May 31, 2007	—	—	—	9,295
Total	10	\$ 27.82	10	9,295

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

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

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

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

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

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

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

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



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

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

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Vote</u>
30,868,592	1,826,882	39,010	4,656,782

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

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Vote</u>
29,337,120	3,354,272	43,092	4,656,782

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

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Vote</u>
14,686,920	17,975,685	71,879	4,656,782

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### Item 6. Exhibits

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

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

**SIGNATURES**

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

**PROGRESS SOFTWARE CORPORATION**

(Registrant)

Dated: July 10, 2007

/s/ Joseph W. Alsop

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

Dated: July 10, 2007

/s/ Norman R. Robertson

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

Dated: July 10, 2007

/s/ David H. Benton, Jr.

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

EMPLOYEE RETENTION AND MOTIVATION AGREEMENT  
(AMENDED AND RESTATED AS OF MARCH 22, 2007)

This agreement (the "Agreement") is effective as of April 27, 2007 (the "Agreement Date") by and between Gordon Van Huizen (the "Covered Person") and Progress Software Corporation, a Massachusetts corporation (the "Company").

RECITALS

A. The Covered Person presently serves as an employee or officer of the Company in a role that is important to the continued conduct of the Company's business and operations.

B. The Board of Directors of the Company (the "Board") has determined that it is in the best interest of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Covered Person, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company.

C. The Board believes that it is imperative to provide the Covered Person with certain benefits following a Change of Control and certain severance benefits upon the Covered Person's termination of employment following a Change in Control.

D. In order to accomplish the foregoing objectives, the Board has directed the Company, upon execution of the Agreement by the Covered Person, to commit to the terms provided herein.

E. The Covered Party accepts the terms of the Agreement.

F. Certain capitalized terms used in this Agreement are defined in Section 4 below.

In consideration of the mutual covenants herein contained and in consideration of the continuing employment of the Covered Person by the Company, the parties agree as follows:

1. Term of Employment The Company and the Covered Person acknowledge that the Covered Person's employment is at will, as defined under applicable law, except as may otherwise be provided under the terms of any written employment agreement between the Company and the Covered Person, that is signed on behalf of the Company now or hereafter in effect. If the Covered Person's employment terminates for any reason, the Covered Person shall not be entitled to any payments, benefits, damages, awards or compensation (collectively, "recompense") other than the maximum recompense as provided by one of the following: (i) this Agreement, or (ii) any written employment agreement then in effect between the Covered Person and the Company, or (iii) the Company's existing severance guidelines and benefit plans which are in effect at the time of termination, or (iv) applicable statutory provisions. The provisions of this Agreement shall terminate upon the earlier of (i) the date that all obligations of the parties hereunder have been satisfied, or (ii) five years after the Agreement Date; provided, however, that the term of the provisions of this Agreement may be extended by written resolutions adopted by the Board. A termination of the provisions of this Agreement pursuant to the preceding sentence shall be effective for all purposes, except that such termination shall not

affect the payment or provision of compensation or benefits on account of termination of employment occurring prior to the termination of the provisions of this Agreement.

## 2. Benefits Immediately Following Change of Control

(a) Treatment of Outstanding Options and Restricted Equity Effective immediately upon a Change of Control, unless the outstanding stock options and shares of restricted equity held by the Covered Person under the Company's stock option plans on the date of the Change of Control are continued by the Company or assumed by its successor entity, all outstanding stock options held by the Covered Person shall accelerate and become fully exercisable, and all shares of restricted equity held by the Covered Person shall become nonforfeitable and all restrictions shall lapse. If such outstanding options and shares of restricted equity held by the Covered Person are continued by the Company or assumed by its successor entity, then vesting shall continue in its usual course.

(b) Payment of Management Bonus Effective immediately upon a Change of Control, the Covered Person's annual management bonus shall be fixed at the Covered Person's target bonus level as in effect immediately prior to the Change of Control and the Covered Person shall be paid a pro-rated portion of such bonus, as of the date of the Change of Control. Any payment to which the Covered Person is entitled pursuant to this section shall be paid in a lump sum within thirty (30) days of the event requiring such payment.

## 3. Severance Benefits

(a) Termination Following a Change of Control If the Covered Person's employment terminates after a Change of Control, then, subject to Section 5 below, the Covered Person shall be entitled to receive severance benefits as follows:

(i) Involuntary Termination If the Covered Person's employment is terminated within twelve (12) months following a Change of Control as a result of Involuntary Termination, then the Covered Person shall be entitled to receive a lump sum severance payment in an amount equal to fifteen (15) months of the Covered Person's annual Target Compensation; and in addition, for a period of fifteen (15) months after such termination, the Company shall be obligated to provide the Covered Person with benefits that are substantially equivalent to the Covered Person's benefits (medical, dental, vision and life insurance) that were in effect immediately prior to the Change of Control. In addition, each outstanding stock option held by the Covered Person which had been granted prior to the date of the Change of Control under the Company's stock option plans shall accelerate and become fully exercisable and all shares of restricted equity held by the Covered Person which had been granted prior to the date of the Change of Control under the Company's stock option plans shall become nonforfeitable and all restrictions shall lapse. Any severance payments to which the Covered Person is entitled pursuant to this section shall be paid in a lump sum within thirty (30) days of the effective date of the Covered Person's termination. For purposes of this Paragraph 3(a)(i), the term "Target Compensation" shall mean the highest level of Target Compensation applicable to the Covered Person from the period of time immediately prior to the Change of Control through the effective date of the Covered Person's termination. With respect to any taxable income that the Covered Person is deemed to have received for federal income tax purposes by virtue of the Company

providing continued employee benefits to the Covered Person, the Company shall make a cash payment to the Covered Person such that the net economic result to the Covered Person will be as if such benefits were provided on a tax-free basis to the same extent as would have been applicable had the Covered Person's employment not been terminated.

Anything in this Agreement to the contrary notwithstanding, if at the time of the Covered Person's separation from service (within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), the Covered Person is considered a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, and if any payment that the Covered Person becomes entitled to under this Agreement is considered deferred compensation subject to interest and additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, then no such payment shall be payable prior to the date that is the earliest of (A) six months after the Covered Person's date of termination, (B) the Covered Person's death, or (C) such other date as will cause such payment not to be subject to such interest and additional tax. The parties agree that this Agreement may be amended, as reasonably requested by either party and as may be necessary to comply fully with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party.

(ii) Voluntary Resignation If the Covered Person's employment terminates by reason of the Covered Person's voluntary resignation (and is not an Involuntary Termination), then the Covered Person shall not be entitled to receive any severance payments or other benefits except for such benefits (if any) as may then be established under the Company's then existing severance guidelines and benefit plans at the time of such termination.

(iii) Disability; Death If the Company terminates the Covered Person's employment as a result of the Covered Person's Disability, or such Covered Person's employment is terminated due to the death of the Covered Person, then the Covered Person shall not be entitled to receive any severance payments or other benefits except for those (if any) as may then be established under the Company's then existing severance guidelines and benefit plans at the time of such Disability or death.

(iv) Termination for Cause If the Company terminates the Covered Person's employment for Cause, then the Covered Person shall not be entitled to receive any severance payments or other benefits following the date of such termination, and the Company shall have no obligation to provide for the continuation of any health and medical benefit or life insurance plans existing on the date of such termination, other than as required by law.

(b) Termination Other than in Connection with Change of Control If the Covered Person's employment is terminated for any reason either prior to the occurrence of a Change of Control or after the twelve (12) month period following a Change of Control, then the Covered Person shall be entitled to receive severance and any other benefits only as may then be established under the Company's existing severance guidelines and benefit plans at the time of such termination.

4. Definition of Terms The following terms referred to in this Agreement shall have the following meanings:

(a) Change of Control "Change of Control" shall mean the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities, whether by tender offer, or otherwise; or

(ii) A change in the composition of the Board, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the Agreement Date, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the directors of the Company as of the Agreement Date, at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(iii) The consummation of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately prior thereto representing less than fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; but the Company is clearly the acquirer considering the totality of the circumstances, including such factors as whether the president of the Company will continue as president of the Company or the surviving entity, the majority of the directors of the Company or the surviving entity will be Incumbent Directors, substantially all of the executive officers of the Company will be retained, etc., all as determined immediately prior to the consummation of the merger or consolidation by the Incumbent Directors.

(iv) The liquidation of the Company; or the sale or disposition by the Company of all or substantially all of the Company's assets.

(b) Involuntary Termination "Involuntary Termination" shall mean (i) without the Covered Person's express written consent, the assignment to the Covered Person of any duties or the significant reduction of the Covered Person's duties, either of which is materially inconsistent with the Covered Person's position with the Company and responsibilities in effect immediately prior to such assignment, or the removal of the Covered Person from such position and responsibilities, which is not effected for Disability or for Cause; (ii) a material reduction by the Company in the base salary and/or bonus of the Covered Person as in effect immediately prior to such reduction; (iii) a material reduction by the Company in the

kind or level of employee benefits to which the Covered Person is entitled immediately prior to such reduction with the result that the Covered Person's overall benefit package is significantly reduced; (iv) the relocation of the Covered Person to a facility or a location more than fifty (50) miles from the Covered Person's then present location, without the Covered Person's express written consent; (v) any purported termination of the Covered Person by the Company which is not effected for death or Disability or for Cause, or any purported termination for Cause for which the grounds relied upon are not valid; or (vi) the failure of the Company to obtain, on or before the Change of Control, the assumption of the terms of this Agreement by any successors contemplated in Section 7 below. An Involuntary Termination shall be effective upon written notice by the Covered Person.

(c) Cause "Cause" shall mean (i) any act of personal dishonesty taken by the Covered Person in connection with his or her responsibilities as an employee and intended to result in substantial personal enrichment of the Covered Person, (ii) the conviction of a felony, (iii) a willful act by the Covered Person which constitutes gross misconduct and which is injurious to the Company, and (iv) continued violations by the Covered Person of the Covered Person's obligations as an employee of the Company which are demonstrably willful and deliberate on the Covered Person's part after there has been delivered to the Covered Person a written demand for performance from the Company which describes the basis for the Company's belief that the Covered Person has not substantially performed his or her duties.

(d) Disability "Disability" shall mean that the Covered Person has been unable to perform his or her duties as an employee of the Company as the result of incapacity due to physical or mental illness, and such inability, at least twenty-six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Covered Person or the Covered Person's legal representative (such agreement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least thirty (30) days' written notice by the Company of its intention to terminate the Covered Person's employment. In the event that the Covered Person resumes the performance of substantially all of his or her duties as an employee of the Company before termination of his or her employment becomes effective, the notice of intent to terminate shall automatically be deemed to have been revoked.

(e) Target Compensation "Target Compensation" shall mean the total of all fixed and variable cash compensation due a Covered Person based upon one hundred percent (100%) attainment of performance levels.

5. Limitation on Payments In the event that the severance and other benefits provided for in this Agreement or otherwise payable to the Covered Person (i) constitute "parachute payments" within the meaning of Section 280G of the Code and (ii) but for this Section 5, would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Covered Person's severance benefits under Section 3(a)(i) shall be either

(i) delivered in full, or

(ii) delivered as to such lesser extent which would result in no portion of such severance benefits subject to the Excise Tax,



whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by the Covered Person on an after tax basis, of the greatest amount of severance payments and benefits, notwithstanding that all or some portion of such severance payments and benefits may be taxable under Section 4999 of the Code. Unless the Company and the Covered Person otherwise agree in writing, any determination required under this Section 5 shall be made in writing in good faith by the accounting firm serving the Company's independent public accountants immediately prior to the Change of Control (the "Accountants") in good faith consultation with the Covered Person. In the event of a reduction in benefits hereunder, the Covered Person shall be given the choice of which benefits to reduce. For purposes of making the calculations required by this Section 5, the Accountants may make reasonable assumptions and approximations concerning the application taxes and may rely on reasonable good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Covered Person shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.

6. Remedy If Covered Person's benefits are reduced to avoid the Excise Tax pursuant to Section 5 hereof and notwithstanding such reduction, the IRS determines that the Covered Person is liable for the Excise Tax as a result of the receipt of severance benefits from the Company, then Covered Person shall be obligated to pay to the Company (the "Repayment Obligation") an amount of money equal to the "Repayment Amount." The Repayment Amount shall be the smallest such amount, if any, as shall be required to be paid to the Company so that the Covered Person's net proceeds with respect to his or her severance benefits hereunder (after taking into account the payment of the Excise Tax imposed on such benefits) shall be maximized. Notwithstanding the foregoing, the Repayment Amount shall be zero if a Repayment Amount of more than zero would not eliminate the Excise Tax. If the Excise Tax is not eliminated through the performance of the Repayment Obligation, the Covered Person shall pay the Excise Tax. The Repayment Obligation shall be discharged within thirty (30) days of either (i) the Covered Person entering into a binding agreement with the IRS as to the amount of Excise Tax liability, or (ii) a final determination by the IRS or a court decision requiring the Covered Person to pay the Excise Tax from which no appeal is available or is timely taken.

#### 7. Successors

(a) Company's Successors Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) or to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection (a) which becomes bound by the terms of this Agreement by operation of law.

(b) Covered Person's Successors The terms of this Agreement and all rights of the Covered Person's hereunder shall inure to the benefit of, and be enforceable by, the Covered Person's personal or legal representatives, executors, administrators, successors, heirs, distributes, devisees and legatees.

## 8. Notice

(a) General Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Covered Person, mailed notices shall be addressed to him or her at the home address which he or she most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its General Counsel.

(b) Notice of Termination by the Company Any termination by the Company of the Covered Person's employment with the Company at any time following a Change of Control shall be communicated by notice of termination to the Covered Person at least five (5) days prior to the date of such termination, given in accordance with Section 8(a) of this Agreement. Such notice shall specify the termination date and whether the termination is considered by the Company to be for Cause as defined in Section 4(c) in which case the Company shall identify the specific subsection(s) of Section 4(c) asserted by the Company as the basis for the termination and shall set forth in reasonable detail the facts and circumstances relied upon by the Company in categorizing the termination as for Cause.

(c) Notice by Covered Person of Involuntary Termination by the Company In the event the Covered Person determines that an Involuntary Termination has occurred at any time following a Change of Control, the Covered Person shall give written notice that such Involuntary Termination has occurred as set forth in this Section 8(c). Such notice shall be delivered by the Covered Person to the Company in accordance with Section 8(a) of this Agreement within ninety (90) days following the date on which such Involuntary Termination has occurred (or, if such Involuntary Termination occurred as a result of more than one event set forth in Section 4(b), within ninety (90) days following the earliest of such events), shall indicate the specific provision or provisions in this Agreement upon which the Covered Person relied to make such determination and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for such determination. The failure by the Covered Person to include in the notice any fact or circumstance which contributes to a showing of Involuntary Termination shall not waive any right of the Covered Person hereunder or preclude the Covered Person from asserting such fact or circumstance in enforcing his or her rights hereunder.

## 9. Miscellaneous Provisions

(a) No Duty to Mitigate The Covered Person shall not be required to mitigate the amount of any payment contemplated by this Agreement (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that the Covered Person may receive from any other source.

(b) Waiver No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed in writing and signed by the Covered Person and by an authorized officer of the Company (other than the Covered Person). No waiver by either party of any breach of, or compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision of the same condition or provision at another time.

(c) Entire Agreement Except with respect to the terms of any written employment agreement, if any, by and between the Company and the Covered Person that is signed on behalf of the Company, no agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof.

(d) Choice of Law The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts.

(e) Severability The invalidity or enforceability of any provisions or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(f) Arbitration Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by final and binding arbitration in Massachusetts, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. In the event the Covered Person prevails in an action or proceeding brought to enforce the terms of this Agreement or to enforce and collect on any non-de minimis judgment entered pursuant to this Agreement, the Covered Person shall be entitled to recover all costs and reasonable attorney's fees.

(g) No Assignment of Benefits The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection (g) shall be void.

(h) Employment Taxes Subject to Section 5, all payments made pursuant to this Agreement will be subject to withholding of applicable income and employment taxes.

(i) Assignment by Company The Company may assign its rights under this Agreement to an affiliate and an affiliate may assign its rights under this Agreement to another affiliate of the Company or to the Company; provided, however, that no assignment shall be made if the net worth of the assignee is less than the net worth of the Company at the time of the assignment. In the case of any such assignment, the term "Company" when used in a section of the Agreement shall mean the corporation that actually employs the Covered Person.

(j) Counterparts This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the date first above written.

Progress Software Corporation

By: /S/ NORMAN R. ROBERTSON

By: /S/ GORDON VAN HUIZEN

-----  
Authorized Officer  
Norman R. Robertson, Sr. V.P.  
F&A, CFO

-----  
Covered Person

PROGRESS SOFTWARE CORPORATION  
CORPORATE EXECUTIVE BONUS PLAN

## 1. Purpose

This Corporate Executive Bonus Plan (the "Bonus Plan") is intended to provide an incentive for superior work and to motivate eligible executives of Progress Software Corporation (the "Company") and its subsidiaries toward even higher achievement and business results, to tie their goals and interests to those of the Company and its stockholders and to enable the Company to attract and retain highly qualified executives. The Bonus Plan is for the benefit of Covered Executives (as defined below).

## 2. Covered Executives

From time to time, the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee") may select certain key executives (the "Covered Executives") to be eligible to receive bonuses hereunder.

## 3. Administration

The Compensation Committee shall have the sole discretion and authority to administer and interpret the Bonus Plan.

## 4. Bonus Determinations

(a) A Covered Executive may receive a bonus payment under the Bonus Plan based upon the attainment of performance targets which are established by the Compensation Committee and relate to financial and operational metrics with respect to the Company or any of its subsidiaries (the "Performance Goals"), including the following: revenues, operating income, operating loss containment, or other measurable performance metrics.

(b) Except as otherwise set forth in this Section 4(b): (i) any bonuses paid to Covered Executives under the Bonus Plan shall be based upon objectively determinable bonus formulas that tie such bonuses to one or more performance targets relating to the Performance Goals, (ii) bonus formulas for Covered Executives shall be adopted in each performance period by the Compensation Committee and communicated to each Covered Executive at the beginning of each bonus period and (iii) no bonuses shall be paid to Covered Executives unless and until the Compensation Committee makes a determination with respect to the attainment of the performance objectives. Notwithstanding the foregoing, the Compensation Committee may adjust bonuses payable under the Bonus Plan based on achievement of individual performance goals or pay bonuses (including, without limitation, discretionary bonuses) to Covered Executives under the Bonus Plan based upon such other terms and conditions as the Compensation Committee may in its discretion determine.

(c) Each Covered Executive shall have a targeted bonus opportunity for each performance period in an amount determined by the Compensation Committee.

(d) The payment of a bonus to a Covered Executive with respect to a performance period shall be conditioned upon the Covered Executive's employment by the Company on the day the bonus payments are made; provided, however, that the Compensation Committee may make exceptions to this requirement, in its sole discretion, including, without limitation, in the case of a Covered Executive's termination of employment, retirement, death or disability.

5. Timing of Payment

The Performance Goals will be measured at the end of each fiscal year after the Company's financial reports have been published. If the Performance Goals are met, bonus payments will be made with the Company's January 20th payroll, but in no event later than February 15th, of the following year.

6. Amendment and Termination

The Company reserves the right to amend or terminate the Bonus Plan at any time in its sole discretion.

PROGRESS SOFTWARE CORPORATION  
2007 FISCAL YEAR DIRECTOR COMPENSATION PROGRAM

## A. Amounts of 2007 Fiscal Year Compensation

- Annual Board Retainer:	\$275,000
- Audit Committee:	\$ 25,000 for Chair \$ 20,000 for Members
- Nomination and Governance Committee:	\$ 10,000 for Chair \$ 7,500 for Members
- Compensation Committee:	\$ 15,000 for Chair \$ 12,500 for Members
- Special Committee(s): (while in use)	\$ 30,000 for Chair \$ 25,000 for Members
- Board Chairman:	\$ 25,000

Form of Payment: 25% in cash  
75% in equity

Equity: May be in the form of fully vested deferred stock units or fully vested stock options. The number of option shares is determined by dividing the compensation amount by the grant date Black Scholes value. The number of deferred stock units is determined by dividing the compensation amount by the grant date closing price of the Corporation's common stock.

Election: The election to be paid either in options or deferred stock units must be made prior to the start of the Corporation's fiscal year, within ten days of the director's initial election to the Board, or prior to the approval of this program.

Timing: Annual fiscal year compensation will be paid in two installments in arrears, coincident with the April and October dates of the broad-based employee equity grants. Amounts paid will be pro-rated for partial year service. Accordingly, if a director resigns from the Board, is removed from the Board by a vote, is removed from the Board due to a change in control, or dies in office, he or she is paid a pro-rated amount for service through date of termination of service. Similarly a director who joins the Board other than on the first day of the fiscal year will be paid a pro-rated amount of the annual fiscal year compensation.

B. Initial Director Option Grant

Each newly elected Director shall receive an option to acquire 25,000 shares of the Corporation's common stock at the first April or October grant date following his or her election to the Board. The vesting is over a 60-month period and begins on the first day of the month following the month the Director joins the Board, with full acceleration upon a change in control. The term of the option shall be identical to employee options.

C. Stock Retention Guidelines

All non-affiliate Directors must hold 10,000 shares of the Corporation's common stock or deferred stock units. Directors have three years to attain this guideline.



DEFERRED STOCK UNIT AGREEMENT  
 UNDER THE PROGRESS SOFTWARE CORPORATION  
 1997 STOCK INCENTIVE PLAN

Name of Grantee: \_\_\_\_\_  
 No. of Deferred Stock Units Granted: \_\_\_\_\_  
 Grant Date: \_\_\_\_\_

Pursuant to the Progress Software Corporation 1997 Stock Incentive Plan (the "Plan") as amended through the date hereof, Progress Software Corporation (the "Company") hereby grants a deferred stock award consisting of the number of Deferred Stock Units listed above (an "Award") to the Grantee named above. Each "Deferred Stock Unit" shall relate to one share of common stock, par value \$.01 per share, of the Company (the "Stock"), subject to the conditions set forth herein and in the Plan.

1. Vesting of Deferred Stock Units. The Deferred Stock Units shall be fully vested and non-forfeitable on the Grant Date.

2. Dividend Equivalents.

(a) If on any date the Company shall pay any cash dividend on shares of Stock, the number of Deferred Stock Units credited to the Grantee shall, as of such date, be increased by an amount determined by the following formula:

$W = (X \text{ multiplied by } Y) \text{ divided by } Z$ , where:

W = the number of additional Deferred Stock Units to be credited to the Grantee on such dividend payment date;

X = the aggregate number of Deferred Stock Units credited to the Grantee as of the record date of the dividend;

Y = the cash dividend per share amount; and

Z = the Fair Market Value per share of Stock (as determined under the Plan) on the dividend payment date.

(b) In the case of a dividend paid on Stock in the form of shares of Stock, including without limitation a distribution of shares of Stock by reason of a stock dividend, stock split or otherwise, the number of Deferred Stock Units credited to the Grantee shall be increased by a number equal to the product of (i) the aggregate number of Deferred Stock Units that have been awarded to the Grantee through the related dividend record date, and (ii) the number of shares of Stock (including any fraction thereof) payable as dividend on one share of Stock. In the case of a dividend payable in property other than shares of Stock or cash, the per share of Stock value of such dividend shall be determined in good faith by the Board of Directors of the

Company and shall be converted to additional Deferred Stock Units based on the formula in (a) above.

### 3. Issuance of Shares of Stock.

(a) As soon as practicable after the date the Grantee ceases to provide services to the Company as a director, the Company shall issue to the Grantee the number of full shares of Stock equal to the aggregate number of Deferred Stock Units credited to the Grantee in full satisfaction of such Deferred Stock Units. Any fractional Deferred Stock Unit shall be paid out in cash.

(b) Upon a Change of Control that constitutes a "Change in Control Event" as defined in guidance issued by the Internal Revenue Service pursuant to Section 409A of the Internal Revenue Code of 1986, as amended, the Company shall issue to the Grantee the number of shares of Stock equal to the aggregate number of Deferred Stock Units credited to the Grantee on such date (determined after giving effect to Section 3 above) in full satisfaction of such Deferred Stock Units; provided, however, that in the event the Company is involved in a transaction in which shares of Stock will be exchanged for cash or other consideration, the Grantee shall receive cash or other consideration equal in value to the aggregate number of Deferred Stock Units credited to the Grantee on the date of Change of Control (determined after giving effect to Section 2 above).

(c) Immediately after the issuance of shares of Stock or cash pursuant to this Section 3, this Agreement shall terminate and be of no further force or effect.

4. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Agreement shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

5. Transferability of this Agreement. This Agreement is personal to the Grantee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution.

PROGRESS SOFTWARE CORPORATION

By: -----

Title: -----

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned.

Dated: -----

-----  
Grantee's Signature

NON-QUALIFIED STOCK OPTION AGREEMENT  
FOR NON-EMPLOYEE DIRECTORS  
UNDER THE PROGRESS SOFTWARE CORPORATION  
1997 STOCK INCENTIVE PLAN

Name of Optionee: \_\_\_\_\_

No. of Option Shares: \_\_\_\_\_

Option Exercise Price per Share: \$\_\_\_\_\_

Grant Date: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

Pursuant to the Progress Software Corporation 1997 Stock Incentive Plan as amended through the date hereof (the "Plan"), Progress Software Corporation (the "Company") hereby grants to the Optionee named above, who is a Director of the Company, an option (the "Stock Option") to purchase on or prior to the Expiration Date specified above all or part of the number of shares of Common Stock, par value \$.01 per share, of the Company (the "Stock") at the Option Exercise Price per share specified above subject to the terms and conditions set forth herein and in the Plan. This Stock Option is not intended to be an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended.

1. Exercisability Schedule. This Stock Option shall be vested and exercisable on the Grant Date with respect to \_\_\_\_ of the Stock Option and the balance of the Stock Option shall be exercisable in \_\_\_\_ equal monthly increments commencing on the first day of the month immediately following the Grant Date.

Notwithstanding the foregoing, in the event of a Change of Control, this Stock Option shall become immediately exercisable in full, whether or not exercisable at such time.

2. Manner of Exercise.

(a) From time to time on or prior to the Expiration Date, the Optionee may give written notice to the Administrator of his or her election to purchase some or all of the Option Shares purchasable at the time of such notice. This notice shall specify the number of Option Shares to be purchased.

Payment of the purchase price for the Option Shares may be made by check or any other form of payment that is permitted by Section 5(a)(iv) of the Plan.

(b) The shares of Stock purchased upon exercise of this Stock Option shall be transferred to the Optionee on the records of the Company or of the transfer agent upon compliance to the satisfaction of the Administrator with all requirements under applicable laws or regulations in connection with such transfer and with the requirements hereof and of the Plan. The determination of the Administrator as to such compliance shall be final and binding on the Optionee. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Stock subject to this Stock Option unless and until this Stock Option shall have been exercised pursuant to the terms hereof, the Company or the transfer agent shall have transferred the shares to the Optionee, and the Optionee's name shall have been entered as the stockholder of record on the books of the Company. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such shares of Stock.

(c) Notwithstanding any other provision hereof or of the Plan, no portion of this Stock Option shall be exercisable after the Expiration Date hereof.

3. Termination as Director. If the Optionee ceases to be a Director of the Company, the portion of the Stock Option that is not exercisable at such time shall immediately terminate, and the period within which to exercise the portion of the Stock Option that is exercisable at such time may be subject to earlier termination as set forth below:

(a) Termination by Reason of Death. If the Optionee ceases to be a Director by reason of the Optionee's death, any portion of this Stock Option outstanding on such date, to the extent exercisable, may be exercised by his or her legal representative or legatee for a period of 24 months from the date of cessation of service as a Director or until the Expiration Date, if earlier.

(b) Termination by Reason of Cause If the Optionee ceases to be a Director by reason of the Optionee's termination of service for Cause (as defined in the Plan), no portion of this Stock Option may be exercised after the last day of service as a Director.

(c) Termination by Reason of Disability If the Optionee ceases to be a Director by reason of the Optionee's Disability (as defined in the Plan), any portion of this Stock Option outstanding on such date, to the extent exercisable, may be exercised by the Optionee for a period of 12 months from the date of cessation as a Director or until the Expiration Date, if earlier.

(d) Other Termination If the Optionee ceases to be a Director for any reason other than the Optionee's death or termination for Cause or Disability, any portion of this Stock Option outstanding on such date, to the extent exercisable, may be exercised for a period of 90 days from the date of cessation of services as a Director or 30 days after the end of the blackout period, if later; provided, however, that this Stock Option shall nevertheless expire on the Expiration Date, if earlier.

4. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Stock Option shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms

in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

5. Transferability. This Agreement is personal to the Optionee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution; provided, however, that with the consent of the Administrator, this Stock Option may be transferred, without payment of consideration, to a member of the Optionee's immediate family or to a trust or partnership whose beneficiaries are members of the Optionee's immediate family.

6. No Obligation to Continue as a Director. Neither the Plan nor this Stock Option confers upon the Optionee any rights with respect to continuance as a Director.

7. Notices. Notices hereunder shall be mailed or delivered to the Company at its principal place of business and shall be mailed or delivered to the Optionee at the address on file with the Company or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

PROGRESS SOFTWARE CORPORATION

By: \_\_\_\_\_  
Title: \_\_\_\_\_

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned.

Dated: \_\_\_\_\_  
Optionee's Signature

NON-QUALIFIED STOCK OPTION AGREEMENT  
FOR NON-EMPLOYEE DIRECTORS  
UNDER THE PROGRESS SOFTWARE CORPORATION  
1997 STOCK INCENTIVE PLAN

Name of Optionee: \_\_\_\_\_

No. of Option Shares: \_\_\_\_\_

Option Exercise Price per Share: \$ \_\_\_\_\_

Grant Date: \_\_\_\_\_

Expiration Date: \_\_\_\_\_

Pursuant to the Progress Software Corporation 1997 Stock Incentive Plan as amended through the date hereof (the "Plan"), Progress Software Corporation (the "Company") hereby grants to the Optionee named above, who is a Director of the Company, an option (the "Stock Option") to purchase on or prior to the Expiration Date specified above all or part of the number of shares of Common Stock, par value \$.01 per share, of the Company (the "Stock") at the Option Exercise Price per share specified above subject to the terms and conditions set forth herein and in the Plan. This Stock Option is not intended to be an "incentive stock option" under Section 422 of the Internal Revenue Code of 1986, as amended.

1. Exercisability. This Stock Option shall be immediately exercisable in full on the Grant Date.

2. Manner of Exercise.

(a) From time to time on or prior to the Expiration Date, the Optionee may give written notice to the Administrator of his or her election to purchase some or all of the Option Shares purchasable at the time of such notice. This notice shall specify the number of Option Shares to be purchased.

Payment of the purchase price for the Option Shares may be made by check or any other form of payment that is permitted by Section 5(a)(iv) of the Plan.

(b) The shares of Stock purchased upon exercise of this Stock Option shall be transferred to the Optionee on the records of the Company or of the transfer agent upon compliance to the satisfaction of the Administrator with all requirements under applicable laws or regulations in connection with such transfer and with the requirements hereof and of the Plan. The determination of the Administrator as to such compliance shall be final and binding on the

Optionee. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Stock subject to this Stock Option unless and until this Stock Option shall have been exercised pursuant to the terms hereof, the Company or the transfer agent shall have transferred the shares to the Optionee, and the Optionee's name shall have been entered as the stockholder of record on the books of the Company. Thereupon, the Optionee shall have full voting, dividend and other ownership rights with respect to such shares of Stock.

(c) Notwithstanding any other provision hereof or of the Plan, no portion of this Stock Option shall be exercisable after the Expiration Date hereof.

3. Termination as Director. If the Optionee ceases to be a Director of the Company, the period within which to exercise the Stock Option may be subject to earlier termination as set forth below:

(a) Termination by Reason of Death. If the Optionee ceases to be a Director by reason of the Optionee's death, any portion of this Stock Option outstanding on such date may be exercised by his or her legal representative or legatee for a period of 24 months from the date of cessation of service as a Director or until the Expiration Date, if earlier.

(b) Termination by Reason of Cause If the Optionee ceases to be a Director by reason of the Optionee's termination of service for Cause (as defined in the Plan), no portion of this Stock Option may be exercised after the last day of service as a Director.

(c) Termination by Reason of Disability If the Optionee ceases to be a Director by reason of the Optionee's Disability (as defined in the Plan), any portion of this Stock Option outstanding on such date, may be exercised by the Optionee for a period of 12 months from the date of cessation as a Director or until the Expiration Date, if earlier.

(d) Other Termination. If the Optionee ceases to be a Director for any reason other than the Optionee's death or termination for Cause or Disability, any portion of this Stock Option outstanding on such date may be exercised for a period of 90 days from the date of cessation of services as a Director or 30 days after the end of the blackout period, if later; provided, however, that this Stock Option shall nevertheless expire on the Expiration Date, if earlier.

4. Incorporation of Plan. Notwithstanding anything herein to the contrary, this Stock Option shall be subject to and governed by all the terms and conditions of the Plan, including the powers of the Administrator set forth in Section 2(b) of the Plan. Capitalized terms in this Agreement shall have the meaning specified in the Plan, unless a different meaning is specified herein.

5. Transferability. This Agreement is personal to the Optionee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution; provided, however, that with the consent of the Administrator, this Stock Option may be transferred, without payment of consideration, to a member of the Optionee's immediate family or to a trust or partnership whose beneficiaries are members of the Optionee's immediate family.



6. No Obligation to Continue as a Director. Neither the Plan nor this Stock Option confers upon the Optionee any rights with respect to continuance as a Director.

7. Notices. Notices hereunder shall be mailed or delivered to the Company at its principal place of business and shall be mailed or delivered to the Optionee at the address on file with the Company or, in either case, at such other address as one party may subsequently furnish to the other party in writing.

PROGRESS SOFTWARE CORPORATION

By: \_\_\_\_\_  
Title: \_\_\_\_\_

The foregoing Agreement is hereby accepted and the terms and conditions thereof hereby agreed to by the undersigned.

Dated: \_\_\_\_\_  
Optionee's Signature

March 29, 2007

Progress Software Corporation  
14 Oak Park  
Bedford, MA 01730

Re: Cancellation of Stock Options

Gentlemen:

I hereby acknowledge that the options previously granted to me and listed in the following table have not been validly issued under the terms of the Company's 1997 Stock Incentive Plan.

Grant Date	Shares Granted	Grant Price
11/11/03	9,000	\$21.86
5/24/04	11,500	\$18.15
9/27/04	11,500	\$19.25
11/15/05	12,000	\$30.81
5/22/06	11,750	\$23.07
9/20/06	11,750	\$25.01

In order to correct this issue, I and the Company agree as follows:

- With respect to the 5/24/04 and 9/27/04 options listed above, it is understood that this letter agreement amends the Option Amendment Agreement dated December 15, 2006 ("Option Amendment Agreement") I entered into with the Company in the following respects. First, the 5/24/04 and 9/27/04 options should not have been included in the Option Amendment Agreement. Second, the total Payment Amount and Value Lost plus Payment Amount listed on Exhibit A thereto should be reduced from \$135,270 to \$103,070. Since the Option Amendment Agreement required me to compensate the Company on an after-tax basis, the amount that I was required to compensate the Company should have been \$59,018 instead of \$77,458. Accordingly, I overcompensated the Company by \$18,440. Since I transferred 2,706 shares (at FMV \$28.62) to the Company in March 2007 in order to fulfill the obligations of the Option Amendment Agreement, I effectively transferred 644 more shares than necessary. For purposes of this agreement, these transferred shares are considered a sale of the stock.
- As the 11/15/05, 5/22/06 and 9/20/06 options listed above are outstanding, vested and have not been exercised, they are hereby cancelled.

- With respect to the 11/13/03, 5/24/04 and 9/27/04 options that I exercised and sold on 10/13/05, I agree to return to the Company the after-tax profit calculated as follows.

Option	Exercised	Shares	Price	Option Cost	Ex FMV	Profit
-----	-----	-----	-----	-----	-----	-----
11/11/03	10/12/05	2,062	\$21.86	\$ 45,075	\$30.06	\$ 16,908
5/24/04	10/13/05	4,000	\$18.15	\$ 72,600	\$30.25	\$ 48,400
5/24/04	10/13/05	7,500	\$18.15	\$136,125	\$29.91	\$ 88,200
9/27/04	10/13/05	11,500	\$19.25	\$221,375	\$29.91	\$122,590
Total Profit:						\$276,098
After Tax:						\$158,099

- With respect to the 9,000 shares that I acquired on 10/12/05 when I exercised my 11/11/03 option and still hold (counting for this purpose the 644 shares that I already transferred to the Company), I understand I need to transfer all those shares to the Company. The number of shares to be transferred is thus 9,000 less 2,706 shares returned in March 2007 to fulfill the re-pricing obligation or 6,294 shares. This transfer has been recently initiated with the holding broker. However, the effective number of shares transferred is 9,000 less 2,062 (the corrected number of shares from the Option Amendment Agreement) or 6,938 shares. In consideration of this transfer, the Company agrees to return to me option exercise price for the effective number of shares. This amount is: 6,938 shares X \$21.86 or \$151,665.
- The net sum I owe the Company at this point is \$158,099 minus \$151,655 or \$6,444. This sum is due and owing but will be netted against the keep-whole compensation proposed by the Board - noted below.
- The Company will prepare the proper Form 4s and other documentation necessary to reflect this transfer of shares and cancellation of options.
- The Board of Directors has committed to make me whole for my now lost 2003 thru 2006 compensation as a result of these invalidly granted options.

Very truly yours,

/s/ ROGER J. HEINEN, JR.

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 Roger J. Heinen, Jr.

March 23, 2007

Progress Software Corporation  
14 Oak Park  
Bedford, MA 01730

Re: Cancellation of Stock Options

Gentlemen:

I hereby acknowledge the cancellation of the following options to purchase shares of common stock of Progress Software Corporation as it is my understanding that these options have not been validly issued under the terms of the Company's 1997 Stock Incentive Plan.

Original Grant Date	Shares Granted	Revised Grant Price
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6/17/99	10,000	\$14.7475
8/2/02	8,547	\$ 13.50
2/24/03	8,000	\$ 16.99
11/11/03	8,000	\$ 21.86
5/24/04	8,500	\$ 18.75
9/27/04	8,500	\$ 21.45
11/15/05	9,000	\$ 30.81
5/22/06	10,500	\$ 23.07
9/20/06	10,500	\$ 25.01

It is my understanding that the Board of Directors of the Company has committed to grant make-whole equity awards and/or cash payments to me, subject to shareholder approval of the amendment of the Company's 1997 Stock Incentive Plan with respect to any equity awards.

Very truly yours,

/s/ SCOTT A. MCGREGOR

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Scott A. McGregor

**CERTIFICATION**

I, Joseph W. Alsop, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Progress Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 10, 2007

/s/ JOSEPH W. ALSOP

Joseph W. Alsop

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION**

I, Norman R. Robertson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Progress Software Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 10, 2007

/s/ NORMAN R. ROBERTSON

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

**Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Progress Software Corporation (the Company) for the three months ended May 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the Report), each of the undersigned, Joseph W. Alsop, Chief Executive Officer, and Norman R. Robertson, Senior Vice President, Finance and Administration and Chief Financial Officer, of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOSEPH W. ALSOP

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Chief Executive Officer

/s/ NORMAN R. ROBERTSON

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Senior Vice President, Finance and  
Administration and Chief Financial Officer

Date: July 10, 2007

Date: July 10, 2007