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 August 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: (781) 280-4000

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

Yes X No

As of September 30, 1997, there were 11,759,226 shares of the Registrant's Common Stock, $.01 par value per share, outstanding.

PROGRESS SOFTWARE CORPORATION

FORM 10-Q

FOR THE THREE MONTHS ENDED AUGUST 31, 1997

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PROGRESS SOFTWARE CORPORATION

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

	August 31, 1997	November 30, 1996
ASSETS		
Current assets:		
Cash and equivalents	$ 26,897	$ 30,872
Short-term investments	55,682	66,451
Accounts receivable (less allowance for doubtful accounts of $5,085 in 1997 and $5,112 in 1996)	29,072	34,452
Inventories	1,622	1,257
Other current assets	8,415	4,367
Deferred income taxes	3,775	3,552
Total current assets	125,463	140,951
Property and equipment-net	21,863	24,230
Capitalized software costs-net	4,939	5,428
Other assets	2,252	2,579
Total	$154,517	$173,188
LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities:		
Current portion of long-term debt	$ -	$ 37
Accounts payable	7,099	7,989
Accrued compensation and related taxes	13,479	12,385
Income taxes payable	1,318	3,004
Other accrued liabilities	8,252	5,964
Deferred revenue	30,530	27,365
Total current liabilities	60,678	56,744
Deferred income taxes	2,387	2,345
Long-term debt	-	85
Minority interest in subsidiary	356	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 in 1996; issued and outstanding, 11,718,982 shares in 1997 and 12,632,630 shares in 1996	117	126
Additional paid-in capital	24,425	41,309
Retained earnings	66,931	72,280
Unrealized gain on short-term investments	184	241
Cumulative translation adjustments	(561)	(163)
Total shareholders' equity	91,096	113,793
Total	$154,517	$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 August 31,		Nine Months Ended August 31,	
	1997	1996	1997	1996
Revenue:				
Software licenses	$ 22,371	$19,658	$ 69,987	$ 69,381
Maintenance and support services	23,509	21,753	66,068	62,074
Total revenue	45,880	41,411	136,055	131,455
Costs and expenses:				
Cost of software licenses	2,232	2,011	6,969	6,592
Cost of maintenance and support services	7,879	7,689	22,059	21,699
Sales and marketing	21,963	20,942	64,885	64,949
Product development	6,667	6,096	19,848	17,987
General and administrative	5,818	5,449	17,394	15,938
Nonrecurring charges	11,537	-	11,537	-
Total costs and expenses	56,096	42,187	142,692	127,165
Income (loss) from operations	(10,216)	(776)	(6,637)	4,290
Other income (expense):				
Interest income	977	943	2,895	2,884
Interest expense	-	(1)	(7)	(7)
Foreign currency gain (loss)	443	20	726	(283)
Minority interest	172	95	468	351
Other income (expense)	(5)	49	17	26
Total other income	1,587	1,106	4,099	2,971
Income (loss) before provision for income taxes	(8,629)	330	(2,538)	7,261
Provision for income taxes	740	112	2,811	2,469
Net income (loss)	$ (9,369)	$ 218	$ (5,349)	$ 4,792
Income (loss) per common share	$ (0.80)	$ 0.02	$ (0.44)	$ 0.36
Weighted average number of common and common equivalent shares outstanding	11,769	12,915	12,223	13,268

See notes to condensed consolidated financial statements.

PROGRESS SOFTWARE CORPORATION

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

	Nine Months Ended August 31, 1997	1996
Cash flows from operating activities:		
Net income (loss)	$ (5,349)	$ 4,792
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	8,002	7,058
Nonrecurring charges	11,537	-
Amortization of capitalized software costs	1,592	1,224
Amortization of intangible assets	201	268
Deferred income taxes	(260)	51
Minority interest in subsidiary	(468)	(351)
Noncash compensation	16	2
Changes in operating assets and liabilities:		
Accounts receivable	3,182	11,566
Inventories	(369)	464
Other current assets	(4,360)	(107)
Accounts payable and accrued expenses	2,796	(6,601)
Income taxes payable	(1,222)	215
Deferred revenue	4,991	399
Total adjustments	25,638	14,188
Net cash provided by operating activities	20,289	18,980
Cash flows from investing activities:		
Purchases of investments available for sale	(25,816)	(59,302)
Maturities of investments available for sale	26,000	32,211
Sales of investments available for sale	10,528	20,600
Purchase of property and equipment	(6,212)	(7,943)
Capitalized software costs	(1,778)	(1,844)
Acquisition of Apptivity	(3,847)	-
Increase (decrease) in other noncurrent assets	102	(452)
Net cash used for investing activities	(1,023)	(16,730)
Cash flows from financing activities:		
Proceeds from issuance of common stock	3,224	1,642
Repurchase of common stock	(26,453)	(6,276)
Contributions from minority interest	603	-
Payment of obligations under capital leases	(116)	(49)
Net cash used for financing activities	(22,742)	(4,683)
Effect of exchange rate changes on cash	(499)	(154)
Net decrease in cash and equivalents	(3,975)	(2,587)
Cash and equivalents, beginning of period	30,872	33,465
Cash and equivalents, end of period	$ 26,897	$ 30,878

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 expected for the full fiscal year.

2. Acquisition and Nonrecurring Charges

On July 15, 1997, the Company acquired all of the outstanding stock of Apptivity Corporation, a developer of Java based application development tools, for $3,847,000 in cash, $1,373,000 of assumed and other liabilities and the issuance of 395,657 shares of common stock. The acquisition has been accounted for as a purchase, and accordingly, the results of operations have been included in the Company's operating results from the date of acquisition. The allocation of the purchase price included $10,806,000 to in-process software development which was charged to operations as part of the nonrecurring charge in the third quarter of fiscal 1997. Additionally, the Company recorded a nonrecurring charge of $731,000 for the writedown of certain capitalized software costs and other intangible assets to fair value after evaluating the impact of the acquisition upon the Company's future operating plans.

3. Income (Loss) Per Common Share

Income (loss) 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. The weighted average number of common and common equivalent shares excludes the impact of common stock equivalents for each loss period as the impact would be antidilutive.

4. Inventories

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

5. 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.

6. 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.

On April 4, 1997, Newstar Technologies Inc. commenced an action in the Ontario (Canada) Court of Justice (General Division) against the Company and its wholly owned subsidiary, Progress Software Corporation of Canada Ltd. (NEWSTAR TECHNOLOGIES INC. V. PROGRESS SOFTWARE CORPORATION OF CANADA LTD. AND PROGRESS SOFTWARE CORPORATION, No. 97-CU-121571). Newstar claimed 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 denied 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. On July 7, 1997 the parties participated in voluntary non-binding mediation, during which the parties reached a tentative settlement. Subsequent to the mediation session, the parties finalized the settlement pursuant to which Newstar became an Application Partner of the Company under mutually acceptable terms and conditions reasonably consistent with arrangements entered into with other Application Partners. As part of the above-mentioned settlement, Newstar has released the Company and its subsidiaries and affiliates, and their respective directors, officers, employees and agents from any and all claims arising out of any actions or matters occurring prior to the date of said release, including, but not limited to, any claims arising out of, related to or in connection with any of the matters at issue in the above-mentioned Ontario Court action.

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 is vigorously defending itself in this proceeding and the costs of such defense are being reimbursed to the Company by the Company's insurer. The Company's insurer has agreed to reimburse such costs under a reservation of rights as to coverage. While the outcome of this claim cannot be predicted with certainty, management does not believe that the outcome will have a material adverse effect on the Company's consolidated financial position or results of operations.

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

7. 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 (loss) per share for the three-month and nine-month periods ended August 31, 1997 would have been ($.80) and ($.44) per share, respectively, as compared with $.02 and $.37 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.

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 involves risks and uncertainties. Actual future results may differ materially. Statements indicating that the Company "expects," "estimates," "believes," "is planning" or "plans to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are several important factors which could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors, some of which are described in 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

On July 15, 1997, the Company acquired all of the outstanding stock of Apptivity Corporation (Apptivity), a developer of Java based application development tools, for $3,847,000 in cash, $1,373,000 of assumed and other liabilities and the issuance of 395,657 shares of common stock. The acquisition has been accounted for as a purchase, and accordingly, the results of operations have been included in the Company's operating results from the date of acquisition. The allocation of the purchase price included $10,806,000 to in-process software development which was charged to operations as part of the nonrecurring charge in the third quarter of fiscal 1997. Additionally, the Company recorded a nonrecurring charge of $731,000 for writedown of certain capitalized software costs and other intangible assets to fair value after evaluating the impact of the acquisition upon the Company's future operating plans.

The Company's total revenue for the third quarter of fiscal 1997 increased 11% from the total revenue for the third quarter of fiscal 1996. The Company's net income (before nonrecurring charges) increased 780% from $218,000 for the third quarter of fiscal 1996 to $1,919,000 for the third quarter of fiscal 1997. The Company's total revenue for the first nine months of 1997 increased 3% from the first nine months of 1996. The Company's net income (before nonrecurring charges) increased 24% from $4,792,000 for the first nine months of 1996 to $5,939,000 for the first nine months of 1997. After including the effect of the nonrecurring charges of $11,537,000 related to the acquisition of Apptivity, the Company recorded a net loss for the three and nine months ended August 31, 1997 of ($9,369,000) and ($5,349,000), respectively.

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

	Percentage of Total Revenue				Period-to-Period Change	
	Three Months Ended August 31,		Nine Months Ended August 31,		Three Months 1997 Compared to 1996	Nine Months 1997 Compared to 1996
	1997	1996	1997	1996		
Revenue:						
Software licenses	49%	47%	51%	53%	14%	1%
Maintenance and support services	51	53	49	47	8	6
Total revenue	100	100	100	100	11	3
Cost and expenses:						
Cost of software licenses	5	5	5	5	11	6
Cost of maintenance and support services	17	19	16	17	2	2
Sales and marketing	48	50	47	49	5	-
Product development	14	15	15	14	9	10
General and administrative	13	13	13	12	7	9
Non-recurring charges	25	-	9	-	-	-
Total costs and expenses	122	102	105	97	33	12
Income (loss) from operations	(22)	(2)	(5)	3	(1,216)	(255)
Other income	3	2	3	3	43	38
Income (loss) before provision for income taxes	(19)	0	(2)	6	(2,715)	(135)
Provision for income taxes	1	0	2	2	561	14
Net income (loss)	(20)%	0%	(4)%	4%	(4,398)%	(212)%

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The Company's total revenue increased 11% from $41,411,000 in the third quarter of fiscal 1996 to $45,880,000 in the third quarter of fiscal 1997. The Company's total revenue increased 3% from $131,455,000 in the first nine months of fiscal 1996 to $136,055,000 in the first nine months of fiscal 1996. Software license revenue increased 14% from $19,658,000 in the third quarter of fiscal 1996 to $22,371,000 in the third quarter of fiscal 1997. Software license revenue increased 1% from $69,381,000 in the first nine months of fiscal 1996 to $69,987,000 in the first nine months of fiscal 1997. The increase in software license revenue in the third quarter and first nine months of fiscal 1997 as compared to the periods one year ago is due to greater sales of the Company's flagship products, PROGRESS Versions 7 and 8, and a slowdown in the rate of decline of PROGRESS Version 6. In addition, sales from WebSpeed have continued to increase since its release in the fourth quarter of fiscal 1996.

Maintenance and support services revenue increased 8% from $21,753,000 in the third quarter of fiscal 1996 to $23,509,000 in the third quarter of fiscal 1997. Maintenance and support services revenue increased 6% from $62,074,000 in the first nine months of fiscal 1996 to $66,068,000 in the first nine 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 $23,811,000 in the third quarter of fiscal 1996 to $26,190,000 in the third quarter of fiscal 1997, but represented 57% of total revenue in the third quarter of fiscal 1997 as compared to 58% of total revenue in the third quarter of fiscal 1996. Total revenue generated in markets outside North America would have represented 60% of total revenue in the third quarter of fiscal 1997 if exchange rates had been constant as compared to the exchange rates in the effect in the third quarter of fiscal 1996. Total revenue generated in markets outside North America increased from $76,144,000 in the first nine months of fiscal 1996 to $79,820,000 in the first nine months of fiscal 1997 and increased as a percentage of total revenue from 58% in the first nine months of fiscal 1996 to 59% in the first nine months of fiscal 1997. Total revenue generated in markets outside North America would have represented 60% of total revenue in the first nine months of fiscal 1997 if exchange rates had been constant as compared to the exchange rates in the effect in the first nine 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 11% from $2,011,000 in the third quarter of fiscal 1996 to $2,232,000 in the third quarter of fiscal 1997, but remained the same percentage of software license revenue in each period. Cost of software licenses increased 6% from $6,592,000 in the first nine months of fiscal 1996 to $6,969,000 in the first nine months of fiscal 1997, but remained approximately the same percentage of software license revenue in each period. The dollar 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 2% from $7,689,000 in the third quarter of fiscal 1996 to $7,879,000 in the third quarter of fiscal 1997, but decreased as a percentage of maintenance and support services revenue from 35% to 34%. Cost of maintenance and support services increased 2% from $21,699,000 in the first nine months of fiscal 1996 to $22,059,000 in the first nine months of 1997, but decreased as a percentage of maintenance and support services revenue from 35% to 33%. The percentage decrease was due primarily to improved margins in the North America consulting business.

Sales and marketing expenses increased 5% from $20,942,000 in the third quarter of fiscal 1996 to $21,963,000 in the third quarter of fiscal 1997, but decreased as a percentage of total revenue from 50% to 48%. Sales and marketing expenses in the first nine months of fiscal 1997 remained relatively consistent as compared to the first nine months of fiscal 1996, but decreased as a percentage of total revenue from 49% to 47%. The percentage decrease in sales and marketing expenses was primarily due to improved productivity as revenue increased at a greater rate than sales and marketing expenses during each period of fiscal 1997 as compared to fiscal 1996. Personnel related costs decreased in each period of fiscal 1997 as compared to fiscal 1996 and were offset by increased spending on various marketing programs. The Company's sales, sales support and marketing staff decreased from 494 at August 31, 1996 to 462 at August 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 9% from $6,096,000 in the third quarter of fiscal 1996 to $6,667,000 in the third quarter of fiscal 1997, but decreased as a percentage of total revenue from 15% to 14% due to higher revenue. Product development expenses increased 10% from $17,987,000 in the first nine months of fiscal 1996 to $19,848,000 in the first nine months of fiscal 1997 and increased as a percentage of total revenue from 14% 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 nine months of fiscal 1997 related to the development of the next versions of the WebSpeed and PROGRESS product lines. The product development staff increased from 200 at August 31, 1996 to 207 at August 31, 1997.

The Company capitalized $627,000 of software development costs in the third quarter of fiscal 1996 and $520,000 in the third quarter of fiscal 1997 in accordance with Statement of Financial Accounting Standards No. 86 (SFAS 86), "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." The Company capitalized $1,844,000 of software development costs in the first nine months of fiscal 1996 and $1,778,000 in the first nine months of fiscal 1997. The amounts capitalized represented 9% of total product development costs in each period presented for fiscal 1996. The amounts capitalized represented 7% and 8% in the three and nine month periods presented for fiscal 1997, respectively. The percentage decrease in capitalized software costs was due to fewer development costs qualifying for capitalization under SFAS 86 as the Company released major product upgrades for WebSpeed in the middle of third quarter of fiscal 1997 and PROGRESS at the end of the second quarter of 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 7% from $5,449,000 in the third quarter of fiscal 1996 to $5,818,000 in the third quarter of fiscal 1997, but remained approximately the same percentage of total revenue in each period. General and administrative expenses increased 9% from $15,938,000 in the first nine months of fiscal 1996 to $17,394,000 in the first nine 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 increased from 180 at August 31, 1996 to 185 at August 31, 1997.

Other income increased $481,000 from $1,106,000 in the third quarter of fiscal 1996 to $1,587,000 in the third quarter of fiscal 1997. Other income increased $1,128,000 from $2,971,000 in the first nine months of fiscal 1996 to $4,099,000 in the first nine months of fiscal 1997. The increases in each period were due primarily to foreign currency gains and increases 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 each period of fiscal 1997 relates primarily to unrealized market gains on foreign currency option contracts related to the Company's hedging programs.

The Company's effective tax rate (excluding the impact of the nondeductible nonrecurring charge for in-process software developments) 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 $82,579,000 in cash and short-term investments at August 31, 1997. The cash and short-term investments decrease of $14,744,000 from $97,323,000 at November 30, 1996 was primarily due to common stock repurchases, property and equipment purchases and the acquisition of Apptivity offset by cash generated from operations.

The Company purchased $7,943,000 of property and equipment in the first nine months of fiscal 1996 and $6,212,000 in the first nine 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, for the period October 1, 1996 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 and employee stock purchase plans. The Company purchased 723,400 shares of its common stock for $12,057,000 in the third quarter of fiscal 1997. For the first nine months of fiscal 1997, the Company has purchased 1,562,000 shares of its common stock at a cost of $26,453,000. In September 1997, the Board of Directors authorized, for the period October 1, 1997 through September 30, 1998, 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 and employee stock purchase plans.

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 various 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.

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 (loss) per share for the three-month and nine-month periods ended August 31, 1997 would have been ($.80) and ($.44) per share, respectively, as compared with $.02 and $.37 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 July 1997, the Company began shipments of WebSpeed Version 2.0. 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. The Company acquired Apptivity Corporation in July 1997. Apptivity currently offers Apptivity Developer Version 1.0 and Apptivity Server Version 1.0.

Although the Company believes that PROGRESS, WebSpeed, Apptivity 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, Apptivity 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, Apptivity and other new products will contribute positively to the Company's future results. The market for Internet transaction processing products is highly competitive and will depend in large part on the commercial acceptance of the Internet as a medium for all types of commerce. 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.

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 50% of the Company's total revenue in the first nine 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

On April 4, 1997, Newstar Technologies Inc. commenced an action in the Ontario (Canada) Court of Justice (General Division) against the Company and its wholly owned subsidiary, Progress Software Corporation of Canada Ltd. (NEWSTAR TECHNOLOGIES INC. V. PROGRESS SOFTWARE CORPORATION OF CANADA LTD. AND PROGRESS SOFTWARE CORPORATION, No. 97-CU-121571). Newstar claimed 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 denied 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. On July 7, 1997 the parties participated in voluntary non-binding mediation, during which the parties reached a tentative settlement. Subsequent to the mediation session, the parties finalized the settlement pursuant to which Newstar became an Application Partner of the Company under mutually acceptable terms and conditions reasonably consistent with arrangements entered into with other Application Partners. As part of the above-mentioned settlement, Newstar has released the Company and its subsidiaries and affiliates, and their respective directors, officers, employees and agents from any and all claims arising out of any actions or matters occurring prior to the date of said release, including, but not limited to, any claims arising out of, related to or in connection with any of the matters at issue in the above-mentioned Ontario Court action.

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 is vigorously defending itself in this proceeding and the costs of such defense are being reimbursed to the Company by the Company's insurer. The Company's insurer has agreed to reimburse such costs under a reservation of rights as to coverage. While the outcome of this claim cannot be predicted with certainty, management does not believe that the outcome will have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company is also subject to various 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 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

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 August 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: October 13, 1997	/s/ Joseph W. Alsop ---------------------------------- Joseph W. Alsop President and Treasurer (Principal Executive Officer)
Dated: October 13, 1997	/s/ Norman R. Robertson ---------------------------------- Norman R. Robertson Vice President, Finance and Chief Financial Officer (Principal Financial Officer)
Dated: October 13, 1997	/s/ David H. Benton, Jr. ---------------------------------- David H. Benton, Jr. Corporate Controller (Principal Accounting Officer)

EXHIBIT 11.1

(In thousands, except per share data)

PRIMARY

	Three Months Ended August 31,		Nine Months Ended August 31,	
	1997	1996	1997	1996
Weighted average number of common and common equivalent shares outstanding:				
Common stock	11,769	12,769	12,223	12,878
Common equivalent shares resulting from stock options (treasury stock method)	-	102	-	375
Total	11,769	12,871	12,223	13,253
Net income (loss)	$(9,369)	$ 218	$(5,349)	$ 4,792
Net income per common share	$ (0.80)	$ 0.02	$ (0.44)	$ 0.36

FULLY-DILUTED

	Three Months Ended August 31,		Nine Months Ended August 31,	
	1997	1996	1997	1996
Weighted average number of common and common equivalent shares outstanding:				
Common stock	11,769	12,769	12,223	12,878
Common equivalent shares resulting from stock options (treasury stock method)	-	146	-	390
Total	11,769	12,915	12,223	13,268
Net income (loss)	$(9,369)	$ 218	$(5,349)	$ 4,792
Net income (loss) per common share	$ (0.80)	$ 0.02	$ (0.44)	$ 0.36

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

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9-MOS
NOV-30-1997
DEC-01-1996
AUG-31-1997
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(5,349)
(0.44)
(0.44)