SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the Fiscal Year Ended November 30, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For The Transaction Period From To

Commission File Number: 0-19417

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

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

14 OAK PARK
BEDFORD, MASSACHUSETTS 01730
(Address of principal executive offices)
TELEPHONE NUMBER: (781) 280-4000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value
Title of each class

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

Yes X No ____

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

As of February 22, 1999, there were 17,265,281 shares outstanding of the registrant's common stock, $.01 par value. As of that date, the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $429,570,000.

DOCUMENT INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended November 30, 1998 are incorporated by reference into Parts I and II.

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 23, 1999 are incorporated by reference into Part III.

PART I

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. From time to time, information provided by the Company or statements made by its directors, officers or employees may contain "forward-looking" information which involves risks and uncertainties. Actual future results may differ materially. Statements indicating that the Company "expects," "estimates," "believes," "is planning" or "plans to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors which could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors, some of which are described in greater detail in the 1998 Annual Report to Shareholders under the heading "Factors That May Affect Future Results," include, but are not limited to, the effect of Year 2000 issues, the receipt and shipment of new orders, the timely release of enhancements to the Company's products, the growth rates of certain market segments, the positioning of the Company's products in those market segments, variations in the demand for customer service and technical support, pricing pressures and the competitive environment in the software industry, business and consumer use of the Internet, and the Company's ability to penetrate international markets and manage its international operations. Although the Company has sought to identify the most significant risks to its business, the Company cannot predict whether, or to what extent, any of such risks may be realized, nor can there be any assurance that the Company has identified all possible issues which the Company might face.

ITEM 1. BUSINESS

Progress Software Corporation ("PSC" or the "Company") is a supplier of application development, deployment and management technology, network management solutions and support services to business, industry and government worldwide. The Company's product lines encompass application servers, relational database management systems, application development tools and network, system and application management tools. The Company's products simplify and accelerate the development, deployment and management of software across distributed Internet/Web, client/server and host/terminal computing environments.

The Company's principal product line, Progress(R), is an integrated, component-based visual development environment for building and deploying multi-tier, enterprise-class business applications. The Progress(R) Apptivity(TM) product line enables the development and deployment of distributed, multi-tier Java(TM) business applications. The Internet Software Quality ("ISQ") product line enhances information system availability and performance by monitoring, measuring and managing Internet devices, networks, systems and applications. In order to provide businesses with a total solution, the Company also offers professional services from its worldwide consulting, education and technical support organizations.

The Company sells its products and services throughout North America, Latin America, Europe, Middle East, Africa ("EMEA") and the Asia/Pacific region to organizations that develop and deploy mission-critical enterprise business applications. More than half of the Company's revenue is derived from over 2,000 Independent Software Vendors ("ISVs") who market applications that utilize the Company's technology. The balance of the Company's business comes from serving the needs of Information Technology ("IT") organizations of businesses and governments.

In order to better serve the Company's installed customer base and facilitate marketing to new customers, the Company is organized into three product units. These product units consist of integrated teams of product development, product management and product marketing groups that utilize the resources of the functional organizations of worldwide sales and professional services, corporate marketing, technical support and finance and administration. The Company's three product units are Core Products, which includes the Progress product line, the Apptivity product unit and the ISQ product unit.

BUSINESS STRATEGY

The Company was founded in 1981 to develop and market application development and deployment software. Its business strategy has been developed in response to user needs for application development tools that enable the rapid development and deployment of business-critical applications regardless of the computing environment. The Company's mission today is to deliver superior software products and services that empower its partners and customers to dramatically improve their development and deployment of quality applications worldwide. This mission encompasses the following strategic points:

- Rapid Application Development. The Company's development tools and technologies are designed to be easy-to-use, intuitive, highly visual and component-based. This allows the Company's products and services to improve the productivity of developers in creating and maintaining complex applications.

- Application Deployment Flexibility. The Company's products allow deployment across all major computing configurations: Internet/Web, client/server and host/terminal. The Progress(R) Open AppServer(TM) and the Progress Apptivity Application Server provide "n-tier" computing support in order to improve application performance. The Company designs its products to operate across a broad range of midrange systems, workstations and PCs. The Company believes that application developers need the flexibility to deploy their applications across hardware, operating system platforms, databases and user interfaces that may be different from those on which their applications are originally developed. In addition, end-users need the flexibility to continue to use applications with minimal re-programming, even as they modify or upgrade their computing environments.

- Future Proof Business Applications. A major focus for the Company is protecting the business application investments of its customers, making their applications "Future Proof(TM)." The Company's latest product releases offer a standards-based path for building and deploying functionally rich, distributed multi-tier applications.

- Balanced Distribution. PSC chose at an early stage to implement both direct and indirect channels of distribution to broaden its geographic reach, accelerate its sales expansion and leverage its sales force. The Company sells to ISVs and IT departments of corporations and government agencies. ISVs develop end-user applications for resale, and both IT customers and ISVs generally license additional deployment copies of the Company's products to run applications. To minimize channel conflict, PSC neither develops application software for distribution nor plans to do so in the future.

- Recurring Revenue. The Company's distribution and pricing strategies are intended to generate recurring revenue. The sale of a development system can lead to follow-on sales as ISVs license additional copies of the Company's development and deployment products upon successful distribution of their applications, or as end-users deploy such applications within their organizations or upgrade their systems.

- Worldwide Market. PSC has emphasized international sales through its subsidiaries and a network of independent distributors. Approximately 57% of the Company's revenue was derived from customers outside of North America in fiscal 1998.

- Customer Service. PSC has made a strategic commitment to customer service. The Company believes that rapid changes in technology require not only continuous product enhancement but also a strong customer service effort to encourage product usage and maintain customer satisfaction. The Company provides a variety of technical support and service options under its annual maintenance programs, including an option for 24 hour, 7 day a week service. The Company also offers an extensive selection of training courses and on-site consulting services.

- "Buy, Build, Both". A major challenge for the software industry is to unite the economical price, reliability and immediate benefit of packaged software applications with the tailored fit of custom solutions. Purchasing a packaged application provides standard functionality that can be used quickly and economically with little or no development time. Building an in-house application results in a solution that offers a competitive business advantage, but typically involves long development cycles. By combining both packaged and customized solutions, IT departments can deliver flexible, business-driven applications more quickly and productively. The Company's products and services, in conjunction with solutions from its ISVs, are designed to give IT departments that flexibility and competitive advantage.

PROGRESS PRODUCT LINE

The Company's core product line consists of Progress(R) ProVision Plus(TM), Progress(R) WebSpeed(R), Progress(R) RDBMS, Progress Open AppServer and Progress(R) DataServers. Applications developed in Progress are reconfigurable between character-based and graphical interfaces, as well as between client/server and host-based computing systems. The Progress product line provides a high degree of portability across a wide range of computing environments while affording developers the flexibility to build applications on a range of database management products.

In December 1998, the Company began shipping Progress Version 9.0, the latest major release of the Company's flagship product line of application development and deployment products. This release allows users to build Future Proof enterprise applications by leveraging investments in existing applications and integrating new technologies. Progress Version 9 provides scalability enhancements to support thousands of concurrent users; open, standards-based support for numerous user interfaces (clients) and a wide range of databases; component-based modularity for greater application efficiency, resource utilization, performance and reliability; server-based performance and maintainability for application components stored on application servers; and a single development environment for building 4GL and HTML applications.

PROGRESS PROVISION PLUS

Progress ProVision Plus is a programming environment that provides developers with a "visual road map" for developing and deploying complex enterprise applications. Progress ProVision Plus contains a set of integrated, graphical development tools that support a range of development approaches, including structured, procedural, event-driven and object approaches. Progress ProVision Plus is an Integrated Application Environment for developing and managing enterprise applications, whether they are host-based, web-based, client/server or distributed. Progress ProVision Plus lets developers share common business logic among a variety of clients, simplifying the creation and management of enterprise applications.

Developers can create all the required components for mission-critical, enterprise applications using Progress ProVision Plus. The product's tight integration with the Progress RDBMS allows developers to build a single, central repository that not only describes the database definitions but the application defaults and business rules as well. The Progress 4GL allows developers to build application business logic quickly and efficiently. Progress ProVision Plus also includes Progress(R)SmartObjects(TM), which makes creating attractive and effective graphical user interfaces fast and easy.

Progress ProVision Plus is also tightly integrated with the Progress Open AppServer to facilitate the development and deployment of distributed enterprise applications. Shared business logic can be made available to virtually any client application, including those built with Java, ActiveX(TM) and Visual Basic(TM), using the Open Client Toolkit. By embracing industry standards, Progress ProVision Plus opens enterprise applications to numerous third-party products.

Progress ProVision Plus delivers one of most comprehensive 4GL development and deployment toolsets in the industry. Based on the combined technologies of Progress(R) ProVision(TM) and Progress(R) WebSpeed(R) Workshop, Progress ProVision Plus ensures that development efforts can be reused for greater efficiency. The

Company also offers Progress ProVision and Progress WebSpeed Workshop as standalone products. Progress ProVision Plus provides common tools for client/server and web-based development, including:

- AppBuilder--a productivity-enhancing suite of tools for client/server, web, and character development.

- Roundtable Lite--an integrated source code management and team collaboration system that provides version control, secure check-in/out, task management, impact analysis, change auditing, cross referencing and incremental compiling.

- Open Client Toolkit--provides Open Client access to Progress Open AppServer functionality.

- AppServer Partition Deployment ProTool--defines the location of business logic at runtime, facilitating ease of development and deployment of distributed applications.

- Progress ProVision Plus Development Server--includes a development database, AppServer and WebSpeed Transaction Server for quickly and easily testing distributed applications.

- WebTools--a set of browser-based tools used for building and testing web applications.

- Progress Explorer--defines and manages the Progress database, Progress Open AppServer, and Progress WebSpeed Transaction Server.

- Progress Data Dictionary--a central repository that describes the database definitions, application defaults and business rules.

- SmartObjects--component technology that offers code inheritance, encapsulation and other object-oriented development features that allows the creation, customization, and automatic assembly of components.

- Progress 4GL--a high-level application development language that reduces development complexity by addressing all development needs within a single language.

- Wizards--tools that speed development through the creation of reusable SmartObjects or Web Objects.

- Integration with ActiveX components for greater user interface flexibility and OLE automation for application interoperability.

- Integrated reporting tools including Report Builder, a graphical report writing tool for business analysts and application developers, and Results, an interactive data access and reporting tool that allows non-technical end-users to create ad-hoc queries and reports.

PROGRESS RDBMS

The Progress RDBMS products are high-performance relational databases that can scale from a single-user Windows(R) 95 system to massive symmetric multiprocessing ("SMP") and cache coherent non-uniform memory access ("ccNUMA") systems, supporting thousands of concurrent users. In addition to offering one of the lowest total costs of ownership and scalability, the Progress RDBMS products offer high availability, reliability, performance, and platform portability. With full support for ANSI SQL-92 Entry Level specification, Progress RDBMS products integrate with enterprise applications, tools, and numerous third-party data management systems.

The three Progress RDBMS products--the Progress Enterprise RDBMS, the Progress Workgroup RDBMS, and the Progress Personal RDBMS--allow users to select a solution that satisfies their business objectives. The benefit to customers is that they pay for what is needed today, and, as their requirements grow, they can upgrade to a more robust solution without changing program code.

The Progress Enterprise RDBMS is designed for large user environments and the transaction processing throughput of high volume SQL-based and Progress 4GL-based on-line transaction processing ("OLTP") applications. The Progress Enterprise RDBMS was developed with a flexible, multithreaded, multiserver architecture. The Progress Enterprise RDBMS is a powerful, open and large-scale enterprise database that can run across multiple hardware platforms and networks.

The Progress Enterprise RDBMS includes the functionality needed to meet demanding OLTP requirements. These capabilities include row-level locking, roll-back and roll-forward recovery, point-in-time recovery, distributed database management with two-phase commit, a complete suite of on-line utilities and full support for ANSI-standard SQL-92. Sophisticated self-tuning capabilities and simple graphical interfaces for system administration make the Progress Enterprise RDBMS easy to install, tune and manage. With low administration costs, low initial cost of licenses, minimum upgrade fees and limited software implementation costs, the Progress Enterprise RDBMS provides a significant cost-of-ownership advantage over competing database products.

The Progress Workgroup RDBMS, which offers many of the same powerful capabilities as the Progress Enterprise RDBMS, is optimized for workgroups of two to thirty simultaneous users. This cost-effective, department-level solution provides high performance, multi-user support, and cross-platform interoperability. The Progress Workgroup RDBMS meets the needs of workgroup applications by running on a wide variety of hardware and operating system platforms. Because the flexible database architecture provides optimal throughput on all supported platforms, a database developed on one machine can serve applications on other systems and network configurations.

The Progress Personal RDBMS is bundled with Progress development tools, including Progress ProVision Plus, and is suitable for deploying single-user SQL-based and 4GL-based applications and for developing, prototyping and testing applications.

PROGRESS OPEN APPSERVER

Progress Open AppServer supports distributed enterprise applications that leverage existing investments, support new technologies, and communicate with other applications as needed. An integrated application server for both Progress Version 9 4GL-based applications and Progress WebSpeed Version 3.0 Web-based applications, Progress Open AppServer forms a middle tier between an application's user interface and its back-end data. Progress Open AppServer allows interoperability with various clients and various data sources and improves the performance and scalability of business applications. Progress Open AppServer uses a component-based model for partitioning an application for efficient deployment. Progress 4GL procedures can be encapsulated into components that represent an application's business logic. Components can then be placed on client systems or onto faster server machines distributed throughout the enterprise or the Web. When distributed, the business logic components are reusable across multiple applications. A new component called the SmartDataObject gives developers the ability to create these components.

Progress Open AppServer components can run on a single Windows NT(R) or UNIX(R) workstation for faster processing or on multiple machines for failover capabilities. Additionally, all business logic and components can be accessed by multiple user interfaces for broad client support. The AppServer Partitioning Tool, part of Progress Version 9, makes it possible to code applications using distributed components or "partitions" that can be run either remotely on a Progress Open AppServer or locally on the client. Furthermore, the decision on whether to run remotely or locally can be made at runtime without recompiling the client application. A developer can create and compile an application once and deploy it in many different Progress Open AppServer configurations. Progress Open AppServers can connect across the network to other Progress Open AppServers in complex multi-tier configurations, allowing more effective enterprise business solutions that maximize available computing resources.

PROGRESS DATASERVERS

The Company provides developers with a transparent interface to a wide range of database management systems through Progress DataServers. These products offer full read, write, update and delete capabilities to diverse data management systems and enable developers to write applications once and deploy them across a broad spectrum of data sources. Progress DataServers also enable existing Progress 4GL and web-based applications to access non-Progress data sources and allow the integration of new and legacy applications with diverse databases.

Progress DataServer products include the Progress Oracle(R) DataServer, the Progress ODBC DataServer, which is available in Enterprise and Personal editions, and the Progress/400 DataServer. These products provide an environment for developing and deploying Progress 4GL and web-based applications designed for heterogeneous, distributed computing environments.

PROGRESS WEBSPEED

Progress WebSpeed is a comprehensive environment for web-enabling existing applications and building new Internet Transaction Processing ("ITP") applications that deliver a high level of database connectivity and transaction management. Progress WebSpeed consists of two components: Progress WebSpeed Workshop and Progress WebSpeed Transaction Server. Progress WebSpeed Workshop is an integrated suite of development tools for building ITP applications that deliver powerful database connectivity and state management. Progress WebSpeed Transaction Server provides a robust platform for ITP applications that require high scalability and rapid response rates.

Progress WebSpeed Workshop supports a component development paradigm that allows developers to create and share business logic across web and client/server applications. Developers can define and reuse SmartObjects in web and client/server applications, offering code inheritance, encapsulation and other object-oriented development features.

Progress WebSpeed Transaction Server provides high throughput, dynamic load balancing, and scalability to handle thousands of simultaneous users. Progress WebSpeed Transaction Server includes record locking, transaction rollback, and two-phase commit capabilities that safeguard application and data integrity, even if transactions are interrupted, and ensure the integrity of transactions that span multiple databases.

PROGRESS APPTIVITY PRODUCT LINE

Progress Apptivity provides the capabilities to let developers create applications that dynamically integrate and manage data from diverse business systems, including databases, enterprise and custom applications, and legacy systems. The Company released Progress Apptivity Version 3.0 in October 1998. In a single, integrated environment, Progress Apptivity Version 3 provides the enterprise application server and rapid application development tools that developers need to quickly develop and deploy business applications on the Web. Progress Apptivity is a complete development and deployment environment that tightly integrates an open, standards-based, highly scalable application server, a productive component-based, visual development environment and a component framework for building distributed business applications.

PROGRESS APPTIVITY DEVELOPER

Progress Apptivity Developer is an integrated development environment designed to simplify and accelerate the development of distributed, Web-deployed business applications that leverage the capabilities of the Progress Apptivity Application Server. The product provides a comprehensive toolset and component framework for developing both the client and server portions of the application. Progress Apptivity Developer provides a single integrated environment for building data-centric HTML pages, interactive Java forms and reusable Enterprise JavaBeans(TM) server components. The toolset includes a customizable environment, a color-coded editor, an integrated Java debugger and other productivity tools. Progress Apptivity Developer supports team-based development and speeds the development process with its SmartComponent framework and comprehensive set of wizards that perform many functions including page layout, creating client and server business logic and working with CORBA objects.

PROGRESS APPTIVITY APPLICATION SERVER

The Progress Apptivity Application Server is an open, standards-based and highly scalable application server that simplifies the process of web-enabling legacy business applications and data. The product includes numerous features such as an extensible CORBA-based server architecture that supports Enterprise JavaBeans and SmartAdapters(TM) that allow applications to access an external data source through a standard data interface model. Since Progress Apptivity Application Server maintains business logic on a central server, applications can be deployed faster and with lower maintenance costs. Progress Apptivity's SmartConnect capabilities, which include native support for JDBC-and ODBC-compliant databases, allow developers to build content-rich applications that dynamically aggregate and manage data from diverse business processes and data sources.

Progress Apptivity Application Server has multi-threaded server architecture that provides a secure and scalable foundation for business applications. Progress Apptivity Application Server includes comprehensive security, load balancing and automatic failover that ensures no single point of failure and provides a high level of application reliability and scalability. The product has an Object Request Broker ("ORB")-neutral, CORBA-based architecture and includes IONA Technologies Plc's OrbixWeb, a leading business ORB. Progress Apptivity Application Server also includes Apptivity Explorer, an application monitoring and management tool.

INTERNET SOFTWARE QUALITY PRODUCT LINE

The ISQ product line is the Company's newest and includes a set of products designed to provide a full line of solutions geared toward the management of applications and networks by determining their availability, performance and recoverability. The ISQ product line currently includes Progress(R) IPQoS(TM), Progress(R) IPAccounting(TM), Progress(R) Lighthouse(TM), Progress(R) ProtoSpeed(TM) and the Crescent Division product set.

PROGRESS IPQOS

Progress IPQoS enables developers to introduce a new element into network management capabilities -- the ability to monitor service levels for specific network resources throughout the entire network. Progress IPQoS integrates with standard SNMP management platforms including SPECTRUM(R), OpenView, Tivoli(R) and others to add socket-level TCP/IP and IPX/SPX resource monitoring. Progress IPQoS allows users to detect and identify resource and application failures in the network, create detailed reports of enterprise resources, visualize the performance of a particular resource using standard graphing capabilities and make decisions to route network traffic more efficiently based on historical trends.

PROGRESS IPACCOUNTING

Progress IPAccounting allows users to monitor and capture layer-3/layer-4 traffic. This includes email, e-commerce, voice over IP and video conferencing. Progress IPAccounting provides the functionality to filter network traffic by application protocol, IP address and port, log all or part of protocol transactions to a central database using filters, catalog requests and replies and log a total byte count for each protocol transaction, and associate the IP address of a protocol transaction with an authenticated user.

PROGRESS LIGHTHOUSE

Progress LightHouse delivers four essential services (persistence, installation, configuration and visualization) that allow for a sophisticated level of network device management and control. The persistence service is built on top of the extensible Progress Repository, which includes information about network devices, their properties, functions and relationships, and includes a browser interface for viewing, editing and navigating the data in this repository. Installation services use information from this repository to assign IP addresses to network devices. Configuration services allow users to edit settings and forward these settings to the device located on the network. Visualization services enable users to visualize network devices during operation and monitor performance levels.

PROGRESS PROTOSPEED

Progress ProtoSpeed is an Internet protocol debugger. Progress ProtoSpeed goes beyond traditional debugging capabilities by providing the ability to examine distributed objects from any location on the network. This simplifies distributed debugging by enabling developers to debug multiple objects: local and remote, running in the browser, outside the browser, or on the server. Progress ProtoSpeed also provides Internet protocol debugging capabilities, giving developers the ability to set breakpoints and modify and record multiple protocol streams in real-time.

CRESCENT DIVISION PRODUCTS

The Crescent Division of the Company provides advanced client/server tools and components to Visual Basic and Visual J++ development teams. The Crescent Division's strategy in the workgroup/departmental tools market complements Visual Basic and Visual J++ by offering an integrated suite of add-on tools and components that enable professional developers to make client/server business application development easy and intuitive. The products offered by the Crescent Division include Crescent Internet ToolPak(TM), QuickPak(R) VB/J++ and PDQComm(R).

PRODUCT DEVELOPMENT

To date, most of the Company's products have been developed by its internal product development staff. Although the Company believes that the features and performance of its products are competitive with those of other available application development and deployment tools and that none of its current product versions is approaching obsolescence, the Company believes that continuing enhancements of its products will be required to enable the Company to maintain its competitive position.

The Company intends to focus its principal future product development efforts on developing new products and updating existing products in order to realize the Company's vision of the expected direction of application development technology -- which the Company describes as Universal Application Architecture ("UAA"). UAA is an approach to application development and deployment technology that relies on server-centric performance and maintainability, component-based modularity and standards-based interoperability and integration.

In the server-centric UAA model, the business logic of an application resides primarily on the server, accessed by users with thin clients or Web browsers. Application code that is more suitable for client side execution, such as user interface logic, data entry validation, and the like, is distributed as needed to the client but managed by the server. Component-based modularity is an application development technique derived from object-oriented programming in which applications are built as encapsulated blocks of logic. This enables client/server applications to be rewritten into other languages, such as Java, in incremental steps, easing the transition to next-generation architectures. Standards-based interoperability facilitates communication between business application logic and a variety of clients and a variety of data sources. Business applications developed within this framework will include the messaging standards of CORBA, a standard that enables software programs written in any programming language to communicate with each other and execute on any platform.

The Company's product development staff consisted of 225 employees as of November 30, 1998. Product development is primarily conducted at the Company's offices in Bedford, Massachusetts, Newark, California and Nashua, New Hampshire. Limited work related to product localization may also be performed at the Company's international subsidiaries. In fiscal years 1998, 1997 and 1996, the Company spent $32.2 million, $28.9 million and $26.4 million, respectively, on product development, of which $2.0 million, $1.9 million and $2.5 million, respectively, were capitalized in those years. The Company believes that the experience and depth of its product development staff are important factors in the Company's success.

CUSTOMERS

The Company markets its products worldwide to ISVs and IT departments of corporations and government agencies. No single customer has accounted for more than 10% of the Company's total revenue in any of its last three fiscal years.

Independent Software Vendors. The Company's ISVs provide the Company with broad market coverage, offer an extensive library of commercial applications and are a source of follow-on revenue. PSC publishes Application Catalogs and includes ISVs in trade shows and other marketing programs. PSC also has kept entry costs for ISVs low to encourage a wide variety of ISVs to build applications. An ISV typically takes 6 to 18 months to develop an application. Although many of the Company's ISVs have developed successful applications and have large installed customer bases, others are engaged in earlier stages of product development and marketing and may not contribute follow-on revenue to PSC for some time, if at all. However, if an ISV succeeds in marketing its applications, the Company obtains follow-on revenue as the ISV licenses copies of the Company's deployment products to permit its application to be installed and used by customers.

IT Departments. PSC licenses its products to IT departments of corporations, government agencies and other organizations to build complex applications. Large IT departments that purchase ISV applications often also purchase the Company's development tools to supplement their internal application development. Like ISVs, IT customers may also license deployment products to install applications at additional user sites.

Apptivity Resellers. In October 1997, the Company initiated the Apptivity Partner Program, a new reseller program designed to promote sales of its Apptivity line of Java business application development tools. While the Company has a long-standing ISV Program for its core products, the Apptivity Partner Program represents the first time that PSC has marketed its products through the pure reseller channel. The Apptivity Partner Program offers various levels of participation, with graded levels of competitive discounts. Resellers will purchase directly from PSC in order to eliminate potential channel conflicts. The Company provides technical and marketing assistance and is seeking to partner with a limited number of resellers in each major market.

SALES AND MARKETING

The Company sells its products through its direct sales force in the United States and in over 20 other countries and through independent distributors in over 50 countries outside North America. The sales, marketing and service groups are organized by region into North America, EMEA, Asia Pacific, Latin America, and Japan. The Company believes that this structure allows it to maintain direct contact with and better support its customers and to control its international distribution. The Company's international subsidiaries provide focused local marketing efforts and are better able to directly respond to changes in local conditions. Financial information relating to business segment and international operations is detailed in Note 10 of Notes to Consolidated Financial Statements on page 43 in the 1998 Annual Report to Shareholders and is incorporated herein by reference.

Sales personnel are responsible for developing new ISV and IT accounts, assisting ISVs in closing major accounts and servicing existing customers. The Company actively seeks to avoid conflict between the sales efforts of its ISVs and the Company's own sales efforts.

PSC uses its telephone sales and sales administration groups to enhance its direct sales efforts and to generate new business and follow-on business from existing customers. These groups may provide evaluation copies to ISVs or IT organizations to help qualify them as prospective customers, and also sell additional development and deployment products to existing customers.

The Company's marketing department conducts extensive marketing programs designed to ensure a stream of market-ready products, raise general awareness of PSC, generate leads for the PSC sales organization and promote the Company's various product lines. These programs include public relations, direct mail, participation in trade shows, advertising and production of collateral literature. The Company utilizes the "Powered by Progress" branding program in order to raise awareness of its products and their capabilities in the enterprise application development market. The Company sponsored three regional user conferences in the United States, the United Kingdom and Australia in fiscal 1998. The Company is planning to hold a single worldwide user conference in the United States in 1999.

CUSTOMER SUPPORT

The Company's technical support staff provides telephone support to application developers and end-users using a computerized call tracking and problem reporting system. PSC also provides custom software development, consulting services and training throughout the world. The Company's software licenses generally are perpetual licenses. Customers may also purchase an annual maintenance service entitling them to software updates, technical support and technical bulletins. The annual fee for maintenance is generally 15% to 20% of the current list price of the product to be maintained; first year maintenance is not included with the Company's products and is purchased separately. The Company provides technical support to customers primarily through its technical support centers in Bedford, Massachusetts; Rotterdam, The Netherlands; and Melbourne, Australia. Some local support is also provided by international subsidiaries in their own countries.

The Company's professional services organization delivers a total business solution for customers through a combination of products, consulting and education. The Company's worldwide consulting organization offers project management, custom development, programming, application implementation, Internet services, Y2K support, migration services and other services. The Company's consulting organization also provides services to Web-enable existing applications or take advantage of the capabilities of new product releases.

Consulting and training services for customers outside North America are provided by personnel at the Company's international subsidiaries and distributors. Revenue from maintenance and services was 53%, 49% and 47% of total revenue for fiscal years 1998, 1997 and 1996, respectively.

COMPETITION

The computer software industry is intensely competitive. The Company experiences significant competition from a variety of sources with respect to all its products. The Company believes that the breadth and integration of its product offerings have become increasingly important competitive advantages. Other factors affecting competition in the markets served by the Company include product performance in complex applications, application portability, vendor experience, ease of integration, price, training and support. The Company believes that it competes favorably with respect to these factors.

The Company competes with a number of entities, principally application development tools vendors, such as Forte Software Inc., Inprise Corporation, Powersoft Corporation, a subsidiary of Sybase, Inc., and Uniface, a division of Compuware Corporation, and relational database vendors offering tools in conjunction with their database systems, such as CA Ingres, a subsidiary of Computer Associates International, Inc., Informix Corporation, Microsoft Corporation, Oracle Corporation and Sybase, Inc. The Company believes that the database market is currently dominated by Oracle and Microsoft, and that there is no dominant application development tools vendor. Some of these competitors have greater financial, marketing or technical resources than the Company and may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products than can the Company. Increased competition could make it more difficult for the Company to maintain its market presence.

COPYRIGHTS, TRADEMARKS, PATENTS AND LICENSES

In accordance with industry practice, the Company relies upon a combination of contractual provisions and copyright, trademark and trade secret laws to protect its proprietary rights in its products. The Company distributes its products under software license agreements which grant customers a perpetual non-exclusive license to use the Company's products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of the Company's products. In addition, the Company attempts to protect its trade secrets and other proprietary information through agreements with employees and consultants. Although the Company intends to protect its rights vigorously, there can be no assurance that these measures will be successful.

The Company seeks to protect the source code of its products as a trade secret and as an unpublished copyrighted work. The Company has also made patent applications for some of its various product technologies. Where possible, the Company seeks to obtain protection of its product names through trademark registration and other similar procedures.

The Company believes that, due to the rapid pace of innovation within its industry, factors such as the technological and creative skills of its personnel are more important in establishing and maintaining a leadership position within the industry than are the various legal protections of its technology. In addition, the Company believes that the nature of its customers, the importance of the Company's products to them and their need for continuing product support reduce the risk of unauthorized reproduction.

BACKLOG

The Company generally ships its products within 30 days after acceptance of a customer purchase order and execution of a license agreement. Accordingly, the Company does not believe that its backlog at any particular point in time is indicative of future sales levels.

EMPLOYEES

As of November 30, 1998, the Company had 1,201 employees worldwide, including 476 in sales and marketing, 309 in customer support and services (including manufacturing and distribution), 225 in product development and 191 in administration. The competition in recruiting skilled technical personnel in the computer software industry is intense. The Company believes that its ability to attract and retain qualified employees is an important factor in its growth and development, and that its future success will depend, in large measure, on its ability to continue to attract and retain qualified employees. To date, the Company has been successful in recruiting and retaining sufficient numbers of qualified personnel to effectively conduct its business. None of the Company's employees is represented by a labor union. The Company has experienced no work stoppages and believes its relations with employees are good.

The Company has adopted policies with regard to issuance of stock options and payment of cash bonuses and contributions to retirement plans in years in which the Company has met or exceeded its financial plan. These policies are designed to minimize employee turnover, although there can be no assurance that such policies will be successful.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information regarding the executive officers of the Company.

NAME	AGE	POSITION
Joseph W. Alsop	53	President, Treasurer and Director
Jennifer J. Bergantino	39	Vice President, Marketing and Strategic Planning
David G. Ireland	52	Vice President and General Manager, Core Products and Services
Richard D. Reidy	39	Vice President, Product Development
Norman R. Robertson	50	Vice President, Finance and Administration and Chief Financial Officer
David P. Vesty	46	Vice President, Worldwide Sales

Mr. Alsop, a founder of the Company, has been a director and President of the Company since its inception in 1981.

Ms. Bergantino joined the Company in January 1994 as Manager, Technology Marketing. In January 1995, she was appointed Director, Crescent Business Operations, was elected Vice President, Product

Marketing and Planning in February 1996 and was elected Vice President, Marketing and Strategic Planning in July 1996. From 1991 to 1993, she was employed by Component Software Corporation, a computer software company, as Vice President, Marketing.

Mr. Ireland joined the Company in September 1997 as Vice President, Core Products and Services and was elected Vice President and General Manager, Core Products and Services in March 1998. From 1994 to 1997, Mr. Ireland was employed by Marcam Corporation, a computer software company, as a Vice President and General Manager. From 1992 to 1994, Mr. Ireland was employed by Cognos Inc., a computer software company, as Senior Vice President, Powerhouse Products.

Mr. Reidy was elected Vice President, Development Tools in July 1996 and was elected Vice President, Product Development in July 1997. From 1994 to 1996, Mr. Reidy held various management positions within the product development organization of the Company. Mr. Reidy joined the Company in June 1985.

Mr. Robertson joined the Company in May 1996 as Vice President, Finance and Chief Financial Officer and was elected Vice President, Finance and Administration and Chief Financial Officer in December 1997. From 1993 to 1996 he was employed by M/A-COM, Inc., a telecommunications company, as Director of Finance and Administration.

Mr. Vesty was elected Vice President, International Operations in June 1989 and was elected Vice President, Worldwide Sales in December 1996. Mr. Vesty joined the Company in June 1986.

ITEM 2. PROPERTIES

The Company's principal administrative, sales, support, marketing and product development facility is located in a single leased building of approximately 165,000 square feet in Bedford, Massachusetts. The Company leases approximately 58,000 square feet in Wilmington, Massachusetts and maintains its manufacturing and distribution operations at this location. In addition, the Company maintains offices in 18 other locations in North America and 31 locations outside North America. The Bedford lease expires in August 2002. The terms of all other leases generally range from one to seven years. The Company believes that its present and proposed facilities are adequate for its current needs and that suitable additional space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

Naf Naf S.A. commenced an expert proceeding in the Paris Trade Court, Paris, France, against Progress Software S.A., Timeless S.A. and Digital Equipment France in May 1996. Progress Software Corporation was added as a party to the expert proceeding in June 1997. The basis of the proceeding against Progress Software was alleged late availability of Progress Software products and alleged product deficiencies after delivery by Timeless to Naf Naf of such products. On November 20, 1998 all the parties to the expert proceeding entered into a settlement agreement which became binding on the parties on December 4, 1998. The settlement did not have a material effect on the Company's consolidated financial position or results of operations.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of the fiscal year ended November 30, 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The information appearing under the caption "Market for Registrant's Common Equity and Related Shareholder Matters" on page 45 of the 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information appearing under the caption "Selected Consolidated Financial Data" on page 22 of the 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 23 to 31 of the 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information appearing under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 23 to 31 of the 1998 Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, related notes and independent auditors' report appearing on pages 32 to 44 of the 1998 Annual Report to Shareholders and the information appearing under the caption "Selected Quarterly Financial Data" on page 45 of the 1998 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with accountants on any matter of accounting principles, financial statement disclosure, or auditing scope or procedures required to be reported under this item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information regarding executive officers set forth under the caption "Executive Officers of the Registrant" in Item 1 of this Annual Report is incorporated herein by reference.

The information regarding directors set forth under the caption "Election of Directors" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 23, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1998, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Executive Compensation" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 23, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1998, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership of Certain Holders and Management" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 23, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1998, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Certain Relationships and Related Transactions" appearing in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 23, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after November 30, 1998, is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS

The following financial statements are included in the Company's 1998 Annual Report to Shareholders and are incorporated herein by reference:

Consolidated Balance Sheets as of November 30, 1998 and 1997

Consolidated Statements of Operations for the years ended November 30, 1998, 1997, and 1996

Consolidated Statements of Shareholders' Equity for the years ended November 30, 1998, 1997, and 1996

Consolidated Statements of Cash Flows for the years ended November 30, 1998, 1997, and 1996

Notes to Consolidated Financial Statements

Independent Auditors' Report

Supplemental Financial Data not covered by the Independent Auditors' Report:

Selected Quarterly Financial Data

(b) REPORTS ON FORM 8-K:

No reports on Form 8-K were filed by the Company during the fourth quarter of the fiscal year ended November 30, 1998.

(c) EXHIBITS

Documents listed below, except for documents identified by parenthetical numbers, are being filed as exhibits herewith. Documents identified by parenthetical numbers are not being filed herewith and, pursuant to Rule 12b-32 of the General Rules and Regulations promulgated by the Commission under the Securities Exchange Act of 1934 (the "Act"), reference is made to such documents as previously filed as exhibits with the Commission. The Company's file number under the Act is 0-19417.

3.1	Restated Articles of Organization of the Company(1)
3.1.1	Articles of Amendment to Restated Articles of Organization of the Company(2)
3.1.2	Articles of Amendment to Restated Articles of Organization of the Company(3)
3.2	By-Laws of the Company, as amended and restated(4)
4.1	Specimen certificate for the Common Stock of the Company(5)
10.1	1984 Incentive Stock Option Plan, with amendments(6)
10.2	Amended and Restated 1984 Incentive Stock Option Plan(7)
10.3	1991 Employee Stock Purchase Plan, as amended(8)

10.4	Progress Software Corporation 401(k) Plan with Fidelity Institutional Retirement Services Company(9)
10.5	1992 Incentive and Nonqualified Stock Option Plan(10)
10.6	First Amended and Restated Lease dated August 11, 1994 between the Company and the Equitable Life Assurance Company of the United States(11)
10.7	1994 Stock Incentive Plan(12)
10.8	1993 Directors' Stock Option Plan(13)
10.9	1997 Stock Incentive Plan(14)
10.10	Employee Retention and Motivation Agreement executed by each of the Executive Officers
13.1	1998 Annual Report to Shareholders (which is not deemed to be "filed" except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K)
21.1	List of Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP
27.1	Financial Data Schedule (EDGAR version only)

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(1) Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997.

(2) Incorporated by reference to Exhibit 3.1.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1994.

(3) Incorporated by reference to Exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997.

(4) Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 31, 1991.

(5) Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

(6) Incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

(7) Incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

(8) Incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1998.

(9) Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1991.

(10) Incorporated by reference to Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1992.

(11) Incorporated by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

(12) Incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

(13) Incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

(14) Incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1997

(D) FINANCIAL STATEMENT SCHEDULES

All schedules are omitted because they are not applicable or the required information is shown on the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the Town of Bedford, Commonwealth of Massachusetts on the 24th day of February, 1999.

PROGRESS SOFTWARE CORPORATION

BY: /s/ JOSEPH W. ALSOP

Joseph W. Alsop
President and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ JOSEPH W. ALSOP Joseph W. Alsop	President, Treasurer, and Director (Principal Executive Officer)	February 24, 1999
/s/ NORMAN R. ROBERTSON Norman R. Robertson	Vice President, Finance and Administration and Chief Financial Officer (Principal Financial Officer)	February 24, 1999
/s/ DAVID H. BENTON, JR. David H. Benton, Jr.	Corporate Controller (Principal Accounting Officer)	February 24, 1999
/s/ LARRY R. HARRIS Larry R. Harris	Director	February 24, 1999
/s/ ROBERT J. LEPKOWSKI Robert J. Lepkowski	Director	February 24, 1999
/s/ MICHAEL L. MARK Michael L. Mark	Director	February 24, 1999
/s/ ARTHUR J. MARKS Arthur J. Marks	Director	February 24, 1999
/s/ SCOTT A. MCGREGOR Scott A. McGregor	Director	February 24, 1999
/s/ AMRAM RASIEL Amram Rasiel	Director	February 24, 1999
/s/ JAMES W. STOREY James W. Storey	Director	February 24, 1999

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
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3.1.1	Articles of Amendment to Restated Articles of Organization of the Company(2)
3.1.2	Articles of Amendment to Restated Articles of Organization of the Company(3)
3.2	By-Laws of the Company, as amended and restated(4)
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13.1	1998 Annual Report to Shareholders (which is not deemed to be "filed" except to the extent that portions thereof are expressly incorporated by reference in this Annual Report on Form 10-K)
21.1	List of Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche LLP
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(1) Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997.

(2) Incorporated by reference to Exhibit 3.1.1 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1994.

(3) Incorporated by reference to Exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997.

(4) Incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended November 31, 1991.

(5) Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

(6) Incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1, File No. 33-41223, as amended.

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(11) Incorporated by reference to Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

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(13) Incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 1994.

(14) Incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended May 31, 1997

EXHIBIT 10.10

Note: This agreement was individually executed by each executive officer of the Company during fiscal 1998.

EMPLOYEE RETENTION AND MOTIVATION AGREEMENT

This Agreement (the "Agreement") is effective as of _________________, (the "Agreement Date") by and between ________________ (the "Employee") and Progress Software Corporation, a Massachusetts corporation (the "Company").

R E C I T A L S

A. The Employee presently serves at the pleasure of the Board of Directors of the Company (the "Board") in a role that is important to the continued conduct of the Company's business and operations.

B. The Board has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication and objectivity of the Employee, 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 Employee with certain benefits following a Change of Control and certain severance benefits upon the Employee's termination of employment following a Change of Control.

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

E. 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 Employee's execution of the Employee Proprietary Information and Confidentiality Agreement, attached hereto as Exhibit A; and in consideration of the continuing employment of Employee by the Company, the parties agree as follows:

1. TERM OF EMPLOYMENT. The Company and the Employee acknowledge that the Employee'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 Employee, that is signed on behalf of the Company and now or hereafter in effect. If the Employee's employment terminates for any reason, the Employee 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 Employee and the Company, or (iii) the Company's existing severance guidelines and benefits 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 a termination of employment occurring prior to the termination of the provisions of this Agreement.

2. BENEFITS IMMEDIATELY FOLLOWING CHANGE OF CONTROL.

(a) ACCELERATED VESTING OF A PORTION OF OUTSTANDING OPTION. Upon a Change of Control, the vesting of each outstanding stock option held by the Employee under the Company's stock option plans on the date of the Change of Control, shall automatically accelerate as to the last six (6) months of the unvested portion of each such option.

(b) PAYMENT OF MANAGEMENT BONUS. Effective immediately upon a Change of Control, the Employee's annual management bonus shall be fixed at the Employee's target bonus level as in effect immediately prior to the Change of Control and the Employee shall be paid a pro-rated portion of such bonus, as of the date of the Change of Control. In addition, the Employee shall be paid the balance of the fixed bonus at the end of the Company's fiscal year provided that the Employee remains employed as of the applicable date or upon the Employee's Involuntary Termination (as defined in Section 4(b) below), whichever event occurs earlier. Any payment to which the Employee 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 Employee's employment terminates after a Change of Control, then, subject to Section 5 below, the Employee shall be entitled to receive severance benefits as follows:

(i) INVOLUNTARY TERMINATION. If the Employee's employment is terminated within six (6) months following a Change of Control as a result of Involuntary Termination other than for Cause, then the Employee shall be entitled to receive a lump sum severance payment in an amount equal to nine (9) months of the Employee's annual Target Compensation; and in addition, for a period of nine (9) months after such termination, the Company shall be obligated to provide the Employee with benefits that are substantially equivalent to the Employee's benefits that were in effect immediately prior to the Change of Control. If the Employee's employment is terminated after six (6) months and prior to twelve (12) months following a Change of Control as a result of Involuntary Termination other than for Cause, then the Employee shall be entitled to receive a lump sum severance payment in an amount equal to six (6) months of the

Employee's annual Target Compensation; and in addition, for a period of six (6) months after such termination, the Company shall be obligated to provide the Employee with benefits that are substantially equivalent to the Employee's benefits that were in effect immediately prior to the Change of Control. Any severance payments to which the Employee is entitled pursuant to this section shall be paid in a lump sum within thirty (30) days of the effective date of the Employee'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 Employee from the period of time immediately prior to the Change of Control through the effective date of the Employee's termination. With respect to any taxable income that the Employee is deemed to have received for federal income tax purposes by virtue of the Company providing continued employee benefits to the Employee, the Company shall make a cash payment to the Employee such that the net economic result to the Employee will be as if such benefits were provided on a tax-free basis to the same extent as would have been applicable had the Employee's employment not been terminated.

If the Employee's employment is terminated at any time following a Change of Control as a result of Involuntary Termination other than for Cause, then the vesting of each outstanding stock option which had been granted prior to the date of the Change of Control, held by the Employee under the Company's stock option plans, shall accelerate as to the last twelve (12) months of the unvested portion of each such option on the effective date of the Involuntary Termination, after taking into account accelerated vesting in accordance with Section 2(a) above.

(ii) VOLUNTARY RESIGNATION. If the Employee's employment terminates by reason of the Employee's voluntary resignation (and is not an Involuntary Termination or a termination for Cause), then the Employee 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 benefits plans at the time of such termination.

(iii) DISABILITY; DEATH. If the Company terminates the Employee's employment as a result of the Employee's Disability, or such Employee's employment is terminated due to the death of the Employee, then the Employee 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 benefits plans at the time of such Disability of death.

(iv) TERMINATION FOR CAUSE. If the Employee is terminated for Cause, then the Employee 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 FROM CHANGE OF CONTROL. If the Employee'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 Employee 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) 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 after such merger or consolidation, or (B) a merger or consolidation which would result in the voting securities of the Company 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 acquiror 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 Employee's express written consent, the assignment to the Employee of any duties or the significant reduction of the Employee's duties, either of which is materially inconsistent with the Employee's position with the Company and responsibilities in effect immediately prior to such assignment, or the removal of the Employee 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 Employee 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 Employee is entitled immediately prior to such reduction with the result that the Employee's overall benefits package is significantly reduced; (iv) the relocation of the Employee to a facility or a location more than 50 miles from the Employee's then present location, without the Employee's express written consent; (v) any purported termination of the Employee 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 Employee.

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

(d) DISABILITY. "Disability" shall mean that the Employee 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 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 Employee or the Employee's legal representative (such agreement as to acceptability not to be unreasonably withheld). Termination resulting from Disability may only be effected after at least 30 day's written notice by the Company of its intention to terminate the Employee's employment. In the event that the Employee resumes the performance of substantially all of his or her duties as an employee of the Company before the 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 compensation due an Employee based upon 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 Employee (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (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 Employee'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 Employee 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 Employee otherwise agree in writing, any determination required under this Section 5 shall be made in writing in good faith by the accounting firm serving as the Company's independent public accountants immediately prior to the Change of Control (the "Accountants"), in good faith consultation with the Employee. In the event of a reduction in benefits hereunder, the Employee 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 Employee 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 Employee's benefits are reduced to avoid the Excise Tax pursuant to Section 5 hereof and notwithstanding such reduction, the IRS determines that Employee is liable for the Excise Tax as a result of the receipt of severance benefits from the Company, then Employee 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 Employee'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, Employee shall pay the Excise Tax. The Repayment Obligation shall be discharged within 30 days of either (i) Employee 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 Employee 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) EMPLOYEE'S SUCCESSORS. The terms of this Agreement and all rights of the Employees hereunder shall inure to the benefit of, and be enforceable by, the Employee'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 Employee, 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 Employee's employment with the Company at any time following a Change of Control shall be communicated by notice of termination to the Employee 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 EMPLOYEE OF INVOLUNTARY TERMINATION BY THE COMPANY. In the event the Employee determines that an Involuntary Termination has occurred at any time following a Change of Control, the Employee 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 Employee to the Company in accordance with Section 8(a) of this Agreement within ninety (90) days following the date on which such Involuntary Termination 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 Employee 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 Employee to include in the notice any fact or circumstance which contributes to a showing of Involuntary Termination shall not waive any right of the Employee hereunder or preclude the Employee from asserting such fact or circumstance in enforcing his or her rights hereunder.

9. MISCELLANEOUS PROVISIONS.

(a) NO DUTY TO MITIGATE. The Employee 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 Employee 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 Employee and by an authorized officer of the Company (other than the Employee). 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 Employee 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 unenforceability 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 Employee 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, Employee 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 Employee.

(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 Agreement Date.

Progress Software Corporation

By: ----------------------------------
Authorized Officer

By: ----------------------------------
Employee

EXHIBIT 13.1

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and related notes:

(In thousands, except per share data)	Year Ended November 30,				
	1998	1997	1996	1995	1994
Statement of Operations Data:					
Revenue:					
Software licenses	$ 113,312	$ 95,579	$ 93,178	$ 110,785	$ 88,426
Maintenance and services	126,578	92,735	83,512	69,350	50,811
Total revenue	239,890	188,314	176,690	180,135	139,237
Costs and expenses:					
Cost of revenue	56,038	41,238	38,539	31,896	21,634
Sales and marketing	96,832	87,570	87,830	79,546	62,477
Product development	30,154	26,991	23,951	24,175	20,203
General and administrative	26,839	23,202	21,909	18,813	15,092
Non-recurring charges	--	11,537	--	2,373	--
Total costs and expenses	209,863	190,538	172,229	156,803	119,406
Income (loss) from operations	30,027	(2,224)*	4,461	23,332**	19,831
Other income, net	3,941	5,356	3,869	3,169	2,136
Income before provision for income taxes	33,968	3,132*	8,330	26,501**	21,967
Provision for income taxes	11,210	4,739	2,833	9,817	7,579
Net income (loss)	$ 22,758	$ (1,607)*	$ 5,497	$ 16,684**	$ 14,388
Basic earnings (loss) per share	$ 1.32	$ (0.09)*	$ 0.29	$ 0.88**	$ 0.78
Weighted average shares outstanding (basic)	17,229	18,168	19,234	19,011	18,456
Diluted earnings (loss) per share	$ 1.18	$ (0.09)*	$ 0.28	$ 0.82**	$ 0.74
Weighted average shares outstanding (diluted)	19,280	18,168	19,833	20,257	19,317
Balance Sheet Data:					
Cash and short-term investments	$ 113,999	$ 93,485	$ 97,323	$ 92,338	$ 74,286
Working capital	69,188	67,760	84,207	85,271	66,868
Total assets	206,708	171,733	173,188	175,736	134,554
Long-term debt, including current portion	--	--	122	162	210
Shareholders' equity	102,693	96,439	113,793	113,481	88,517

* Includes non-recurring charges related to the acquisition of Apptivity Corporation of $11.5 million or $0.62 per diluted share. Excluding these non-recurring items, net income would have been $9.7 million or $0.53 per diluted share. See Note 2 of Notes to Consolidated Financial Statements.

** Includes a non-recurring charge for purchase of in-process software development of $2.4 million or $0.12 per diluted share. Excluding this non-recurring item, net income would have been $19.1 million or $0.94 per diluted share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS The Company's total revenue in fiscal 1998 increased 27% from its total revenue in fiscal 1997. The Company's net income increased 135% from $9.7 million, excluding non-recurring, acquisition-related charges, in fiscal 1997 to $22.8 million in fiscal 1998. After including the effect of the non-recurring charges of $11.5 million related to the acquisition of Apptivity Corporation (Apptivity), the Company recorded a net loss of $1.6 million in fiscal 1997.

In fiscal 1997, the Company acquired all of the outstanding stock of Apptivity, a developer of Java-based application development tools, for approximately $11.2 million, consisting of $3.8 million in cash, $1.4 million in assumed and other liabilities, the issuance of 593,485 shares of common stock valued at $5.5 million and the assumption of stock options valued at $0.5 million. The acquisition has been accounted for as a purchase, and accordingly, the results of operations have been included in the Company's operating results from the date of acquisition. The allocation of the purchase price included $10.8 million to in-process software development which was charged to operations as part of the non-recurring charges in the third quarter of fiscal 1997. Additionally, the Company recorded a non-recurring charge of $0.7 million for the writedown of certain capitalized software costs and other intangible assets to fair value after evaluating the impact of the acquisition upon the Company's future operating plans.

The Company's total revenue in fiscal 1997 increased 7% from its total revenue in fiscal 1996. The Company's net income (before non-recurring charges) increased 76% from $5.5 million in fiscal 1996 to $9.7 million in fiscal 1997.

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

	Percentage of Total Revenue			Period-to-Period Change	
	Year Ended November 30,			1998 Compared to 1997	1997 Compared to 1996
	1998	1997	1996		
Revenue:					
Software licenses	47%	51%	53%	19%	3%
Maintenance and services	53	49	47	36	11
Total revenue	100	100	100	27	7
Costs and expenses:					
Cost of software licenses	4	5	5	1	13
Cost of maintenance and services	19	17	17	47	5
Sales and marketing	41	47	50	11	0
Product development	13	14	13	12	13
General and administrative	11	12	12	16	6
Non-recurring charges	--	6	--	--	--
Total costs and expenses	88	101	97	10	11
Income (loss) from operations	12	(1)	3	*	(150)
Other income, net	2	3	2	(26)	38
Income before provision for income taxes	14	2	5	985	(62)
Provision for income taxes	5	3	2	137	67
Net income (loss)	9%	(1)%	3%	*	(129)

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* Not meaningful

FISCAL 1998 COMPARED TO FISCAL 1997 The Company's total revenue increased 27% from $188.3 million in fiscal 1997 to $239.9 million in fiscal 1998. Total revenue would have increased by 30% in fiscal 1998 from fiscal 1997 if exchange rates had been constant as compared to the exchange rates in effect in fiscal 1997.

Software license revenue increased 19% from $95.6 million in fiscal 1997 to $113.3 million in fiscal 1998. The increase in software license revenue in fiscal 1998 as compared to fiscal 1997 was due to greater acceptance of the Company's flagship product family, Progress, and, to a lesser extent, new products such as Progress WebSpeed and Progress Apptivity. Progress Version 8.3 provided customers with increased capabilities through its 32-bit architecture and enhanced database and reporting tools features. The Company also experienced an increase in sales to Independent Software Vendors (ISVs), value-added resellers who resell the Company's products in conjunction with the sale of their applications. The increase in sales to ISVs was primarily due to greater deployment revenue from database, dataservers and reporting tools products.

Maintenance and services revenue increased 36% from $92.7 million in fiscal 1997 to $126.6 million in fiscal 1998. The maintenance and services revenue increase was primarily a result of growth in the Company's installed customer base, greater demand for consulting services and renewal of maintenance contracts. The Company is dedicating more resources to its service businesses in order to take advantage of the market opportunities associated with companies buying packaged applications and engaging service providers to customize such packages. This combination provides companies with a competitive advantage through systems that are uniquely designed for their business.

Total revenue generated in markets outside North America increased 23% from $111.5 million in fiscal 1997 to $137.0 million in fiscal 1998 and represented 57% of total revenue in fiscal 1998 as compared to 58% in fiscal 1997. Total revenue generated in markets outside North America would have represented 58% of total revenue in fiscal 1998 if exchange rates had been constant as compared to the exchange rates in effect in fiscal 1997.

Cost of software licenses consists primarily of cost of product media, documentation, duplication, packaging, royalties and amortization of capitalized software costs. Cost of software licenses increased 1% from $10.0 million in fiscal 1997 to $10.1 million in fiscal 1998, but decreased as a percentage of software license revenue from 10% to 9%. The percentage decrease was due to lower documentation costs and lower amortization expense from capitalized software costs. Cost of software licenses as a percentage of software license revenue can vary depending upon the relative product mix in a given period.

Cost of maintenance and services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and services increased 47% from $31.2 million in fiscal 1997 to $46.0 million in fiscal 1998 and increased as a percentage of maintenance and services revenue from 34% to 36%. The percentage increases were due primarily to a change in the mix of maintenance and service revenue as consulting revenue increased at a greater rate than maintenance revenue and education revenue. Consulting revenue generally has a lower margin than either maintenance or education due to the amount of resources required to produce such revenue. The dollar increase was due primarily to an increase in the technical support, consulting and education staff in fiscal 1998 as compared to fiscal 1997 and greater usage of third-party contractors to fulfill demand for consulting services. The Company increased its technical support, education, and consulting staff from 230 at the end of fiscal 1997 to 282 at the end of fiscal 1998.

Sales and marketing expenses increased 11% from $87.6 million in fiscal 1997 to $96.8 million in fiscal 1998, but decreased as a percentage of total revenue from 47% to 41%. The percentage decrease in sales and marketing expenses was primarily due to improved productivity as revenue increased at a greater rate than sales and marketing expenses during fiscal 1998 as compared to fiscal 1997. The dollar increase in sales and marketing expenses was primarily due to increased headcount and higher average compensation costs, including commissions, for the sales, sales support and marketing staff. Worldwide sales and marketing headcount increased from 454 at the end of fiscal 1997 to 476 at the end of fiscal 1998.

Product development expenses increased 12% from $27.0 million in fiscal 1997 to $30.2 million in fiscal 1998, but decreased as a percentage of total revenue from 14% to 13%. The dollar increase was primarily due to increased personnel costs. The increase in personnel costs was primarily due to higher average compensation costs and increased headcount to support continued new product development efforts. The major product development efforts in fiscal 1998 related to the development of the next versions of the Company's various product lines, including Progress Version 9.0, Progress Apptivity Versions 2 and 3 and various new products for the Internet Software Quality (ISQ) product line. The product development staff increased from 199 at the end of fiscal 1997 to 225 at the end of fiscal 1998.

The Company capitalized $1.9 million of software development costs in fiscal 1997 and $2.0 million in fiscal 1998 in accordance with Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" (SFAS 86). The amounts capitalized represented 6% of total product development costs in each year. Capitalized software costs are amortized over the estimated life of the product (generally four years) and amounts amortized are included in cost of software licenses.

General and administrative expenses include the costs of the finance, human resources, legal, information systems and administrative departments of the Company. General and administrative expenses increased 16% from $23.2 million in fiscal 1997 to $26.8 million in fiscal 1998, but decreased as a percentage of total revenue from 12% to 11%. The dollar increase in general and administrative expenses was primarily due to higher staff levels and average personnel costs and increased goodwill charges resulting from recent acquisitions. The Company increased its administrative staff from 180 at the end of fiscal 1997 to 191 at the end of fiscal 1998.

Income from operations increased as a percentage of total revenue from (1)% in fiscal 1997 (including non-recurring charges of $11.5 million related to the acquisition of Apptivity) to 12% in fiscal 1998. Excluding the non-recurring charges, income from operations in fiscal 1997 was 5% of total revenue.

Excluding the non-recurring charges, income from operations attributable to North America increased from 6% of North American revenue in fiscal 1997 to 18% in fiscal 1998. Income from operations attributable to Europe as a percentage of European revenue was 5% in fiscal 1997 and 12% in fiscal 1998. The increase in income from operations in North America and Europe was due to higher revenue and continued expense control in fiscal 1998 as compared to fiscal 1997. The operating loss in fiscal 1998 in regions outside of North America and Europe related primarily to losses in Latin America as the Company invested in expanding its presence in the region. Operating margins from international operations in the future will depend significantly on the extent and timing of the Company's expansion into new markets, and its ability to achieve economies of scale in established international markets. See Note 10 of Notes to Consolidated Financial Statements.

Other income decreased 26% from $5.4 million in fiscal 1997 to $3.9 million in fiscal 1998. The decrease was due primarily to foreign currency gains in fiscal 1997 versus foreign currency losses in fiscal 1998 and lower amounts for "other income-minority interest" in fiscal 1998, offset to some extent by higher interest income. The foreign currency gain in fiscal

1997 related primarily to gains from the Company's foreign currency hedging programs. All revenue, costs and expenses attributable to the Company's joint venture in Japan are included in the Company's revenue, costs and expenses. To account for the fact that the Company owns only a 51% interest in the joint venture, other income (expense) reflects that portion of the joint venture's income or loss which is attributable to the 49% minority interest in the joint venture. The joint venture generated a net loss in each period presented and the Company recorded as "other income - minority interest" an amount equal to 49% of the joint venture's net loss. The increase in interest income was due to higher average cash balances in fiscal 1998 as compared to fiscal 1997.

The Company's effective tax rate was 33% in fiscal 1998 compared to 151% in fiscal 1997. The decrease in the effective tax rate in fiscal 1998 from fiscal 1997 was due to nondeductible expenses related to the acquisition of Apptivity in fiscal 1997. Excluding these nondeductible expenses, the Company's effective tax rate for fiscal 1997 was 34%. See Note 7 of Notes to Consolidated Financial Statements. The Company expects its effective tax rate to be approximately 32% in fiscal 1999.

FISCAL 1997 COMPARED TO FISCAL 1996 The Company's total revenue increased 7% from $176.7 million in fiscal 1996 to $188.3 million in fiscal 1997. Total revenue would have increased by 11% in fiscal 1997 from fiscal 1996 if exchange rates had been constant as compared to the exchange rates in effect in fiscal 1996. Software license revenue increased 3% from $93.2 million in fiscal 1996 to $95.6 million in fiscal 1997. The software license revenue increase was attributable to greater sales of the Company's flagship products, Progress Versions 7 and 8, a slowdown in the rate of decline of Progress Version 6 and increased acceptance of new products such as Progress WebSpeed. Maintenance and services revenue increased 11% from $83.5 million in fiscal 1996 to $92.7 million in fiscal 1997. The maintenance and services revenue increase was primarily a result of growth in the Company's installed customer base, renewal of maintenance contracts and greater demand for consulting services.

Total revenue generated in markets outside North America increased from $104.6 million in fiscal 1996 to $111.5 million in fiscal 1997 and represented 58% of total revenue in fiscal 1997 as compared to 59% in fiscal 1996. Total revenue generated in markets outside North America would have represented 61% of total revenue in fiscal 1997 if exchange rates had been constant as compared to the exchange rates in effect in fiscal 1996.

Cost of software licenses increased 13% from $8.8 million in fiscal 1996 to $10.0 million in fiscal 1997 and increased as a percentage of software license revenue from 9% to 10%. The percentage and dollar increases were due to an increase in amortization of capitalized software costs and higher royalty expense.

Cost of maintenance and services increased 5% from $29.7 million in fiscal 1996 to $31.2 million in fiscal 1997, but decreased as a percentage of maintenance and services revenue from 36% to 34%. The percentage decrease was due primarily to improved margins in the North America consulting business. The dollar increase was due primarily to the growth in the Company's technical support, education and consulting staff and related costs. Additionally, the Company increased its usage of third-party contractors in fiscal 1997 as compared to fiscal 1996 in order to satisfy demand for increased consulting and training services. The Company increased its technical support, education and consulting staff from 218 at the end of fiscal 1996 to 230 at the end of fiscal 1997.

Sales and marketing expenses decreased slightly from $87.8 million in fiscal 1996 to $87.6 million in fiscal 1997 and decreased as a percentage of total revenue from 50% to 47%. Worldwide sales and marketing headcount decreased from 485 at the end of fiscal 1996 to 454 at the end of fiscal 1997. The reduction in headcount resulted in lower compensation expense. This decrease was offset by increased discretionary marketing program expenses such as advertising, trade shows and direct mail. The decrease in sales and marketing expenses as a percentage of total revenue was primarily due to improved productivity as revenue increased at a greater rate than sales and marketing expenses during fiscal 1997 as compared to fiscal 1996.

Product development expenses increased 13% from $24.0 million in fiscal 1996 to $27.0 million in fiscal 1997 and increased as a percentage of total revenue from 13% to 14%. The dollar and percentage increases were primarily due to increased headcount levels in fiscal 1997 as compared to fiscal 1996 and higher average compensation costs per person. The major product development efforts in fiscal 1997 related to the development of the Progress Apptivity and Progress WebSpeed product lines, as well as a major new release of Progress Version 8. The Company also devoted significant resources to developing the Progress ProtoSpeed product and enhancements to products in the Crescent Division. The product development staff increased from 196 at November 30, 1996 to 199 at November 30, 1997. The Company capitalized $2.5 million of software development costs in fiscal 1996 and $1.9 million in fiscal 1997 in accordance with SFAS 86. The amounts capitalized represented 9% of total product development costs in fiscal 1996 and 6% of total product development costs in fiscal 1997. The decrease in the capitalization rate in fiscal 1997 resulted from fewer projects qualifying for capitalization under the Company's software capitalization policies.

General and administrative expenses increased 6% from $21.9 million in fiscal 1996 to $23.2 million in fiscal 1997 and remained approximately the same percentage of total revenue in each year. The dollar increase in general and administrative expenses was primarily due to higher average personnel costs, including higher incentive compensation costs in fiscal 1997 as compared to fiscal 1996. The Company's administrative headcount was essentially the same at the end of fiscal 1997 as compared to the end of fiscal 1996.

Income from operations decreased as a percentage of total revenue from 3% in fiscal 1996 to (1)% in fiscal 1997 (including non-recurring charges of $11.5 million related to the acquisition of Apptivity). Excluding the non-recurring charges, income from operations in fiscal 1997 was 5% of total revenue.

Excluding the non-recurring charges, income from operations attributable to North America remained approximately 6% of North American revenue in each year. Income from operations attributable to Europe as a percentage of European revenue was 1% in fiscal 1996 and 5% in fiscal 1997. The increase in income from operations in Europe was due to higher revenue and improved expense control in fiscal 1997 as compared to fiscal 1996. The lower operating margin in fiscal 1997 from other operations as compared to operating margins in North America and Europe primarily related to continued losses at the Company's joint venture in Japan. See Note 10 of Notes to Consolidated Financial Statements.

Other income increased $1.5 million from $3.9 million in fiscal 1996 to $5.4 million in fiscal 1997 due primarily to a foreign currency gain of $1.1 million in fiscal 1997 as compared to a foreign currency loss in fiscal 1996. The foreign currency gain in fiscal 1997 related to gains from the Company's foreign currency hedging programs, as well as foreign currency gains and losses related primarily to the translation and settlement of short-term intercompany receivables. During fiscal 1997, the U.S. dollar strengthened considerably against most international currencies. This resulted in lower reported revenue and operating income primarily from the Company's European operations, which was offset to some extent by the Company's foreign exchange hedging program. The increase in other income was also due to an increase in other income-minority interest, offset by slightly lower interest income.

The Company's effective tax rate was 151% in fiscal 1997 compared to 34% in fiscal 1996. The increase in the effective tax rate in fiscal 1997 from fiscal 1996 was due to nondeductible expenses related to the acquisition of Apptivity in fiscal 1997. Excluding these nondeductible expenses, the Company's effective tax rate for fiscal 1997 was 34%. See Note 7 of Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES The Company had $114.0 million in cash and short-term investments at November 30, 1998. The increase of $20.5 million in cash and short-term investments from $93.5 million at November 30, 1997 was primarily due to cash generated from operations and stock option exercises, offset by common stock repurchases, property and equipment purchases and the acquisition of certain assets from its distributor in Brazil. The increase in cash generated from operations from the prior year in both fiscal 1998 and fiscal 1997 was primarily due to improved profitability, before non-cash, non-recurring charges, and stronger cash collections.

In fiscal years 1998, 1997 and 1996, the Company purchased $10.0 million, $10.0 million and $9.5 million, respectively, of property and equipment, which consisted primarily of computer equipment and software, furniture and fixtures and leasehold improvements. The level of property and equipment purchases resulted primarily from continued growth of the business and replacement of older equipment. The Company financed these purchases primarily from cash generated from operations. See Note 4 of Notes to Consolidated Financial Statements.

In fiscal years 1998, 1997 and 1996, the Company purchased 1,750,485 shares, 2,351,400 shares and 686,250 shares, respectively, of its common stock for $33.2 million, $26.6 million and $7.2 million, respectively. The Company financed these purchases primarily from cash generated from operations.

In September 1998, the Board of Directors authorized, for the period October 1, 1998 through September 30, 1999, the purchase of up to 5,000,000 shares of the Company's common stock, at such times when the Company deems such purchases to be an effective use of cash. Shares that are repurchased may be used for various purposes including the issuance of shares pursuant to the Company's stock option plans. At November 30, 1998, approximately 4,800,000 shares of common stock remained available for repurchase under this authorization.

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

Naf Naf S.A. commenced an expert proceeding in the Paris Trade Court, Paris, France, against Progress Software S.A., Timeless S.A. and Digital Equipment France in May 1996. Progress Software Corporation was added as a party to the expert proceeding in June 1997. The basis of the proceeding against Progress Software was alleged late availability of Progress Software products and alleged product deficiencies after delivery by Timeless to Naf Naf of such products. On November 20, 1998 all the parties to the expert proceeding entered into a settlement agreement which became binding on the parties on December 4, 1998. The settlement did not have a material effect on the Company's consolidated financial position or results of operations.

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

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The Company is exposed to a variety of risks, including changes in interest rates affecting the return on its investments and foreign currency fluctuations. The Company has established policies and procedures to manage its exposure to fluctuations in interest rates and foreign currency exchange.

The Company's exposure to market rate risk for changes in interest rates relates to the Company's investment portfolio. The Company has not used derivative financial instruments in its investment portfolio. The Company places its investments with high quality issuers and has policies limiting, among other things, the amount of credit exposure to any one issuer. The Company limits default risk by purchasing only investment-grade securities. The Company's investments are all fixed rate instruments. In addition, the Company has classified all its debt securities as available for sale. This classification reduces the income statement exposure to interest rate risk. Information about the Company's investment policies and portfolio is in Notes 1 and 3 of Notes to Consolidated Financial Statements.

The Company has entered into foreign exchange option contracts to hedge certain transactions of selected foreign currencies (mainly in Europe and Asia Pacific) against fluctuations in exchange rates. The Company has not entered into foreign exchange option contracts for speculative or trading purposes. The Company's accounting policies for these contracts are based on the Company's designation of the contracts as hedging transactions. The criteria the Company uses for designating a contract as a hedge include the contract's effectiveness in risk reduction and matching of derivative instruments to the underlying transactions. Market value increases and decreases on the foreign exchange option contracts are recognized in income in the same period as gains and losses on the underlying transactions. The Company operates in certain countries where there are limited forward currency exchange markets and thus the Company has unhedged transaction exposures in these currencies. The Company generally does not hedge the net assets of its international subsidiaries. Information about the Company's foreign currency option contracts is set forth in Note 1 of Notes to Consolidated Financial Statements.

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

With the exception of the products discussed below, the Company believes that the most current versions of its products are Year 2000 ready. The Company's Progress products fully support four-digit years. The Progress products internally store dates as integers representing the number of days from a base date. For customers who require the entry and display of two digit years, the Company's Progress products provide the ability to specify a range of years for comparison and calculation. Therefore, the Company does not believe that the most current versions of its products, except those discussed below, will be adversely affected by date changes in the Year 2000. The Company does not intend to test Progress products that will be retired as of January 1, 2000. The Company is encouraging customers who are using such products to either upgrade to a more current version or conduct their own testing to determine if the continued use of such products allows them to meet their own Year 2000 readiness objectives. There can be no assurance that the Company's products contain and will contain all features and functionality considered necessary by customers, including ISVs, end users and distributors, to be Year 2000 ready. In addition, there can be no assurances that the Company's products do not contain undetected errors or defects associated with Year 2000 date functions that may result in material costs to the Company.

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

The Company has tested the current versions of its three Crescent products and determined that two products were not Year 2000 ready. Free patches that fix the Year 2000 issues for these products are available on the Company's website. The Company does not intend to test earlier versions of those Crescent products or retired Crescent products. The Company cautions users of such products to conduct their own testing to determine if the continued use of such products allows them to meet their own Year 2000 readiness objectives.

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

Resolving Year 2000 readiness issues impacts almost every customer and may potentially absorb significant portions of their budgets and time in the near term. As the Year 2000 approaches, customers may delay software purchases as they devote more time to preparing and testing their existing systems and applications for Year 2000 readiness. It is uncertain whether or to what extent the Company's revenue may be impacted by such actions.

FACTORS THAT MAY AFFECT FUTURE RESULTS The Company operates in a rapidly changing environment that involves certain risks and uncertainties, some of which are beyond the Company's control. The following discussion highlights some of these risks. In addition, risks and uncertainties related to Year 2000 issues are described above under the heading "Year 2000."

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

The Company develops, markets and supports application development, deployment and management software. Its core product line, Progress, is composed primarily of Progress ProVision, Progress RDBMS, Progress WebSpeed, Progress Open AppServer and Progress DataServers. In December 1998, the Company began shipping the latest major enhancement to the Progress product line, Progress Version 9.0. The Company acquired Apptivity Corporation, a developer of multi-tier, Java-based business application tools, in July 1997. The Progress Apptivity product line consists of Apptivity Developer and Apptivity Server. The Company began commercial shipments of Progress Apptivity Version 3.0 in October 1998. The ISQ product line is a set of software products that measure, monitor and manage the availability, performance and recoverability of enterprise networks and ensure overall system and application quality. Progress IPQoS, the latest ISQ product, began shipping in December 1998.

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

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

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

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

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

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

Approximately 53% of the Company's total revenue in fiscal 1998 was attributable to international sales made through its subsidiaries. Because a substantial portion of the Company's total revenue is derived from such international operations which are conducted in foreign currencies, changes in the value of these foreign currencies relative to the United States dollar may affect the Company's results of operations and financial position. The Company engages in certain currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on the Company's results of operations. However, there can be no assurance that such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. If for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, the Company's business could be adversely affected. Other potential risks inherent in the Company's international business generally include longer payment cycles, greater difficulties in accounts receivable collection, unexpected changes in regulatory requirements, export restrictions, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, political instability, reduced protection for intellectual property rights in some countries, seasonal reductions in business activity during the summer months in Europe and certain other parts of the world, and potentially adverse tax consequences, any of which could adversely impact the success of the Company's international operations. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international operations, and, consequently, on the Company's business, financial condition, and operating results.

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

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

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

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

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	November 30, 1998	November 30, 1997
Assets		
Current assets:		
Cash and equivalents	$ 50,155	$ 39,451
Short-term investments	63,844	54,034
Accounts receivable (less allowances of $7,147 in 1998 and $4,928 in 1997)	40,779	35,651
Other current assets	9,855	7,475
Deferred income taxes	8,415	5,166
Total current assets	173,048	141,777
Property and equipment, net	22,458	23,183
Capitalized software costs, net	4,742	4,545
Other assets	6,460	2,228
Total	$ 206,708	$ 171,733
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 12,461	$ 10,712
Accrued compensation and related taxes	23,041	17,088
Income taxes payable	10,276	6,450
Other accrued liabilities	8,140	6,924
Deferred revenue	49,942	32,843
Total current liabilities	103,860	74,017
Deferred income taxes	--	1,009
Minority interest in subsidiary	155	268
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized, 1,000,000 shares; issued, none		
Common stock, $.01 par value; authorized, 50,000,000 shares; issued and outstanding, 17,090,291 shares in 1998 and 17,718,034 shares in 1997	171	118
Additional paid-in capital	18,795	25,901
Retained earnings	84,115	70,673
Unrealized gains on short-term investments	503	245
Cumulative translation adjustments	(891)	(498)
Total shareholders' equity	102,693	96,439
Total	$ 206,708	$ 171,733

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Year Ended November 30,		
	1998	1997	1996
Revenue:			
Software licenses	$ 113,312	$ 95,579	$ 93,178
Maintenance and services	126,578	92,735	83,512
Total revenue	239,890	188,314	176,690
Costs and expenses:			
Cost of software licenses	10,085	10,000	8,838
Cost of maintenance and services	45,953	31,238	29,701
Sales and marketing	96,832	87,570	87,830
Product development	30,154	26,991	23,951
General and administrative	26,839	23,202	21,909
Non-recurring charges	--	11,537	--
Total costs and expenses	209,863	190,538	172,229
Income (loss) from operations	30,027	(2,224)	4,461
Other income (expense):			
Interest income	4,529	3,756	3,885
Foreign currency gain (loss)	(632)	1,135	(453)
Minority interest	113	556	415
Other income (expense)	(69)	(91)	22
Total other income, net	3,941	5,356	3,869
Income before provision for income taxes	33,968	3,132	8,330
Provision for income taxes	11,210	4,739	2,833
Net income (loss)	$ 22,758	$ (1,607)	$ 5,497
Basic earnings (loss) per share	$ 1.32	$ (0.09)	$ 0.29
Weighted average shares outstanding (basic)	17,229	18,168	19,234
Diluted earnings (loss) per share	$ 1.18	$ (0.09)	$ 0.28
Weighted average shares outstanding (diluted)	19,280	18,168	19,833

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Gains on Short-Term Investments	Cumulative Translation Adjustments	Total Share-holders' Equity
Balance, December 1, 1995	$ 129	$ 46,467	$ 66,783	$ 133	$ (31)	$ 113,481
Exercise of stock options (205,055 shares)	1	1,108				1,109
Issuance of stock under employee stock purchase plan (71,143 shares)		736				736
Purchase and retirement of treasury stock (686,250 shares)	(4)	(7,201)				(7,205)
Stock option compensation		2				2
Tax benefit arising from employees' exercise of stock options		197				197
Unrealized gains on short-term investments				108		108
Net income			5,497			5,497
Translation adjustment					(132)	(132)
Balance, November 30, 1996	126	41,309	72,280	241	(163)	113,793
Exercise of stock options (470,785 shares)	3	4,160				4,163
Issuance of stock under employee stock purchase plan (56,218 shares)		511				511
Purchase and retirement of treasury stock (2,351,400 shares)	(15)	(26,538)				(26,553)
Stock option compensation		16				16
Tax benefit arising from employees' exercise of stock options		488				488
Issuance of stock in connection with Apptivity acquisition (593,485 shares)	4	5,433				5,437
Stock options assumed in connection with Apptivity acquisition		522				522
Unrealized gains on short-term investments				4		4
Net loss			(1,607)			(1,607)
Translation adjustment					(335)	(335)
Balance, November 30, 1997	118	25,901	70,673	245	(498)	96,439
Stock split	59	(59)				
Exercise of stock options (1,062,536 shares)	11	11,148				11,159
Issuance of stock under employee stock purchase plan (60,206 shares)	1	918				919
Purchase and retirement of treasury stock (1,750,485 shares)	(18)	(23,883)	(9,316)			(33,217)
Tax benefit arising from employees' exercise of stock options		4,770				4,770
Unrealized gains on short-term investments				258		258
Net income			22,758			22,758
Translation adjustment					(393)	(393)
Balance, November 30, 1998	$ 171	$ 18,795	$ 84,115	$ 503	$ (891)	$ 102,693

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended November 30, 1998	1997	1996
Cash flows from operating activities:			
Net income (loss)	$ 22,758	$ (1,607)	$ 5,497
Adjustments to reconcile net income (loss) to net cash Provided by operating activities:			
Depreciation and amortization of property and equipment	10,750	10,596	9,514
Non-recurring charges	--	11,537	--
Allowances for accounts receivable	3,617	1,807	1,818
Amortization of capitalized software costs	1,771	2,072	1,702
Amortization of intangible assets	1,032	241	331
Deferred income taxes	(4,834)	(2,950)	(695)
Minority interest in subsidiary	(113)	(556)	(415)
Non-cash compensation	--	16	2
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(8,702)	(4,905)	5,235
Other current assets	(2,326)	(2,120)	1,243
Accounts payable and accrued expenses	8,854	9,252	(2,664)
Income taxes payable	8,609	3,908	1,008
Deferred revenue	17,062	6,359	284
Total adjustments	35,720	35,257	17,363
Net cash provided by operating activities	58,478	33,650	22,860
Cash flows from investing activities:			
Purchases of investments available for sale	(57,025)	(33,809)	(76,550)
Maturities of investments available for sale	47,033	31,238	48,380
Sales of investments available for sale	440	15,068	20,700
Purchase of property and equipment	(10,038)	(10,048)	(9,545)
Capitalized software costs	(1,968)	(1,864)	(2,462)
Acquisitions, net of cash acquired	(5,000)	(3,847)	--
Decrease (increase) in other non-current assets	(24)	59	(310)
Net cash used for investing activities	(26,582)	(3,203)	(19,787)
Cash flows from financing activities:			
Proceeds from issuance of common stock	12,078	4,674	1,845
Repurchase of common stock	(33,217)	(26,553)	(7,205)
Contributions from minority interest	--	603	--
Proceeds from capital lease obligations	--	--	85
Payment of obligations under capital leases	--	(116)	(130)
Net cash used for financing activities	(21,139)	(21,392)	(5,405)
Effect of exchange rate changes on cash	(53)	(476)	(261)
Net increase (decrease) in cash and equivalents	10,704	8,579	(2,593)
Cash and equivalents, beginning of year	39,451	30,872	33,465
Cash and equivalents, end of year	$ 50,155	$ 39,451	$ 30,872
Supplemental disclosure of cash flow information:			
Income taxes paid	$ 7,203	$ 3,760	$ 2,569
Supplemental disclosure of noncash financing activities:			
Income tax benefit from employees' exercise of stock options	$ 4,770	$ 488	$ 197
Stock issued and options assumed in acquisition of Apptivity	$ --	$ 5,959	$ --

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY Progress Software Corporation (the Company) develops, markets and supports application development, deployment and management software for professional information service organizations in business, government and industry worldwide. The Progress product line is an integrated, component-based visual development environment for building and deploying multi-tier, enterprise-class business applications. The Progress Apptivity product line enables organizations to build and deploy distributed, multi-tier, Java-based business applications. The Internet Software Quality product line consists of products that manage system and application quality and recoverability of enterprise networks.

USE OF ESTIMATES The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

BASIS OF CONSOLIDATION The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated.

FOREIGN CURRENCY TRANSLATION For foreign operations with the local currency as the functional currency, assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Income and expense items are translated at average rates of exchange prevailing during each period. Translation adjustments are accumulated in a separate component of shareholders' equity.

For foreign operations with the U.S. dollar as the functional currency, monetary assets and liabilities are translated into U.S. dollars at the exchange rate on the balance sheet date. Nonmonetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Income and expense items are translated at average rates of exchange prevailing during each period. Translation adjustments are recognized currently as a component of foreign currency gain or loss.

The Company enters into foreign exchange option contracts which are designated as effective hedges on certain transactions in selected foreign currencies. The purpose of the Company's foreign exposure management policies and practices is to attempt to minimize the impact of exchange rate fluctuations on the Company's results of operations. The option contracts are structured such that the cost to the Company cannot exceed the premium paid for such contracts. Premiums are recognized ratably over the contract period as a component of foreign currency gain or loss. Increases and decreases in market value gains on such contracts are recognized currently as a component of foreign currency gain or loss. The notional principal amount of outstanding foreign exchange option contracts at November 30, 1998 was $54.8 million. Unrealized market value gains on such contracts were immaterial at November 30, 1998. Major U.S. multinational banks are counterparties to the option contracts.

MINORITY INTEREST IN SUBSIDIARY Minority interest in subsidiary represents the joint venture partners' proportionate share of the equity in Progress Software K.K. (PSKK), a Japanese joint stock corporation established in January 1995 to market and support the Company's products in Japan. At November 30, 1998, the Company owned 51% of the capital stock of PSKK.

REVENUE RECOGNITION Software license revenue is recognized upon shipment of the product provided that the license fee is fixed and determinable and collection is probable. Maintenance revenue is deferred and recognized ratably over the term of the agreement. Revenue from services, primarily consulting and customer education, is recognized as the related services are performed. On December 1, 1997, the Company adopted the American Institute of Certified Public Accountants Statement of Position 97-2, "Software Revenue Recognition." Adoption of this pronouncement did not have a material effect on the revenue recognition practices of the Company.

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS Cash equivalents include short-term, highly liquid investments purchased with remaining maturities of three months or less. Short-term investments, which consist primarily of municipal and U.S. Treasury obligations and corporate debt securities purchased with remaining maturities of more than three months, are classified as investments available for sale and stated at fair value. Aggregate unrealized holding gains and losses are included as a separate component of shareholders' equity.

CONCENTRATION OF CREDIT RISK Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of cash, short-term investments and trade receivables. The Company has cash investment policies which, among other things, limit investments to investment-grade securities. The Company performs ongoing credit evaluations of its customers and the risk with respect to trade receivables is further mitigated by the diversity, both by geography and by industry, of its customer base.

FAIR VALUE OF FINANCIAL INSTRUMENTS The carrying amount of cash, accounts receivable and accounts payable approximates fair value due to the short-term nature of these instruments. The fair value of investments available for sale is based on current market value (Note 3).

PROPERTY AND EQUIPMENT Property and equipment is recorded at cost. Depreciation and amortization is provided on the straight-line method over the estimated useful lives (three to ten years) of the related assets or the remaining terms of leases, whichever is shorter.

CAPITALIZATION OF SOFTWARE COSTS The Company capitalizes certain internally generated software development costs after technological feasibility of the product has been established. Capitalized software costs also include amounts paid for purchased software which has reached technological feasibility. Such costs are amortized over the estimated life of the product (generally four years). The Company continually compares the unamortized costs of capitalized software to the expected future revenues for the products. If the unamortized costs exceed the expected future net realizable value, the excess amount is written off. Accumulated amortization was approximately $6.9 million and $5.1 million at November 30, 1998 and 1997, respectively.

INTANGIBLE ASSETS Intangible assets, included in other assets, primarily represent goodwill, noncompete agreements and organization costs and are recorded at cost. Such costs are amortized over periods ranging from three to seven years. Accumulated amortization was approximately $1.2 million and $.5 million at November 30, 1998 and 1997, respectively.

STOCK-BASED COMPENSATION PLANS The Company accounts for its stock option plans and its employee stock purchase plan in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25). In accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company provides additional pro forma disclosures (Note 5).

INCOME TAXES The Company provides for deferred income taxes resulting from temporary differences between financial and taxable income. Such differences arise primarily from the use of accelerated tax depreciation, accruals, capitalized software costs, and provisions for doubtful accounts. No provision for U.S. income taxes has been made for the undistributed earnings of non-U.S. subsidiaries, as these earnings have been permanently reinvested or would be principally offset by foreign tax credits. Cumulative undistributed foreign earnings were approximately $13.6 million at November 30, 1998.

EARNINGS PER SHARE Effective December 1, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). Basic earnings per share is calculated using the weighted average number of common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding stock options using the treasury stock method. Earnings per share for all prior years presented herein have been restated to conform to SFAS 128 and the stock split (Note 5).

RECLASSIFICATIONS Certain prior year amounts have been reclassified to conform to the current year presentation.

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

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

NOTE 2: BUSINESS COMBINATIONS AND NON-RECURRING CHARGES

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

On July 15, 1997, the Company acquired all of the outstanding stock of Apptivity Corporation (Apptivity), a developer of Java-based application development tools, for approximately $11.2 million, consisting of $3.8 million in cash, $1.4 million in assumed and other liabilities, the issuance of 593,485 shares of common stock valued at $5.5 million and the assumption of stock options valued at $0.5 million. The acquisition has been accounted for as a purchase, and accordingly, the results of operations have been included in the Company's operating results from the date of acquisition. The allocation of the purchase price included $10.8 million to in-process software development which was charged to operations as part of the non-recurring charges in the third quarter of fiscal 1997. Additionally, the Company recorded a non-recurring charge of $0.7 million for the writedown of certain capitalized software costs and other intangible assets to fair value after evaluating the impact of the acquisition upon the Company's future operating plans. If this acquisition had been made at the beginning of the earliest year presented, the effect on the consolidated financial statements would not have been significant.

NOTE 3: CASH AND SHORT-TERM INVESTMENTS

A summary of the Company's investments available for sale by major security type at November 30, 1998 was as follows:

(In thousands) Security Type	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 22,864			$ 22,864
Obligations of states and political subdivisions	57,212	$ 341	$ (28)	57,525
U.S. government obligations	6,323	190	--	6,513
Total	$ 86,399	$ 531	$ (28)	$ 86,902

The fair value of debt securities at November 30, 1998, by contractual maturity, was as follows:

(In thousands)

Due in one year or less (including $23,058 classified as cash equivalents)	$ 50,443
Due after one year	36,459
Total	$ 86,902

A summary of the Company's investments available for sale by major security type (including $14.3 million classified as cash equivalents) at November 30, 1997 was as follows:

(In thousands) Security Type	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 13,700			$ 13,700
Obligations of states and political subdivisions	48,836	$ 214	$ (4)	49,046
U.S. government obligations	5,553	35		5,588
Total	$ 68,089	$ 249	$ (4)	$ 68,334

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

(In thousands)	November 30, 1998	November 30, 1997
Equipment and software	$ 46,989	$ 40,696
Furniture and fixtures	5,919	5,304
Leasehold improvements	9,082	7,682
Total	61,990	53,682
Less accumulated depreciation and amortization	39,532	30,499
Property and equipment, net	$ 22,458	$ 23,183

NOTE 5: SHAREHOLDERS' EQUITY

PREFERRED STOCK The Board of Directors is authorized to establish one or more series of preferred stock and to fix and determine the number and conditions of preferred shares, including dividend rates, redemption and/or conversion provisions, if any, preference and voting rights. At November 30, 1998, the Board of Directors has not authorized any series of preferred stock.

COMMON STOCK On June 17, 1998, the Board of Directors approved a three-for-two common stock split in the form of a stock dividend. Shareholders received one additional share for every two shares held. Such distribution was made on July 14, 1998 to shareholders of record at the close of business on June 29, 1998. All share and per share amounts for all years presented have been restated to reflect the split.

In fiscal years 1998, 1997 and 1996, the Company purchased 1,750,485 shares, 2,351,400 shares and 686,250 shares, respectively, of its common stock for $33.2 million, $26.6 million and $7.2 million, respectively.

In September 1998, the Board of Directors authorized, for the period October 1, 1998 through September 30, 1999, the purchase of up to 5,000,000 shares of the Company's common stock, at such times when the Company deems such purchases to be an effective use of cash. Shares that are repurchased may be used for various purposes including the issuance of shares pursuant to the Company's stock option plans. At November 30, 1998, approximately 4,800,000 shares of common stock remained available for repurchase under this authorization.

STOCK OPTIONS In April 1992, the shareholders adopted and approved the 1992 Incentive and Nonqualified Stock Option Plan (1992 Plan) and terminated the 1984 Incentive Stock Option Plan (1984 Plan). Options granted and outstanding under the 1984 Plan remain outstanding and are exercisable in accordance with their terms, but no further options will be granted under the 1984 Plan. In August 1994, the shareholders of the Company adopted and approved the 1994 Stock Incentive Plan (1994 Plan) and the 1993 Directors' Stock Option Plan (Directors' Plan). The Directors' Plan permitted certain option grants to non-employee directors.

In April 1997, the shareholders of the Company adopted and approved the 1997 Stock Incentive Plan (1997 Plan). Upon the approval of the 1997 Plan, the Directors' Plan was terminated. Options granted and outstanding under the Directors' Plan remain outstanding and are exercisable in accordance with their terms, but no further options will be granted under the Directors' Plan. The 1994 and 1997 Plans permit the granting of stock incentive awards to officers, members of the Board of Directors, employees and consultants. Awards under the 1994 and 1997 Plans may include stock options (both incentive and non-qualified), grants of conditioned stock, unrestricted grants of stock, grants of stock contingent upon the attainment of performance goals and stock appreciation rights.

A total of 7,020,000 shares are issuable under the 1992, 1994 and 1997 Plans, of which 769,970 shares were available for grant at November 30, 1998.

A summary of stock option activity under the plans is as follows:

(In thousands, except per share data)

	1998 Number of Shares	1998 Weighted Average Exercise Price Per Share	1997 Number of Shares	1997 Weighted Average Exercise Price Per Share	1996 Number of Shares	1996 Weighted Average Exercise Price Per Share
Beginning options outstanding	4,539	$ 10.71	4,299	$ 10.89	3,437	$ 12.02
Granted	1,598	15.43	1,600	9.83	2,167	9.56
Exercised	(1,063)	10.50	(471)	8.85	(205)	5.42
Canceled	(214)	9.84	(889)	10.98	(1,100)	12.80
Ending options outstanding	4,860	12.34	4,539	10.71	4,299	10.89
Exercisable	1,904	$ 11.61	1,820	$ 11.33	1,691	$ 11.01

Year Ended November 30,

For various exercise price ranges, weighted average characteristics of outstanding stock options at November 30, 1998 were as follows:

(In thousands, except per share data)

Range of Exercise Price	Options Outstanding: Number of Shares	Options Outstanding: Weighted Average Remaining Life (in years)	Options Outstanding: Weighted Average Exercise Price	Options Exercisable: Number of Shares	Options Exercisable: Weighted Average Exercise Price
$ 0.45-3.33	28	6.68	$ 0.78	13	$ 1.18
9.00-11.00	2,221	7.52	$ 9.87	1,050	$ 9.96
11.25-12.46	425	6.63	$ 11.64	182	$ 11.47
13.00-14.50	1,737	7.91	$ 14.33	644	$ 14.38
18.00-25.38	449	9.77	$ 18.32	15	$ 18.11
$ 0.45-25.38	4,860	7.78	$ 12.34	1,904	$ 11.61

EMPLOYEE STOCK PURCHASE PLAN The 1991 Employee Stock Purchase Plan (ESPP), as amended in April 1998, permits eligible employees to purchase up to a maximum of 750,000 shares of common stock of the Company at 85% of the lesser of the market value of such shares at the beginning of a 27-month offering period or the end of each three-month segment within such offering period. During fiscal years 1998, 1997 and 1996, 60,206 shares, 56,218 shares and 71,143 shares, respectively, were issued with a weighted average purchase price of $15.26, $9.09 and $10.35 per share, respectively, under the ESSP. At November 30, 1998, 464,056 shares were available and reserved for issuance under the ESSP.

PRO FORMA DISCLOSURES The pro forma disclosures are required to be determined as if the Company had accounted for its stock-based compensation arrangements granted subsequent to November 30, 1995 under the fair value method of SFAS 123. The fair value of options and ESPP shares granted in fiscal years 1998, 1997 and 1996 reported below has been estimated at the date of grant using a Black-Scholes option valuation model with the following ranges of assumptions:

	Stock Purchase Plan, Year Ended November 30, 1998	1997	1996	Stock Options, Year Ended November 30, 1998	1997	1996
Expected volatility	29.2-44.1%	39.1-53.1%	38.6-61.4%	43.2-45.6%	43.0-44.1%	40.4-43.2%
Risk-free interest rate	5.0-5.2%	5.1-5.3%	5.0-5.4%	4.7-5.7%	5.9-6.8%	5.6-6.7%
Expected life in years	0.6	0.5	0.5	6.5	6.6	6.0
Expected dividend yield	none	none	none	none	none	none

For purposes of the pro forma disclosure, the estimated fair value of options is amortized to expense over the vesting period. Had compensation costs for options and ESPP shares been determined based on the Black-Scholes option valuation model as prescribed by SFAS 123, pro forma net income (loss) and pro forma diluted earnings (loss) per share would have been:

(In thousands, except per share data)	Year Ended November 30, 1998	1997	1996
Pro forma net income (loss)	$ 20,870	$ (3,040)	$ 4,352
Pro forma diluted earnings (loss) per share	$ 1.08	$ (0.17)	$ 0.22

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not provide a reliable single measure of fair value of its options. The weighted average estimated fair value of options granted in fiscal years 1998, 1997 and 1996 was $8.06, $5.57 and $5.07 per share, respectively. The weighted average estimated fair value for shares issued under the ESPP in fiscal years 1998, 1997 and 1996 was $6.15, $4.10 and $8.73 per share, respectively.

The effect on pro forma net income (loss) and pro forma diluted earnings (loss) per share in fiscal years 1998, 1997 and 1996 is not necessarily indicative of the effects on pro forma net income and pro forma diluted earnings per share in future years.

NOTE 6: RETIREMENT PLAN

The Company maintains a retirement plan covering all U.S. employees under Section 401(k) of the Internal Revenue Code. Company contributions to the plan are at the discretion of the Board of Directors and totaled approximately $2.4 million, $1.8 million and $0.7 million for fiscal years 1998, 1997 and 1996, respectively.

NOTE 7: INCOME TAXES

The components of pretax income (loss) were as follows:

(In thousands)	Year Ended November 30, 1998	1997	1996
United States	$ 29,236	$ (1,402)	$ 7,711
Non-U.S	4,732	4,534	619
Total	$ 33,968	$ 3,132	$ 8,330

The provisions for income taxes were comprised of the following:

(In thousands)	Year Ended November 30, 1998	1997	1996
Current:			
Federal	$ 11,419	$ 5,226	$ 1,564
State	2,015	467	205
Foreign	2,610	1,996	1,759
Total current	16,044	7,689	3,528
Deferred:			
Federal	(3,448)	(2,316)	(361)
State	(684)	(454)	(73)
Foreign	(702)	(180)	(261)
Total deferred	(4,834)	(2,950)	(695)
Total	$ 11,210	$ 4,739	$ 2,833

The tax effects of significant items comprising the Company's deferred taxes were as follows:

(In thousands)	November 30, 1998	November 30, 1997
Deferred tax liabilities:		
Capitalized software costs	$ (1,112)	$ (934)
Depreciation and amortization	--	(75)
Total deferred tax liabilities	(1,112)	(1,009)
Deferred tax assets:		
Accounts receivable	2,826	1,451
Depreciation and amortization	1,688	--
Inventories	720	764
Accrued compensation	70	684
Deferred revenue	2,784	--
Other accruals	1,869	2,192
Tax loss carryforwards	1,461	1,409
Total deferred tax assets	11,418	6,500
Valuation allowance	(1,315)	(1,334)
Total	$ 8,991	$ 4,157

The valuation allowance applies to deferred tax assets, primarily net operating loss carryforwards, in the U.S. and in certain foreign jurisdictions where realization is not assured. The change in the valuation allowance of $0.4 million and $0.6 million in fiscal years 1997 and 1996, respectively, primarily related to tax loss carryforwards. Noncurrent deferred taxes of $0.6 million were included in other assets at November 30, 1998.

The Company has net operating loss carryforwards of $3.1 million expiring on various dates through 2012 and $1.0 million which can be carried forward indefinitely.

A reconciliation of the U.S. federal statutory rate to the effective tax rate was as follows:

	Year Ended November 30, 1998	1997	1996
Tax at U.S. federal statutory rate	35.0%	35.0%	35.0%
Non-U.S	2.9	14.8	5.5
Unutilized foreign losses	1.4	1.4	7.0
Foreign sales corporation	(4.5)	(3.5)	(8.2)
Research credits	(2.9)	(4.8)	(2.0)
State income taxes, net	2.5	8.5	3.0
Tax-exempt interest	(2.0)	(23.3)	(9.4)
Nondeductible in-process software development	--	117.3	--
Other	0.6	5.9	3.1
Total	33.0%	151.3%	34.0%

NOTE 8: OPERATING LEASES

The Company leases certain facilities and equipment under noncancelable operating lease arrangements. Future minimum rental payments at November 30, 1998 under these leases are as follows:

(In thousands)	
1999	$ 7,931
2000	5,174
2001	4,189
2002	3,812
2003	3,069
Thereafter	8,056
Total	$ 32,231

Total rent expense under all operating leases was approximately $7.0 million, $6.2 million and $5.8 million for fiscal years 1998, 1997 and 1996, respectively.

NOTE 9: LITIGATION

Naf Naf S.A. commenced an expert proceeding in the Paris Trade Court, Paris, France, against Progress Software S.A., Timeless S.A. and Digital Equipment France in May 1996. Progress Software Corporation was added as a party to the expert proceeding in June 1997. The basis of the proceeding against Progress Software was alleged late availability of Progress Software products and alleged product deficiencies after delivery by Timeless to Naf Naf of such products. On November 20, 1998 all the parties to the expert proceeding entered into a settlement agreement which became binding on the parties on December 4, 1998. The settlement did not have a material effect on the Company's consolidated financial position or results of operations.

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

NOTE 10: BUSINESS SEGMENT AND INTERNATIONAL OPERATIONS

The Company operates in one industry segment consisting of the development, marketing and support of application development, deployment and management software. Intercompany revenue principally represents royalties based on software license and maintenance revenue generated by non-U.S. operations from their unaffiliated customers.

Summarized information relating to international operations is as follows:
(In thousands)

	Year Ended November 30, 1998	1997	1996
Sales to unaffiliated customers:			
North America	$ 102,893	$ 76,847	$ 72,122
Europe	93,599	73,363	72,533
Other	32,414	22,404	18,775
Export sales from United States	10,984	15,700	13,260
Total sales to unaffiliated customers	$ 239,890	$ 188,314	$ 176,690
Intercompany revenue:	$ 42,535	$ 33,225	$ 29,793
Operating income (loss):			
North America	$ 20,453	$ (6,028)	$ 4,882
Europe	10,916	3,700	504
Other	(1,278)	197	(870)
Eliminations	(64)	(93)	(55)
Total operating income (loss)	$ 30,027	$ (2,224)	$ 4,461
Identifiable assets:			
North America	$ 164,603	$ 138,153	$ 143,890
Europe	45,108	36,922	35,466
Other	26,325	16,593	13,086
Eliminations	(29,328)	(19,935)	(19,254)
Total identifiable assets	$ 206,708	$ 171,733	$ 173,188

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Progress Software Corporation:

We have audited the accompanying consolidated balance sheets of Progress Software Corporation and its subsidiaries as of November 30, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended November 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Progress Software Corporation and its subsidiaries as of November 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended November 30, 1998, in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP
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Boston, Massachusetts
December 18, 1998

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Revenue	$ 54,146	$ 57,106	$ 59,482	$ 69,156
Income from operations	4,868	5,939	7,968	11,252
Net income	3,547	4,673	6,161	8,377
Diluted earnings per share	0.19	0.24	0.31	0.43
1997				
Revenue	$ 45,344	$ 44,831	$ 45,880	$ 52,259
Income (loss) from operations	2,196	1,383	(10,216)*	4,413
Net income (loss)	1,978	2,042	(9,369)*	3,742
Diluted earnings (loss) per share	0.10	0.10	(0.53)*	0.20

* Includes non-recurring charges related to the acquisition of Apptivity of $11.5 million or $0.64 per diluted share. Excluding these non-recurring items, net income would have been $1.9 million or $0.11 per diluted share.

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The following table sets forth, for the periods indicated, the range of high and low bid prices for the Company's common stock as reported by the Nasdaq Stock Market. The Company's common stock is traded on the market under the Nasdaq symbol "PRGS."

	Year Ended November 30,			
	1998		1997	
	High	Low	High	Low
First Quarter	$ 18.67	$ 12.58	$ 15.33	$ 8.42
Second Quarter	23.08	16.92	12.71	8.92
Third Quarter	28.00	18.00	12.42	10.50
Fourth Quarter	27.17	17.25	17.00	11.83

The Company has not declared or paid cash dividends on its common stock and does not plan to pay cash dividends to its shareholders in the near future. The Company presently intends to retain its earnings to finance further growth of its business. As of December 31, 1998, the Company's common stock was held by approximately 4,000 shareholders of record or through nominee or street name accounts with brokers.

EXHIBIT 21.1

SUBSIDIARIES OF PROGRESS SOFTWARE CORPORATION

North America	
Barbados	Progress Software International Sales Corporation
Canada	Progress Software Corporation of Canada Ltd.
Connecticut	Crescent Software, Inc.
Delaware	Progress Software International Corporation
Massachusetts	Apptivity Corporation
Massachusetts	Progress Security Corporation
Europe	
European Headquarters - Netherlands	Progress Software Europe B.V.
Austria	Progress Software GesmbH
Belgium	Progress Software NV
Czech Republic	Progress Software spol. s.r.o.
Denmark	Progress Software A/S
Finland	Progress Software Oy
France	Progress Software S.A.
Germany	Progress Software GmbH
Italy	Progress Software Italy S.r.l.
Netherlands	Progress Software B.V.
Norway	Progress Software A/S
Poland	Progress Software sp. z.o o.
Spain	Progress Spain S.A.
Sweden	Progress Software Svenska AB
Switzerland	Progress Software A.G.
United Kingdom	Progress Software Ltd.
Other	
Argentina	Progress Software de Argentina S.A.
Australia	Progress Software Pty. Ltd.
Brazil	Progress Software do Brasil Ltda.
Hong Kong	Progress Software Corporation Limited
Japan	Progress Software K.K.
Mexico	Progress Software, S.A. de C.V.
Singapore	Progress Software Pte. Ltd.

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-41752, 33-43045, 33-50654, 33-58892, 33-96320, 333-41393, 333-41401 and 333-41403 of Progress Software Corporation and its subsidiaries on Form S-8 of our report dated December 18, 1998, appearing in and incorporated by reference in this Annual Report on Form 10-K of Progress Software Corporation and its subsidiaries for the year ended November 30, 1998.

/s/ DELOITTE & TOUCHE LLP
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Boston, Massachusetts
February 24, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTAINED IN THE COMPANY'S FORM 10-K FOR THE YEAR ENDING NOVEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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NOV-30-1998
DEC-01-1997
NOV-30-1998
50,155
63,844
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