SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended May 31, 1997

OR

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

Commission File Number: 0-19417

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

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

14 Oak Park
Bedford, Massachusetts 01730
(Address of principal executive offices)
Telephone Number: (617) 280-4000

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

Yes X   No

As of July 9, 1997, there were 11,462,796 shares of the Registrant's Common Stock, $.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE THREE MONTHS ENDED MAY 31, 1997

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PROGRESS SOFTWARE CORPORATION

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

	May 31, 1997	November 30, 1996
ASSETS		
Current assets:		
Cash and equivalents	$ 25,086	$ 30,872
Short-term investments	70,873	66,451
Accounts receivable (less allowance for doubtful accounts of $5,275 in 1997 and $5,112 in 1996)	30,863	34,452
Inventories	1,363	1,257
Other current assets	8,020	4,367
Deferred income taxes	3,722	3,552
Total current assets	139,927	140,951
Property and equipment-net	23,027	24,230
Capitalized software costs-net	5,616	5,428
Other assets	2,242	2,579
Total	$170,812	$173,188
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ --	$ 37
Accounts payable	7,402	7,989
Accrued compensation and related taxes	12,333	12,385
Income taxes payable	2,018	3,004
Other current liabilities	7,385	5,964
Deferred revenue	33,068	27,365
Total current liabilities	62,206	56,744
Deferred income taxes	2,382	2,345
Long-term debt	--	85
Minority interest in subsidiary	528	221
Commitments and contingency		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized, 1,000,000 shares; issued, none		
Common stock, $.01 par value; authorized, 50,000,000 shares in 1997 and 20,000,000 shares in 1996; issued and outstanding, 11,985,142 shares in 1997 and 12,632,630 shares in 1996	120	126
Additional paid-in capital	29,692	41,309
Retained earnings	76,300	72,280
Unrealized gain on short-term investments	102	241
Cumulative translation adjustments	(518)	(163)
Total shareholders' equity	105,696	113,793
Total	$170,812	$173,188

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

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

	Three Months Ended May 31,		Six Months Ended May 31,	
	1997	1996	1997	1996
Revenue:				
Software licenses	$22,975	$20,730	$47,616	$49,723
Maintenance and support services	21,856	20,932	42,559	40,321
Total revenue	44,831	41,662	90,175	90,044
Costs and expenses:				
Cost of software licenses	2,388	2,231	4,737	4,581
Cost of maintenance and support services	7,222	7,008	14,180	14,010
Sales and marketing	21,364	22,083	42,922	44,007
Product development	6,776	5,866	13,181	11,891
General and administrative	5,698	5,263	11,576	10,489
Total costs and expenses	43,448	42,451	86,596	84,978
Income (loss) from operations	1,383	(789)	3,579	5,066
Other income (expense):				
Interest income	1,043	992	1,918	1,941
Interest expense	(3)	(1)	(7)	(6)
Foreign currency gain (loss)	471	(4)	283	(303)
Minority interest	182	87	296	256
Other income (expense)	19	(49)	22	(23)
Total other income	1,712	1,025	2,512	1,865
Income before provision for income taxes .	3,095	236	6,091	6,931
Provision for income taxes	1,053	81	2,071	2,357
Net income	$ 2,042	$ 155	$ 4,020	$ 4,574
Income per common share	$ 0.16	$ 0.01	$ 0.31	$ 0.34
Weighted average number of common and common equivalent shares outstanding ...	13,002	13,121	12,946	13,445

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

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

	Six Months Ended May 31, 1997	Six Months Ended May 31, 1996
Cash flows from operating activities:		
Net income	$ 4,020	$ 4,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	5,379	4,590
Amortization of capitalized software costs	1,069	805
Amortization of intangible assets	138	176
Deferred income taxes	(183)	78
Minority interest in subsidiary	(296)	(256)
Noncash compensation	16	1
Changes in operating assets and liabilities:		
Accounts receivable	2,076	7,128
Inventories	(109)	226
Other current assets	(3,849)	(303)
Accounts payable and accrued expenses	1,623	(5,934)
Income taxes payable	(622)	713
Deferred revenue	7,145	2,064
Total adjustments	12,387	9,288
Net cash provided by operating activities	16,407	13,862
Cash flows from investing activities:		
Purchases of investments available for sale	(15,475)	(38,731)
Maturities of investments available for sale	1,075	13,313
Sales of investments available or sale	9,839	19,895
Purchase of property and equipment	(4,646)	(5,616)
Capitalized software costs	(1,257)	(1,217)
Increase in other noncurrent assets	131	(412)
Net cash used for investing activities	(10,333)	(12,768)
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,455	1,462
Repurchase of common stock	(14,396)	(3,778)
Contributions from minority interest	603	--
Payment of obligations under capital leases	(116)	(39)
Net cash used for financing activities	(11,454)	(2,355)
Effect of exchange rate changes on cash	(406)	(174)
Net decrease in cash and equivalents	(5,786)	(1,435)
Cash and equivalents, beginning of period	30,872	33,465
Cash and equivalents, end of period	$ 25,086	$ 32,030
Supplemental disclosure of noncash financing activities:		
Income tax benefit from employees' exercise of stock options	$ 302	$ 168

See notes to condensed consolidated financial statements

PROGRESS SOFTWARE CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Progress Software Corporation (the Company) pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the audited financial statements included in the Company's Annual Report and Form 10-K for the fiscal year ended November 30, 1996.

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

2. Income Per Common Share

Income per common share is computed on a fully-diluted basis using the weighted average number of common and common equivalent shares outstanding during each period presented.

3. Inventories

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

4. Income Taxes

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

5. Contingency and Litigation

The Company's 401(k) Plan has approximately $900,000 in Guaranteed Investment Contracts (GICs) issued by Mutual Benefit Life Insurance Company (MBLI). On July 16, 1991, the Insurance Commissioner of the State of New Jersey took possession and control of MBLI's assets. In April 1994, a rehabilitation plan was approved by the Superior Court of New Jersey. Pursuant to the rehabilitation plan, the GICs are supported by a group of life insurance companies and are paid out from the assets of MBL Life Assurance Corporation, the successor to MBLI. On May 23, 1997, the Company initiated a process to purchase the GICs from the 401(k) Plan to enable participants to choose other investment vehicles prior to the end of the rehabilitation plan. The purchase transaction requires the approval of the Department of Labor and the Internal Revenue Service. Assuming no objection or other impediment to the transaction, the Company expects the purchase transaction to be completed before the end of the Company's current fiscal year and not to have a material effect on the Company's consolidated financial position or results of operations.

The Company is a defendant in litigation entitled NEWSTAR TECHNOLOGIES INC. V. PROGRESS SOFTWARE CORPORATION of Canada Ltd. and Progress Software Corporation, No. 97-CU-121571, pending in the Ontario (Canada) Court of Justice (General Division), commenced April 4, 1997. Newstar claims that the

Company entered into a contract with it under which Newstar was entitled to purchase the Company's software and receive product support from the Company under specific terms which differ substantially from the Company's standard terms and conditions. The purported contract cited by Newstar was prepared by Newstar and executed by a lower-level Company salesperson in the name of a Company sales executive followed by the initials of the salesperson. The Company denies the existence of a binding contract, on various grounds, including that the salesperson did not have the authority to sign the sales executive's name and that Newstar knew or should have known of that fact. Newstar seeks (a) an injunction mandating that the Company comply with the terms of the purported contract, (b) a declaration that the purported contract is of full force and effect, (c) an order restraining the Company from terminating the purported contract, (d) damages of $200 million, (e) special damages of an unstated amount, (f) punitive damages of $20 million, (g) costs of the litigation, and (h) such other and further relief as the court deems just. The evidence offered by the plaintiff to date does not support its claims. Newstar moved for a preliminary injunction; however, that motion was stayed by agreement to allow the parties to participate in voluntary non-binding mediation which took place on July 7, 1997. During this session a tentative settlement was reached which the parties anticipate will be finalized in the near future. Pursuant to such settlement, Newstar will become an Application Partner of the Company under mutually acceptable terms and conditions reasonably consistent with arrangements entered into with other Application Partners. If, for any reason, the settlement is not finalized, the Company will defend the action vigorously.

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

The Company is subject to various 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.

6. New Accounting Pronouncement

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share." SFAS 128 establishes a different method of computing net income per share than is currently required under the provisions of Accounting Principles Board Opinion No. 15 (APB 15). Under SFAS 128, the Company will be required to present both basic net income per share and diluted net income per share. Basic net income per share for the three-month and six-month periods ended May 31, 1997 would have been $.17 and $.32 per share, respectively as compared with $.01 and $.35 per share for the corresponding periods in fiscal 1996. Diluted net income per share under SFAS 128 for these periods is not expected to be materially different from primary earnings per share under APB 15. The Company plans to adopt SFAS 128 in its first quarter of fiscal 1998 and at that time all historical net income per share data presented will be restated to conform to the provisions of SFAS 128.

7. Subsequent Event

On June 27, 1997, the Company agreed to acquire Apptivity Corporation, a developer of Java-based application development tools, for a payment of approximately $3,800,000 in cash, the assumption of approximately $1,000,000 of liabilities and the issuance of approximately 400,000 shares of its common stock. The acquisition is expected to close in mid-July. The acquisition will be accounted for as a purchase and a substantial portion of the purchase price is expected to be allocated to in-process software development costs. This non-recurring charge will be reflected in the Company's results for the third quarter ended August 31, 1997.

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

CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 contains certain safe harbors regarding forward-looking statements. From time to time, information provided by the Company or statements made by its directors, officers or employees may contain "forward-looking" information which involve 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 great detail below under the heading "Factors That May Affect Future Results," include, but are not limited to, the receipt and shipment of new orders, the timely release of enhancements to the Company's products, which could be subject to software release delays, the growth rates of certain market segments, the positioning of the Company's products in those market segments, variations in the demand for customer service and technical support, pricing pressures and the competitive environment in the software industry, 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 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, for the three and six months ended May 31, 1997 and May 31, 1996.

	Percentage of Total Revenue				Period-to-Period Change	
	Three Months Ended May 31,		Six Months Ended May 31,		Three Months 1997 Compared to 1996	Six Months 1997 Compared to 1996
	1997	1996	1997	1996		
Revenue						
Software licenses	51%	50%	53%	55%	11%	(4)%
Maintenance and support services	49	50	47	45	4	6
Total revenue	100	100	100	100	8	0
Cost and expenses:						
Cost of software licenses	5	5	5	5	7	3
Cost of maintenance and support services	16	17	16	15	3	1
Sales and marketing	48	53	47	49	(3)	(2)
Product development	15	14	15	13	16	11
General and administrative	13	13	13	12	8	10
Total costs and expenses	97	102	96	94	2	2
Income from operations	3	(2)	4	6	275	(29)
Other income	4	2	3	2	67	35
Income before provision for income taxes	7	0	7	8	1,211	(12)
Provision for income taxes	2	0	2	3	1,200	(12)
Net income	5%	0%	5%	5%	1,217%	(12)%

The Company's total revenue increased 8% from $41,662,000 in the second quarter of fiscal 1996 to $44,831,000 in the second quarter of fiscal 1997. The Company's total revenue of $90,175,000 in the first six months of fiscal 1997 remained relatively constant as compared to the total revenue from the comparable period of fiscal 1996. Software license revenue increased 11% from $20,730,000 in the second quarter of fiscal 1996 to $22,975,000 in the second quarter of fiscal 1997. Software license revenue decreased 4% from $49,723,000 in the first six months of fiscal 1996 to $47,616,000 in the first six months of fiscal 1997. The increase in software license revenue in the second quarter of fiscal 1997 as compared to the period one year ago is due to greater sales of the Company's flagship product, PROGRESS Versions 7 and 8, and a slowdown in the rate of decline of PROGRESS Version 6. In addition, sales from the Company's newest product, WebSpeed, have continued to increase since its release in the fourth quarter of fiscal 1996. The decrease in software license revenue in the first six months of fiscal 1997 as compared to the period one year ago resulted from the slowdown in the Company's business which began in the second quarter of fiscal 1996. The slowdown was due primarily to increased competition and the transition some of the Company's Application Partners faced in the marketplace as they moved their applications to PROGRESS Versions 7 and 8 and WebSpeed. During the first six months of fiscal 1997, the Company entered into 105 new Application Partner agreements worldwide (29 in North America and 76 outside North America).

Maintenance and support services revenue increased 4% from $20,932,000 in the second quarter of fiscal 1996 to $21,856,000 in the second quarter of fiscal 1997. Maintenance and support services revenue increased 6% from $40,321,000 in the first six months of fiscal 1996 to $42,559,000 in the first six months of fiscal 1997. The maintenance and support services revenue increase was primarily a result of growth in the Company's installed customer base, renewal of maintenance contracts and increased consulting revenues.

Total revenue generated in markets outside North America increased from $25,228,000 in the second quarter of fiscal 1996 to $27,461,000 in the second quarter of fiscal 1997, but represented 61% of total revenue in each period. Total revenue generated in markets outside North America would have represented 63% of total revenue in the second quarter of fiscal 1997 if exchange rates had been constant as compared to the exchange rates in the effect in the second quarter of fiscal 1996. Total revenue generated in markets outside North America increased from $52,333,000 in the first six months of fiscal 1996 to $53,630,000 in the first six months of fiscal 1997 and increased as a percentage of total revenue from 58% in the first six months of fiscal 1996 to 59% in the first six months of fiscal 1997. Total revenue generated in markets outside North America would have represented 61% of total revenue in the first six months of fiscal 1997 if exchange rates had been constant as compared to the exchange rates in the effect in the first six months of fiscal 1996.

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 7% from $2,231,000 in the second quarter of fiscal 1996 to $2,388,000 in the second quarter of fiscal 1997, but remained approximately the same percentage of software license revenue in each period. Cost of software licenses increased 3% from $4,581,000 in the first six months of fiscal 1996 to $4,737,000 in the first six months of fiscal 1997 and increased as a percentage of software license revenue from 9% to 10%. The percentage increase was due to an increase in amortization of capitalized software costs and higher royalty expense. 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 support services consists primarily of costs of providing customer technical support, education and consulting. Cost of maintenance and support services increased 3% from $7,008,000 in the second quarter of fiscal 1996 to $7,222,000 in the second quarter of fiscal 1997, but remained approximately the same percentage of maintenance and support services revenue in each period. Cost of maintenance and support services in the first six months of fiscal 1997 remained relatively constant as compared to the first six months of 1996, but decreased as a percentage of maintenance and support services revenue from 35% to 33%. The percentage decrease was due primarily to improved consulting margins in the North America consulting business and, to a lesser extent, a slight reduction in the technical support, education and consulting staff in the first six months of fiscal 1997 as compared to the first six months of fiscal 1996. The Company decreased its technical support, education, and consulting staff from 224 at May 31, 1996 to 211 at May 31, 1997.

Sales and marketing expenses decreased 3% from $22,083,000 in the second quarter of fiscal 1996 to $21,364,000 in the second quarter of fiscal 1997 and decreased as a percentage of total revenue from 53% to 48%. Sales and marketing expenses decreased 2% from $44,007,000 in the first six months of fiscal 1996 to $42,922,000 in the first six months of fiscal 1997 and decreased as a percentage of total revenue from 49% to 47%. The dollar and percentage decrease in sales and marketing expenses was primarily due to a reduction of the sales, sales support and marketing staff and, to a lesser extent, a slight reduction in the level of discretionary marketing spending. The amount of discretionary marketing expenses can vary from period to period depending on the timing of significant trade shows, advertising campaigns and direct mail solicitations. The Company's sales, sales support and marketing staff decreased from 502 at May 31, 1996 to 473 at May 31, 1997. The Company expects the level of the sales, sales support and marketing staff for the remainder of fiscal 1997 to be within the range which has prevailed over the past several quarters.

Product development expenses increased 16% from $5,866,000 in the second quarter of fiscal 1996 to $6,776,000 in the second quarter of fiscal 1997 and increased as a percentage of total revenue from 14% to 15%. Product development expenses increased 11% from $11,891,000 in the first six months of fiscal 1996 to $13,181,000 in the first six months of fiscal 1997 and increased as a percentage of total revenue from 13% to 15%. The dollar and percentage increases were due primarily to higher average personnel costs and other related costs to support continued new product development efforts. The major product development efforts in the first six months of fiscal 1997 related to the development of the next versions of the WebSpeed and PROGRESS product lines. The product development staff decreased from 220 at May 31, 1996 to 201 at May 31, 1997. The Company expects the product development staff to increase during the remainder of fiscal 1997 from the level at May 31, 1997, but there can be no assurance that the Company will be successful in recruiting new employees or retaining current employees.

The Company capitalized $608,000 of software development costs in the second quarter of fiscal 1996 and $633,000 in the second quarter of fiscal 1997 in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." The Company capitalized $1,217,000 of software development costs in the first six months of fiscal 1996 and $1,257,000 in the first six months of fiscal 1997. The amounts capitalized represented 9% of total product development costs in each period presented for fiscal 1996 and fiscal 1997. Capitalized software costs are amortized over the estimated life of the product (four years) and amounts amortized are included in cost of software licenses for the period.

General and administrative expenses include the costs of the finance, human resources, legal, information systems and administrative departments of the Company. General and administrative expenses increased 8% from $5,263,000 in the second quarter of fiscal 1996 to $5,698,000 in the second quarter of fiscal 1997, but remained approximately the same percentage of total revenue in each period. General and administrative expenses increased 10% from $10,489,000 in the first six months of fiscal 1996 to $11,576,000 in the first six months of fiscal 1997 and increased as a percentage of total revenue from 12% to 13%. The dollar and percentage increases in general and administrative expenses were primarily due to higher average personnel costs and other related costs. The Company's general and administrative staff decreased from 187 at May 31, 1996 to 180 at May 31, 1997.

Other income increased $687,000 from $1,025,000 in the second quarter of fiscal 1996 to $1,712,000 in the second quarter of fiscal 1997 due primarily to a foreign currency gain of $471,000 in 1997 versus a foreign currency loss of $4,000 in 1996 and an increase in other income-minority interest. All revenue, costs and expenses attributable to the Company's joint venture in Japan are included in the Company's revenue, costs and expenses. To account for the fact that the Company owns only a 51% interest in the joint venture, other income (expense) reflects that portion of the joint venture's income or loss which is attributable to the 49% minority interest in the joint venture. The joint venture generated a net loss in each period presented and the Company recorded as "other income - minority interest" an amount equal to 49% of the joint venture's net loss. The foreign currency gain in the second quarter of fiscal 1997 relates primarily to unrealized market gains on foreign currency option contracts related to the Company's intercompany hedging programs.

The Company's effective tax rate was 34% for each period presented for fiscal 1996 and 1997 and was based upon the estimated effective tax rate for the full fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

The Company had $95,959,000 in cash and short-term investments at May 31, 1997. The cash and short-term investments decrease of $1,364,000 from $97,323,000 at November 30, 1996 was primarily due to common stock repurchases and property and equipment purchases offset by cash generated from operations.

The Company purchased $5,616,000 of property and equipment in the first six months of fiscal 1996 and $4,646,000 in the first six months of fiscal 1997. The purchases consisted primarily of computer equipment and software, furniture and fixtures, and leasehold improvements. The Company financed these purchases primarily from cash generated from operations.

In September 1996, the Board of Directors authorized, through September 30, 1997, the purchase of up to 3,000,000 shares of the Company's common stock, at such times when the Company deems such purchases to be an effective use of cash, for various purposes including the issuance of shares pursuant to the Company's stock option plans. The Company purchased 488,200 shares of its common stock for $8,424,000 in the second quarter of fiscal 1997. For the first six months of fiscal 1997, the Company has purchased 839,200 shares of its common stock at a cost of $14,396,000. At May 31, 1997, there remained approximately 2,100,000 shares of common stock authorized for repurchase.

The Company's 401(k) Plan has approximately $900,000 in Guaranteed Investment Contracts (GICs) issued by Mutual Benefit Life Insurance Company (MBLI). On July 16, 1991, the Insurance Commissioner of the State of New Jersey took possession and control of MBLI's assets. In April 1994, a rehabilitation plan was approved by the Superior Court of New Jersey. Pursuant to the rehabilitation plan, the GICs are supported by a group of life insurance companies and are paid out from the assets of MBL Life Assurance Corporation, the successor to MBLI. On May 23, 1997, the Company initiated a process to purchase the GICs from the 401(k) Plan to enable participants to choose other investment vehicles prior to the end of the rehabilitation plan. The purchase transaction requires the approval of the Department of Labor and the Internal Revenue Service. Assuming no objection or other impediment to the transaction, the Company expects the purchase transaction to be completed before the end of the Company's current fiscal year and not to have a material effect on the Company's consolidated financial position or results of operations.

The Company is party to two legal proceedings. 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. See Part II, Item 1 - Legal Proceedings for further details.

On June 27, 1997, the Company agreed to acquire Apptivity Corporation, a developer of Java-based application development tools, for a payment of approximately $3,800,000 in cash, the assumption of approximately $1,000,000 of liabilities and the issuance of approximately 400,000 shares of its common stock. The acquisition is expected to close in mid-July. The acquisition will be accounted for as a purchase and a substantial portion of the purchase price is expected to be allocated to in-process software development costs. This non-recurring charge will be reflected in the Company's results for the third quarter ended August 31, 1997.

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 February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 (SFAS 128), "Earnings per Share." SFAS 128 establishes a different method of computing net income per share than is currently required under the provisions of Accounting Principles Board Opinion No. 15 (APB 15). Under SFAS 128, the Company will be required to present both basic net income per share and diluted net income per share. Basic net income per share for the three-month and six-month periods ended May 31, 1997 would have been $.17 and $.32 per share, respectively as compared with $.01 and $.35 per share for the corresponding periods in fiscal 1996. Diluted net income per share under SFAS 128 for these periods is not expected to be materially different from primary earnings per share under APB 15. The Company plans to adopt SFAS 128 in its first quarter of fiscal 1998 and at that time all historical net income per share data presented will be restated to conform to the provisions of SFAS 128.

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

The Company develops, markets and supports its core product line, the PROGRESS Application Development Environment, the PROGRESS RDBMS and the PROGRESS Dataserver Architecture (collectively, "PROGRESS"). In May 1997, the Company began shipping the latest major enhancement to the PROGRESS product line, PROGRESS Version 8.2. In October 1996, the Company began shipments of WebSpeed, an open development and deployment environment that enables organizations to build transaction processing applications on the Internet and corporate intranets. In June 1997, the Company introduced WebSpeed Version 2.0, which is expected to begin commercial shipments in July 1997. The Company's Crescent Division develops and markets a collection of advanced tools and components to Visual Basic and Visual J++ development teams. The Crescent Division began offering these products commercially in January 1995 and has since released major enhancements to its existing line of products as well as new products.

Although the Company believes that PROGRESS, WebSpeed and the Crescent line of products have features and functionality which enable the Company to compete effectively with other vendors of application development products, ongoing enhancements to PROGRESS, WebSpeed and the Crescent line of products 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 may negatively affect results.

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

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

In addition, current and potential competitors may make strategic acquisitions or establish cooperative relationships among themselves or with third parties, thereby increasing their ability to deliver products which 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 affect upon the Company's business, financial condition and operating results.

The Company hopes that WebSpeed, the Crescent Division products and other new products will contribute positively to the Company's future results. The market for Internet transaction processing products, such as WebSpeed, is highly competitive and will depend in large part on the commercial acceptance of the Internet as a medium for all types of commerce. Because global commerce and online exchange of information on the Internet and other similar open wide area networks are new and evolving, it is difficult to predict with any assurance that the infrastructure or complementary products necessary to make the Internet a viable medium for all types of commerce will develop. The market for products such as those in the Crescent Division is extremely competitive and may be affected by changes in Microsoft's strategy with respect to Visual Basic and Visual J++ and the add-on product market for such products, and market acceptance of products competitive with Visual Basic and Visual J++.

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 51% of the Company's total revenue in the first six months of fiscal 1997 was attributable to international sales made through international subsidiaries. Because a substantial portion of the Company's total revenue is derived from such international operations which are conducted in foreign currencies, changes in the value of these foreign currencies relative to the United States dollar may affect the Company's results of operations and financial position. The Company engages in certain currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on the Company's results of operations. However, there can be no assurance that such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. If for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, the Company's business could be adversely affected. Other potential risks inherent in the Company's international business generally include longer payment cycles, greater difficulties in accounts receivable collection, unexpected changes in regulatory requirements, export restrictions, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, political instability, reduced protection for intellectual property rights in some countries, seasonal reductions in business activity during the summer months in Europe and certain other parts of the world, and potentially adverse tax consequences, any of which could adversely impact the success of the Company's international operations. There can be no assurance that one or more of such factors will not have a material adverse effect on the Company's future international operations and, consequently, on the Company's business, financial condition and operating results.

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

The Company's success is heavily dependent upon its proprietary software technology. The Company relies principally on a combination of contract provisions and copyright, trademark and trade secret laws to protect its proprietary technology. Despite the Company's efforts to protect its proprietary rights, unauthorized parties may attempt to copy aspects of the Company's products or to obtain and use information that the Company regards as proprietary. Policing unauthorized use of the Company's products is difficult. There can be no assurance that the steps taken by the Company to protect its proprietary rights will be adequate to prevent misappropriation of its technology or independent development by others of similar technology. In addition, litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect the Company's trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claim of infringement or invalidity. 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 be available on commercially reasonable terms in the future.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a defendant in litigation entitled NEWSTAR TECHNOLOGIES INC. V. PROGRESS SOFTWARE CORPORATION of Canada Ltd. and Progress Software Corporation, No. 97-CU-121571, pending in the Ontario (Canada) Court of Justice (General Division), commenced April 4, 1997. Newstar claims that the Company entered into a contract with it under which Newstar was entitled to purchase the Company's software and receive product support from the Company under specific terms which differ substantially from the Company's standard terms and conditions. The purported contract cited by Newstar was prepared by Newstar and executed by a lower-level Company salesperson in the name of a Company sales executive followed by the initials of the salesperson. The Company denies the existence of a binding contract, on various grounds, including that the salesperson did not have the authority to sign the sales executive's name and that Newstar knew or should have known of that fact. Newstar seeks (a) an injunction mandating that the Company comply with the terms of the purported contract, (b) a declaration that the purported contract is of full force and effect, (c) an order restraining the Company from terminating the purported contract, (d) damages of $200 million, (e) special damages of an unstated amount, (f) punitive damages of $20 million, (g) costs of the litigation, and (h) such other and further relief as the court deems just. The evidence offered by the plaintiff to date does not support its claims. Newstar moved for a preliminary injunction; however, that motion was stayed by agreement to allow the parties to participate in voluntary non-binding mediation which took place on July 7, 1997. During this session a tentative settlement was reached which the parties anticipate will be finalized in the near future. Pursuant to such settlement, Newstar will become an Application Partner of the Company under mutually acceptable terms and conditions reasonably consistent with arrangements entered into with other Application Partners. If, for any reason, the settlement is not finalized, the Company will defend the action vigorously.

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

The Company is subject to various 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

a) On April 25, 1997, the Annual Meeting of Shareholders of the Company was held at the offices of the Company located at 14 Oak Park, Bedford, Massachusetts.

b) Joseph W. Alsop, Larry R. Harris, Robert J. Lepkowski, Michael L. Mark, Arthur J. Marks, Amram Rasiel and James W. Storey were elected at the Annual Meeting to serve as directors of the Company.

c) At the Annual Meeting, the Shareholders also voted (i) to fix the number of directors at seven, (ii) to amend the Company's Restated Articles of Organization to authorize an increase in the authorized Common Stock, $.01 par value per share, of the Company from 20,000,000 shares to 50,000,000 shares, and (iii) to approve and adopt the 1997 Stock Incentive Plan.

The following votes were tabulated on the aforementioned proposals:

1. Fixing the numbers of directors at seven:

Affirmative Votes Cast	Negative Votes Cast	Votes Abstaining
10,905,451	85,292	67,116

2. To elect the following seven directors: Joseph W. Alsop, Larry R. Harris, Robert J. Lepkowski, Michael L. Mark, Arthur J. Marks, Amram Rasiel and James W. Storey

Nominee	For	Withhold Authority
Joseph W. Alsop	10,468,240	589,619
Larry R. Harris	10,471,041	586,818
Robert J. Lepkowski	10,467,241	590,618
Michael L. Mark	10,471,341	588,318
Arthur J. Marks	10,469,541	588,318
Amram Rasiel	10,470,141	587,718
James W. Storey	10,469,541	588,318

		Affirmative Votes Cast	Negative Votes Cast	Votes Abstaining	Broker Non-Votes
3.	Amending the Company's Restated Articles of Organization to authorize an increase in the authorized Common Stock, $.01 par value per share, of the Company from 20,000,000 shares to 50,000,000 shares	9,091,013	1,888,627	78,219	
4.	Approving and adopting the Company's 1997 Stock Incentive Plan	4,943,390	1,733,159	82,167	4,299,143

d) Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

10.18 - 1997 Stock Incentive Plan
11.1 - Statement regarding computation of per share earnings
27.1 - Financial Data Schedule (EDGAR Version only)

b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended May 31, 1997.

SIGNATURES

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

PROGRESS SOFTWARE CORPORATION
(Registrant)

Dated: July 14, 1997	/s/ Joseph W. Alsop ------------------------------ Joseph W. Alsop President and Treasurer (Principal Executive Officer)
Dated: July 14, 1997	/s/ Norman R. Robertson ------------------------------ Norman R. Robertson Vice President, Finance and Chief Financial Officer (Principal Financial Officer)
Dated: July 14, 1997	/s/ David H. Benton, Jr. ------------------------------ David H. Benton, Jr. Corporate Controller (Principal Accounting Officer)

EXHIBIT 10.18

PROGRESS SOFTWARE CORPORATION
1997 STOCK INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS.

The name of the plan is the Progress Software Corporation 1997 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees and directors of, and other persons providing services to, Progress Software Corporation (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business, to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"Act" means the Securities Exchange Act of 1934, as amended.

"Award" or "Awards", except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Conditioned Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Stock Appreciation Rights.

"Board" means the Board of Directors of the Company.

"Cause" means (i) any material breach by the participant of any agreement to which the participant and the Company are both parties, (ii) any act or omission to act by the participant which may have a material and adverse effect on the Company's business or on the participant's ability to perform services for the Company, including, without limitation, the commission of any crime (other than ordinary traffic violations), or (iii) any material misconduct or material neglect of duties by the participant in connection with the business or affairs of the Company or any affiliate of the Company.

"Change of Control" shall have the meaning set forth in Section 15.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Conditioned Stock Award" means an Award granted pursuant to Section 6.

"Committee" shall have the meaning set forth in Section 2.

"Disability" means disability as set forth in Section 22(e)(3) of the Code.

"Effective Date" means the date on which the Plan is approved by shareholders as set forth in Section 17.

"Eligible Persons" shall have the meaning set forth in Section 4.

"Fair Market Value" on any given date means the closing price per share of the Stock on such date as reported by a nationally recognized stock exchange, or, if the Stock is not listed on such an exchange, as reported by the Nasdaq Stock Market, or, if the Stock is not quoted on the Nasdaq Stock Market, the fair market value of the Stock as determined by the Committee.

"Incentive Stock Option" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Normal Retirement" means retirement from active employment with the Company and its Subsidiaries in accordance with the retirement policies of the Company and its Subsidiaries then in effect.

"Outside Director" means any director who (i) is not an employee of the Company or of any "affiliated group," as such term is defined in Section 1504(a) of the Code, which includes the Company (an "Affiliate"), (ii) is not a former employee of the Company or any Affiliate who is receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during the Company's or any Affiliate's taxable year, (iii) has not been an officer of the Company or any Affiliate and (iv) does not receive remuneration from the Company or any Affiliate, either directly or indirectly, in any capacity other than as a director.

"Option" or "Stock Option" means any option to purchase shares of Stock granted pursuant to Section 5.

"Performance Share Award" means an Award granted pursuant to Section 8.

"Stock" means the Common Stock, $.01 par value per share, of the Company, subject to adjustments pursuant to Section 3.

"Stock Appreciation Right" means an Award granted pursuant to Section 9.

"Subsidiary" means a subsidiary as set forth in Section 424 of the Code.

"Unrestricted Stock Award" means Awards granted pursuant to Section 7.

SECTION 2. ADMINISTRATION OF PLAN; COMMITTEE AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS.

(a) Committee. The Plan shall be administered by a committee (the "Committee") consisting of at least two Outside Directors. None of the members of the Committee shall have been granted any Award under this Plan (other than pursuant to Section 7(c)) or any other stock option plan of the Company (other than the Company's 1993 Directors' Stock Option Plan) within one year prior to service on the Committee. It is the intention of the Company that the Plan shall be administered by "disinterested persons" within the meaning of Section 162(m) of the Code, but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not a disinterested person. Except as specifically reserved to the Board under the terms of the Plan, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the Company. Action by the Committee shall require the affirmative vote of a majority of all members thereof.

(b) Powers of Committee. The Committee shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the officers and other employees of, and persons providing services to, the Company and its Subsidiaries to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Conditioned Stock, Unrestricted Stock, Performance Shares and Stock Appreciation Rights, or any combination of the foregoing, granted to any one or more participants;

(iii) to determine the number of shares to be covered by any Award;

(iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate the exercisability or vesting of all or any portion of any Award;

(vi) subject to the provisions of Section 5(a)(ii), to extend the period in which any outstanding Stock Option or Stock Appreciation Right may be exercised;

(vii) to reduce the per-share exercise price of any outstanding Stock Option or Stock Appreciation Right awarded to any employee of the Company (but not to less than 100% of Fair Market Value on the date the reduction is made) provided, however, that if the Committee shall reduce the per-share exercise price of a Stock Option or Stock Appreciation Right awarded to any officer or director of the Company, such reduction shall be effective only if approved by the shareholders of the Company;

(viii) to determine whether, to what extent, and under what circumstances Stock and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the participant and whether and to what extent the Company shall pay or credit amounts equal to interest (at rates determined by the Committee) or dividends or deemed dividends on such deferrals; and

(ix) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants.

SECTION 3. SHARES ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION.

(a) Shares Issuable. The maximum number of shares of Stock with respect to which Awards (including Stock Appreciation Rights) may be granted under the Plan shall be 680,000. For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise) shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan so long as the participants to whom such Awards had been previously granted received no benefits of ownership of the underlying shares of Stock to which the Awards related. Subject to such overall limitation, any type or types of Award may be granted with respect to shares, including Incentive Stock Options. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

(b) Limitation on Awards. In no event may any Plan participant be granted Awards (including Stock Appreciation Rights) with respect to more than 100,000 shares of Stock in any calendar year. The number of shares of Stock relating to an Award granted to a Plan participant in a calendar year that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in such calendar year.

(c) Stock Dividends, Mergers, etc. In the event that after approval of the Plan by the shareholders of the Company in accordance with Section 17, the Company effects a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities with respect to which Awards may thereafter be granted (including without limitation the limitations set forth in Sections 3(a) and (b) above), (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or accelerate, amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances), subject, however, to the provisions of Section 15.

(d) Substitute Awards. The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances. The shares which may be delivered under such substitute awards shall be in addition to the maximum number of shares provided for in Section 3(a) only to the extent that the substitute Awards are both (i) granted to persons whose relationship to the Company does not make (and is not expected to make) them subject to Section 16(b) of the Act; and (ii) granted in substitution for awards issued under a plan approved, to the extent then required under Rule 16b-3 (or any successor rule under the Act), by the shareholders of the entity which issued such predecessor awards.

SECTION 4. ELIGIBILITY.

Awards may be granted to officers or other key employees of the Company or its Subsidiaries, and to members of the Board and consultants or other persons who render services to the Company, regardless of whether they are also employees ("Eligible Persons"), provided, however, that members of the Committee at the time of grant, except for the purposes of Section 7(c), shall not constitute Eligible Persons.

SECTION 5. STOCK OPTIONS.

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. To the extent that any option does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option.

No Incentive Stock Option shall be granted under the Plan after December 31, 2006.

(a) Grant of Stock Options. The Committee in its discretion may grant Incentive Stock Options only to employees of the Company or any Subsidiary. The Committee in its discretion may grant Non-Qualified Stock Options to Eligible Persons. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and the terms and conditions of Section 13 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable.

(i) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Committee at the time of grant but shall be, in the case of Incentive Stock Options and Non-Qualified Stock Options, not less than 100% of Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the option price shall be not less than 110% of Fair Market Value on the grant date.

(ii) Option Term. The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five years from the date of grant.

(iii) Exercisability; Rights of a Shareholder. Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee at or after the grant date. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) Method of Exercise. Stock Options may be exercised in whole or in part, by delivering written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods:

(A) In cash, by certified or bank check or other instrument acceptable to the Committee;

(B) In the form of shares of Stock that are not then subject to restrictions under any Company plan, if permitted by the Committee, in its discretion. Such surrendered shares shall be valued at Fair Market Value on the exercise date; or

(C) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure. Payment instruments will be received subject to collection.

The delivery of certificates representing shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the Optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or applicable provisions of laws.

(v) Non-transferability of Options. No Stock Option shall be transferable other than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(vi) Annual Limit on Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which incentive stock options granted under this Plan and any other plan of the Company or its Subsidiaries become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000.

(vii) Repurchase Right. The Committee may in its discretion provide upon the grant of any Stock Option hereunder that the Company shall have an option to repurchase upon such terms and conditions as determined by the Committee all or any number of shares purchased upon exercise of such Stock Option. The repurchase price per share payable by the Company shall be such amount or be determined by such formula as is fixed by the Committee at the time the Option for the shares subject to repurchase is granted. In the event the Committee shall grant Stock Options subject to the Company's repurchase option, the certificates representing the shares purchased pursuant to such Options shall carry a legend satisfactory to counsel for the Company referring to the Company's repurchase option.

(viii) Form of Settlement. Shares of Stock issued upon exercise of a Stock Option shall be free of all restrictions under the Plan, except as otherwise provided in this Plan.

(b) Reload Options. At the discretion of the Committee, Options granted under Section 5(a) may include a so-called "reload" feature pursuant to which an optionee exercising an option by the delivery of a number of shares of Stock in accordance with Section 5(a)(iv)(B) hereof would automatically be granted an additional Option (with an exercise price equal to the Fair Market Value of the Stock on the date the additional Option is granted and with the same expiration date as the original Option being exercised, and with such other terms as the Committee may provide) to purchase that number of shares of Stock equal to the number delivered to exercise the original Option.

SECTION 6. CONDITIONED STOCK AWARDS.

(a) Nature of Conditioned Stock Award. The Committee in its discretion may grant Conditioned Stock Awards to any Eligible Person. A Conditioned Stock Award is an Award entitling the recipient to acquire, at no cost or for a purchase price determined by the Committee, shares of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ("Conditioned Stock"). Conditions may be based on continuing employment and/or achievement of pre-established performance goals and objectives. In addition, a Conditioned Stock Award may be granted to an employee by the Committee in lieu of a cash bonus due to such employee pursuant to any other plan of the Company.

(b) Acceptance of Award. A participant who is granted a Conditioned Stock Award shall have no rights with respect to such Award unless the participant shall have accepted the Award within 60 days (or such shorter date as the Committee may specify) following the award date by making payment to the Company, if required, by certified or bank check or other instrument or form of payment acceptable to the Committee in an amount equal to the specified purchase price, if any, of the shares covered by the Award and by executing and delivering to the Company a written instrument that sets forth the terms and conditions of the Conditioned Stock in such form as the Committee shall determine.

(c) Rights as a Shareholder. Upon complying with Section 6(b) above, a participant shall have all the rights of a shareholder with respect to the Conditioned Stock, including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or forfeiture rights described in this Section 6 and subject to such other conditions contained in the written instrument evidencing the Conditioned Award. Unless the Committee shall otherwise determine, certificates evidencing shares of Conditioned Stock shall remain in the possession of the Company until such shares are vested as provided in Section 6(e) below.

(d) Restrictions. Shares of Conditioned Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause), the Company shall have the right, at the discretion of the Committee, to repurchase shares of Conditioned Stock with respect to which conditions have not lapsed at their purchase price, or to require forfeiture of such shares to the Company if acquired at no cost, from the participant or the participant's legal representative. The Company must exercise such right of repurchase or forfeiture not later than the ninetieth day following such termination of employment (unless otherwise specified, in the written instrument evidencing the Conditioned Award).

(e) Vesting of Conditioned Stock. The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Conditioned Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Conditioned Stock and shall be deemed "vested." The Committee at any time may accelerate such date or dates and otherwise waive or, subject to Section 13, amend any conditions of the Award.

(f) Waiver, Deferral and Reinvestment of Dividends. The written instrument evidencing the Conditioned Stock Award may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

SECTION 7. UNRESTRICTED STOCK AWARDS.

(a) Grant or Sale of Unrestricted Stock. The Committee in its discretion may grant (or sell at a purchase price determined by the Committee which shall in no event be less than 100% of Fair Market Value) to any Eligible Person shares of Stock free of any restrictions under the Plan ("Unrestricted Stock"). Shares of Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration.

(b) Elections to Receive Unrestricted Stock In Lieu of Compensation. Upon the request of an Eligible Person and with the consent of the Committee, each Eligible Person may, pursuant to an irrevocable written election delivered to the Company no later than the date or dates specified by the Committee, receive a portion of the cash compensation otherwise due to him in Unrestricted Stock (valued at Fair Market Value on the date or dates the cash compensation would otherwise be paid). Such Unrestricted Stock may be paid to the Eligible Person at the same time as the cash compensation would otherwise be paid, or at a later time, as specified by the Eligible Person in the written election.

(c) Elections to Receive Unrestricted Stock in Lieu of Directors' Fees. Each Outside Director may, pursuant to an irrevocable written election delivered to the Company no later than June 30 of any calendar year, receive all or a portion of the directors' fees otherwise due to him in the subsequent calendar year in Unrestricted Stock (valued at Fair Market Value on the date or dates the directors' fees would otherwise be paid). Such Unrestricted Stock may be paid to the Non-Employee Director at the same time the directors' fees would otherwise have been paid, or at a later time, as specified by the Non-Employee Director in the written election.

(d) Restrictions on Transfers. The right to receive unrestricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

SECTION 8. PERFORMANCE SHARE AWARDS.

(a) Nature of Performance Shares. A Performance Share Award is an award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals. The Committee may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. Performance Share Awards may be granted under the Plan to any Eligible Person including those who qualify for awards under other performance plans of the Company. The Committee in its discretion shall determine whether and to whom Performance Share Awards shall be made, the performance goals applicable under each such Award, the periods during which performance is to be measured, and all other limitations and conditions applicable to the awarded Performance Shares; provided, however, that the Committee may rely on the performance goals and other standards applicable to other performance-based plans of the Company in setting the standards for Performance Share Awards under the Plan.

(b) Restrictions on Transfer. Performance Share Awards and all rights with respect to such Awards may not be sold, assigned, transferred, pledged or otherwise encumbered.

(c) Rights as a Shareholder. A participant receiving a Performance Share Award shall have the rights of a shareholder only as to shares actually received by the participant under the Plan and not with respect to shares subject to the Award but not actually received by the participant. A participant shall be entitled to receive a stock certificate evidencing the acquisition of shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the written instrument evidencing the Performance Share Award (or in a performance plan adopted by the Committee).

(d) Termination. Except as may otherwise be provided by the Committee at any time prior to termination of employment, a participant's rights in all Performance Share Awards shall automatically terminate upon the participant's termination of employment by the Company and its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause).

(e) Acceleration, Waiver, Etc. At any time prior to the participant's termination of employment by the Company and its Subsidiaries, the Committee may in its sole discretion accelerate, waive or, subject to Section 13, amend any or all of the goals, restrictions or conditions imposed under any Performance Share Award.

SECTION 9. STOCK APPRECIATION RIGHTS.

(a) The Committee in its discretion may grant Stock Appreciation Rights to any Eligible Person (i) alone, (ii) simultaneously with the grant of a Stock Option and in conjunction therewith or in the alternative thereto or (iii) subsequent to the grant of a Non-Qualified option and in conjunction therewith or in the alternative thereto.

(b) The exercise price per share of a Stock Appreciation Right granted alone shall be determined by the Committee, but shall not be less than 100% of Fair Market Value on the date of grant of such Stock Appreciation Right. A Stock Appreciation Right granted simultaneously with or subsequent to the grant of a Stock Option and in conjunction therewith or in the alternative thereto shall have the same exercise price as the related Stock Option, shall be transferable only upon the same terms and conditions as the related Stock Option, and shall be exercisable only to the same extent as the related Stock Option; provided, however, that a Stock Appreciation Right, by its terms, shall be exercisable only when the Fair Market Value per share of Stock exceeds the exercise price per share thereof.

(c) Upon any exercise of a Stock Appreciation Right, the number of shares of Stock for which any related Stock Option shall be exercisable shall be reduced by the number of shares for which the Stock Appreciation Right shall have been exercised. The number of shares of Stock with respect to which a Stock Appreciation Right shall be exercisable shall be reduced upon any exercise of any related Stock Option by the number of shares for which such Option shall have been exercised. Any Stock Appreciation Right shall be exercisable upon such additional terms and conditions as may from time to time be prescribed by the Committee.

(d) A Stock Appreciation Right shall entitle the participant upon exercise thereof to receive from the Company, upon written request to the Company at its principal offices (the "Request"), a number of shares of Stock (with or without restrictions as to substantial risk of forfeiture and transferability, as determined by the Committee in its sole discretion), an amount of cash, or any combination of Stock and cash, as specified in the Request (but subject to the approval of the Committee in its sole discretion, at any time up to and including the time of payment, as to the making of any cash payment), having an aggregate Fair Market Value equal to the product of (i) the excess of Fair Market Value, on the date of such Request, over the exercise price per share of Stock specified in such Stock Appreciation Right or its related Option, multiplied by (ii) the number of shares of Stock for which such Stock Appreciation Right shall be exercised. Notwithstanding the foregoing, the Committee may specify at the time of grant of any Stock Appreciation Right that such Stock Appreciation Right may be exercisable solely for cash and not for Stock.

(e) Within thirty (30) days of the receipt by the Company of a Request to receive cash in full or partial settlement of a Stock Appreciation Right or to exercise such Stock Appreciation Right for cash, the Committee shall, in its sole discretion, either consent to or disapprove, in whole or in part, such Request. A Request to receive cash in full or partial settlement of a Stock Appreciation Right or to exercise a Stock Appreciation Right for cash may provide that, in the event the Committee shall disapprove such Request, such Request shall be deemed to be an exercise of such Stock Appreciation Right for Stock.

(f) If the Committee disapproves in whole or in part any election by a participant to receive cash in full or partial settlement of a Stock Appreciation Right or to exercise such Stock Appreciation Right for cash, such disapproval shall not affect such participant's right to exercise such Stock Appreciation Right at a later date, to the extent that such Stock Appreciation Right shall be otherwise exercisable, or to elect the form of payment at a later date, provided that an election to receive cash upon such later exercise shall be subject to the approval of the Committee. Additionally, such disapproval shall not affect such participant's right to exercise any related Option.

(g) A participant shall not be entitled to request or receive cash in full or partial payment of a Stock Appreciation Right, if such Stock Appreciation Right or any related Option shall have been exercised during the first six (6) months of its respective term; provided, however, that such prohibition shall not apply in the event of the death or Disability of the participant prior to the expiration of such six-month period, or if such participant is not a director or officer of the Company or a beneficial owner of the Company who is described in Section 16(a) of the Act.

(h) A Stock Appreciation Right shall be deemed exercised on the last day of its term, if not otherwise exercised by the holder thereof, provided that the fair market value of the Stock subject to the Stock Appreciation Right exceeds the exercise price thereof on such date.

(i) No Stock Appreciation Right shall be transferable other than by will or by the laws of descent and distribution and all Stock Appreciation Rights shall be exercisable, during the holder's lifetime, only by the holder.

SECTION 10. TERMINATION OF STOCK OPTIONS AND STOCK APPRECIATION RIGHTS.

(a) Termination by Death. If any participant's employment by or services to the Company and its Subsidiaries terminates by reason of death, any Stock Option or Stock Appreciation Right owned by such participant may thereafter be exercised to the extent exercisable at the date of death, by the legal representative or legatee of the participant, for a period of two years (or such longer period as the Committee shall specify at any time) from the date of death, or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(b) Termination by Reason of Disability or Normal Retirement.

(i) Any Stock Option or Stock Appreciation Right held by a participant whose employment by or services to the Company and its Subsidiaries has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of one year (or such longer period as the Committee shall specify at any time) from the date of such termination of employment or services, or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(ii) Any Stock Option or Stock Appreciation Right held by a participant whose employment by or services to the Company and its Subsidiaries has terminated by reason of Normal Retirement may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of 90 days (or such longer period as the Committee shall specify at any time) from the date of such termination of employment or services, or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(iii) The Committee shall have sole authority and discretion to determine whether a participant's employment or services has been terminated by reason of Disability or Normal Retirement.

(iv) Except as otherwise provided by the Committee at the time of grant, the death of a participant during a period provided in this Section 10(b) for the exercise of a Stock Option or Stock Appreciation Right, shall extend such period for two years from the date of death, subject to termination on the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(c) Termination for Cause. If any participant's employment by or services to the Company and its Subsidiaries has been terminated for Cause, any Stock Option or Stock Appreciation Right held by such participant shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such Option or Stock Appreciation Right can be exercised for a period of up to 30 days from the date of termination of employment or services or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

(d) Other Termination. Unless otherwise determined by the Committee, if a participant's employment by or services to the Company and its Subsidiaries terminates for any reason other than death, Disability, Normal Retirement or for Cause, any Stock Option or Stock Appreciation Right held by such participant may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for 90 days (or such longer period as the Committee shall specify at any time) from the date of termination of employment or services or until the expiration of the stated term of the Option or Stock Appreciation Right, if earlier.

SECTION 11. TAX WITHHOLDING.

(a) Payment by Participant. Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any Federal, state or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) Payment in Shares. Participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to an Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due with respect to such Award, or (ii) transferring to the Company shares of Stock owned by the participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due. With respect to any participant who is subject to Section 16 of the Act, the following additional restrictions shall apply:

(A) the election to satisfy tax withholding obligations relating to an Award in the manner permitted by this Section 11(b) shall be made either (1) during the period beginning on the third business day following the date of release of quarterly or annual summary statements of sales and earnings of the Company and ending on the twelfth business day following such date, or (2) at least six months prior to the date as of which the receipt of such an Award first becomes a taxable event for Federal income tax purposes;

(B) such election shall be irrevocable;

(C) such election shall be subject to the consent or approval of the Committee; and

(D) the Stock withheld to satisfy tax withholding, if granted at the discretion of the Committee, must pertain to an Award which has been held by the participant for at least six months from the date of grant of the Award.

SECTION 12. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another;

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

SECTION 13. AMENDMENTS AND TERMINATION.

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award (or provide substitute Awards at the same exercise or purchase price) for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. However, no such amendment, unless approved by the shareholders of the Company, shall be effective if it would (i) cause the Plan to fail to satisfy the incentive stock option requirements of the Code, (ii) cause transactions under the Plan to fail to satisfy the requirements of Rule 16b-3 or any successor rule under the Act as in effect on the date of such amendment, (iii) permit the Board or the Committee to reprice Options or Stock Appreciation Rights granted to officers and directors of the Company under the Plan without shareholder approval, or (iv) permit the Board or the Committee to grant Non-Qualified Stock Options or Stock Appreciation Rights under the Plan at less than 100% of the Fair Market Value on the date of grant of such Non-Qualified Stock Options or Stock Appreciation Rights, as the case may be.

SECTION 14. STATUS OF PLAN.

With respect to the portion of any Award which has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the provision of the foregoing sentence.

SECTION 15. CHANGE OF CONTROL PROVISIONS.

(a) Upon the occurrence of a Change of Control as defined in this Section 15:

(i) subject to the provisions of clause (iii) below, after the effective date of such Change of Control, each holder of an outstanding Stock Option, Conditional Stock Award, Performance Share Award or Stock Appreciation Right shall be entitled, upon exercise of such Award, to receive, in lieu of shares of Stock (or consideration based upon the Fair Market Value of Stock), shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of Stock received in connection with the Change of Control;

(ii) the Committee may accelerate the time for exercise of, and waive all conditions and restrictions on, each unexercised and unexpired Stock Option, Conditional Stock Award, Performance Share Award and Stock Appreciation Right, effective upon a date prior or subsequent to the effective date of such Change of Control, specified by the Committee; or

(iii) each outstanding Stock Option, Conditional Stock Award, Performance Share Award and Stock Appreciation Right may be cancelled by the Committee as of the effective date of any such Change of Control provided that (x) notice of such cancellation shall be given to each holder of such an Award and (y) each holder of such an Award shall have the right to exercise such Award to the extent that the same is then exercisable or, if the Committee shall have accelerated the time for exercise of all such unexercised and unexpired Awards, in full during the 30-day period preceding the effective date of such Change of Control.

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

(i) any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Act) becomes a "beneficial owner" (as such term is defined in Rule 13d-3 promulgated under the Act) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing thirtyfive percent (35%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) persons who, as of January 1, 1997, constituted the Company's Board (the "Incumbent Board") cease for any reason, including without limitation as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to January 1, 1997 whose election was approved by, or who was nominated with the approval of, at least a majority of the directors then comprising the Incumbent Board shall, for purposes of this Plan, be considered a member of the Incumbent Board; or

(iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation or 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) more than 65% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (b) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(iv) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

SECTION 16. GENERAL PROVISIONS.

(a) No Distribution; Compliance with Legal Requirements. The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) Delivery of Stock Certificates. Delivery of stock certificates to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan or any Award under the Plan does not confer upon any employee any right to continued employment with the Company or any Subsidiary.

SECTION 17. EFFECTIVE DATE OF PLAN.

The Plan shall become effective upon approval by the holders of a majority of the shares of capital stock of the Company present or represented and entitled to vote at a meeting of shareholders.

SECTION 18. GOVERNING LAW.

This Plan shall be governed by, and construed and enforced in accordance with, the substantive laws of The Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

EXHIBIT 11.1

(In thousands, except per share data)

PRIMARY

	Three Months Ended May 31, 1997	Three Months Ended May 31, 1996	Six Months Ended May 31, 1997	Six Months Ended May 31, 1996
Weighted average number of common and common equivalent shares outstanding:				
Common stock	12,267	12,921	12,450	12,933
Common equivalent shares resulting from stock options (treasury stock method)..	735	200	496	512
Total	13,002	13,121	12,946	13,445
Net income	$ 2,042	$ 155	$ 4,020	$ 4,574
Net income per common share	$ 0.16	$ 0.01	$ 0.31	$ 0.34

FULLY-DILUTED

	Three Months Ended May 31, 1997	Three Months Ended May 31, 1996	Six Months Ended May 31, 1997	Six Months Ended May 31, 1996
Weighted average number of common and common equivalent shares outstanding:				
Common stock	12,267	12,921	12,450	12,933
Common equivalent shares resulting from stock options (treasury stock method) .	735	200	496	512
Total	13,002	13,121	12,946	13,445
Net income	$ 2,042	$ 155	$ 4,020	$ 4,574
Net income per common share	$ 0.16	$ 0.01	$ 0.31	$ 0.34

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTAINS IN THE COMPANY'S FORM 10-Q FOR THE PERIOD ENDING MAY 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000
U.S. DOLLARS

6-MOS
NOV-30-1997
DEC-01-1996
MAY-31-1997
1
25,086
70,873
36,138
5,275
1,363
139,927
50,877
27,850
170,812
62,206
0
0
0
120
105,576
170,812
47,616
90,175
4,737
86,596
0
0
7
6,091
2,071
4,020
0
0
0
4,020
0.31
0.31