**Financial Highlights (In thousands, except per share data)**

<table>
<thead>
<tr>
<th>Year Ended November 30,</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$405,376</td>
<td>$447,063</td>
<td>$493,500</td>
</tr>
<tr>
<td><strong>Income from operations</strong></td>
<td>$59,950</td>
<td>$40,943</td>
<td>$57,216</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$46,257</td>
<td>$29,401</td>
<td>$42,280</td>
</tr>
<tr>
<td><strong>Diluted earnings per share</strong></td>
<td>$1.12</td>
<td>$0.68</td>
<td>$0.96</td>
</tr>
<tr>
<td><strong>Income from operations</strong></td>
<td>$78,300</td>
<td>$84,684</td>
<td>$109,447</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$54,814</td>
<td>$58,966</td>
<td>$77,403</td>
</tr>
<tr>
<td><strong>Diluted earnings per share</strong></td>
<td>$1.32</td>
<td>$1.36</td>
<td>$1.76</td>
</tr>
</tbody>
</table>

**Weighted average shares outstanding:**
- 2005: 41,424
- 2006: 43,271
- 2007: 43,943

**Cash flow from operations:**
- 2005: $80,630
- 2006: $67,915
- 2007: $104,007

**Cash and short-term investments:**
- 2005: $266,420
- 2006: $241,315
- 2007: $339,525

**Shareholders’ equity:**
- 2005: $374,004
- 2006: $444,564
- 2007: $517,874

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*Non-GAAP results exclude the impact of charges for stock-based compensation, amortization of acquired intangibles, impairment of goodwill, certain other acquisition-related expenses, professional services fees associated with derivative lawsuits and the option investigation and certain one-time tax benefits. A reconciliation of our GAAP results to our Non-GAAP results is as follows:*

<table>
<thead>
<tr>
<th>Year Ended November 30,</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GAAP net income</strong></td>
<td>$46,257</td>
<td>$29,401</td>
<td>$42,280</td>
</tr>
<tr>
<td><strong>Non-GAAP operating income adjustments:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>$2,746</td>
<td>$23,068</td>
<td>$22,933</td>
</tr>
<tr>
<td>Amortization of purchased intangibles</td>
<td>$9,399</td>
<td>$15,508</td>
<td>$17,395</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td>$8,174</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation expense from repurchase of subsidiary stock options</td>
<td>$2,803</td>
<td>$3,176</td>
<td>$3,729</td>
</tr>
<tr>
<td>Stock option investigation-related expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition-related expenses</td>
<td>$3,453</td>
<td>$1,849</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-GAAP operating income adjustments</strong></td>
<td>$16,151</td>
<td>$40,741</td>
<td>$52,231</td>
</tr>
<tr>
<td>Provision for income taxes for Non-GAAP adjustments</td>
<td>$(9,794)</td>
<td>$(14,175)</td>
<td>$(17,196)</td>
</tr>
<tr>
<td><strong>Non-GAAP net income</strong></td>
<td>$46,257</td>
<td>$58,966</td>
<td>$77,403</td>
</tr>
</tbody>
</table>

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**Forward-looking Statements**

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. Information provided by us or statements made by our directors, officers or employees from time to time, may contain "forward-looking" statements and information, which involve risks and uncertainties. Actual future results may differ materially. Statements indicating that we "expect," "estimate," "believe," "are planning" or "plan to" are forward-looking, as are other statements concerning future financial results, product offerings or other events that have not yet occurred. There are various factors that could cause actual results or events to differ materially from those anticipated by the forward-looking statements. Such factors are more fully described in Item 1A of our Form 10-K under the heading "Risk Factors." Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any such risks may be realized. We also cannot assure you that we have identified all possible issues which we might face. We undertake no obligation to update any forward-looking statements that we make.
The Progress Actional® product line offers SOA management including monitoring, tracing, analysis, security, and policy control across almost any SOA environment.

The Progress Apama® Complex Event Processing (CEP) platform can monitor rapidly moving event streams, detect sophisticated patterns and take action—all within milliseconds. Event-driven applications include business activity monitoring, network monitoring, market abuse detection, RFID, and algorithmic trading within capital markets.

The Progress DataXtend® product line provides common model-based semantic integration creating real-time data transformations, enabling organizations to share and integrate heterogeneous data without disruption to existing applications. It is particularly beneficial to industries which have developed a standard common data model, such as telecommunications.

DataDirect® Shadow® enables mainframe applications and data to be full participants in SOA and Web services production and consumption, with seamless and simple integration.

The SOA products are sold individually as best-in-class to solve particular SOA requirements, or together as the Progress SOA Portfolio.

Data Infrastructure Products

The DataDirect product line is the de-facto industry standard for connecting business applications to any data source or service, running on any platform, using open industry standards such as ODBC, JDBC™, ADO.NET, XQuery and SOAP.

The Progress EasyAsk® product line provides business users and consumers the ability to find and report on the information they need using natural language (e.g. everyday English) search and navigation.

Application Platform

The Progress OpenEdge® platform provides rapid development and deployment of business applications that are standards-based, SOA-ready and has one of the lowest total costs of ownership. This product line is sold mostly through OpenEdge Application Partners (APs), who build domain-specific applications, utilizing OpenEdge for the complete life-cycle of development, deployment and maintenance.

Our Markets and Partners

Progress Software delivers products and services directly to end-user organizations, via distributors, and in partnership with over 2,000 Independent Software Vendors (ISVs) worldwide who embed our technology in their products. These ISVs include our OEM partners and our unique network of OpenEdge APs. Our APs use our technology to deliver over 5,000 business solutions in manufacturing, distribution, finance, retail, healthcare and many other markets. Over 60,000 organizations use Progress technology and partner applications and services in over 140 countries.

Progress, Sonic, Sonic ESB, Actional, Apama, DataXtend, DataDirect, Shadow, EasyAsk, and OpenEdge are trademarks or registered trademarks of Progress Software Corporation or one of its affiliates or subsidiaries in the U.S. and other countries. Any other trademarks contained herein are the property of their respective owners.
During 2007, we made significant progress on our strategic goal of providing a richer and broader portfolio of products to assist business and IT professionals to develop, deploy, integrate and manage critical business applications.

—Joseph Alsop, Co-Founder and CEO
Service Oriented Architecture, which is the culmination of many efforts by the software industry to improve interoperability and integration among software modules, is still relatively early in its lifecycle, although it has been deployed as a cornerstone technology by innovative enterprises. The SOA infrastructure market is experiencing strong growth, but it is quite competitive. In this market, Progress has established itself as a technology leader that uniquely addresses the key challenges facing enterprises that are implementing SOA; including heterogeneity, distribution and quality of service issues.

- **Heterogeneity:** addressing the reality that most IT departments manage technology all from more than one software vendor that they need to integrate. Progress provides the open middleware that can integrate all of these technologies together with equal ease, following open industry standards. This makes Progress the “independent” choice for heterogeneous SOA—product by product across the entire SOA portfolio.

- **Distribution:** specifically, the ability to deploy and easily manage SOA networks with multiple data centers and with multiple points of control. While many software vendors can handle the distribution of computing power per se, Progress makes it far easier to manage large-scale SOA deployments that require distributed authority over IT assets. Called “federation,” this capability aligns with the inherently federated nature of most large enterprises by providing centralized oversight and control of global concerns while allowing for local autonomy where needed.

- **Quality of Service:** defined by an enterprise infrastructure’s scalability, reliability and performance. As SOA begins to encompass more and more applications critical to the enterprise, it is vital that the IT infrastructure for SOA respond with maximum agility, minimum latency, high reliability and minimal incremental cost. Providing this quality of service requires robust SOA infrastructure products. Progress SOA Portfolio is the most robust and scalable in the market.

Progress Software develops and markets three major product lines, each addressing a different market segment of application infrastructure software:

**Progress SOA Infrastructure Products**

Our SOA Infrastructure Products expanded in 2007 with the full integration of the Actional and DataXtend Semantic Integrator (formerly Pantero) products into our product line, both of which are experiencing significant revenue growth. During 2007 we maintained our industry-focused approach with Apama (capital markets within the financial services industry) and DataXtend Semantic Integrator (telecommunications industry) with good success and will continue that approach through 2008. However, we focus most of our SOA Infrastructure sales and services efforts horizontally across industries with our new SOA Portfolio, from which we expect better market coverage and increasing multi-product sales.

For 2007, we achieved a 21% increase in SOA Infrastructure Product sales and anticipate healthy double digit growth in the foreseeable future.

**Progress OpenEdge Products**

The movement of our OpenEdge Application Partners (APs) to converting their applications to a SOA architecture continued throughout the year. In addition, over 200 APs’ applications are now available as Software as a Service (SaaS), with more than 100 additional applications ready for SaaS shortly. We are witnessing an increasing percentage of our OpenEdge revenue (although still modest) coming from SaaS usage and 40% of our APs offering SaaS have indicated they expect over 50% of their revenue to come from SaaS by 2010.

The OpenEdge Division’s revenue and profit contribution grew steadily in 2007 with a 6% increase in revenue, and we anticipate continued low single digit growth.

**DataDirect Products**

In 2007, DataDirect Technologies further consolidated its position as the undisputed leader in data connectivity with the integration of the Shadow product (for mainframe data access) and OpenAccess product (for access to any custom data source). DataDirect is also gaining traction in corporate IT worldwide and seeing increasing interest in its products for use in Service Oriented Architectures.

For 2007, DataDirect product revenue increased by 19%, and we anticipate continuing double digit growth.

**Our Technology Commitment**

Progress invests strongly in product development that exploits new advances in software technologies, anticipates market trends and provides business advantage to our partners and customers. We endeavor always to enable our customers to take advantage of emerging technology trends such as SOA, data integration and event processing, while protecting their investments in existing business applications. We are as committed as ever to helping our partners and customers create the world’s best business applications today and into the future.

Our commitment to deliver sustained financial performance continues through the execution of our strategic plan and delivery of industry leading products that meet the mission critical needs of our customers.

I thank all of you for your support during the past year and look forward to your continued support of Progress Software.

Joseph W. Alsop, Co-Founder and CEO
Progress Executive Team (left to right)
James D. Freedman, Senior Vice President and General Counsel
Joseph A. Andrews, Vice President, Human Resources
Gregory J. O’Connor, Vice President, Corporate Development and Strategy
Larry Harris, Vice President and General Manager, Progress EasyAsk Division
Norman R. Robertson, Senior Vice President, Finance and Administration and Chief Financial Officer
Joseph W. Alsop, Co-Founder and Chief Executive Officer
Jeffrey P. Stamen, Senior Vice President, Corporate Development and Strategy
David G. Ireland, Executive Vice President
Richard D. Reidy, Executive Vice President
Peter G. Sliwkowski, Vice President, Product and Support Operations
Gordon Van Huizen, Vice President, Products

Board of Directors
Joseph W. Alsop, Co-Founder and Chief Executive Officer, Progress Software
Barry N. Bycoff, Partner, Pequot Ventures
Roger J. Heinen, Jr., Partner, Flagship Ventures
Charles F. Kane, Senior Advisor, One Laptop per Child
David A. Krall, Technology Consultant
Michael L. Mark, Chairman of the Board, Progress Software
Scott A. McGregor, President and Chief Executive Officer, Broadcom Corporation
Amram Rasiel, Director Emeritus

Legal Counsel
Goodwin Procter LLP, Boston, Massachusetts

Independent Auditors
Deloitte & Touche LLP, Boston, Massachusetts

Transfer Agent and Registrar
American Stock Transfer and Trust
40 Wall Street, New York, New York 10005
Tel: +1 800-937-5449 www.amstock.com

Additional Information
A wealth of information about Progress Software Corporation, its products and services, plus employment opportunities and additional information, is available on the Progress Software Web site at www.progress.com. An online version of the Company’s Form 10-K filed with the Securities and Exchange Commission and further information for investors may be obtained at www.progress.com/investors, by sending an email to finance-info@progress.com, by calling +1-781-280-4450, or by written request to Investor Relations at our company headquarters. The common stock of Progress Software Corporation trades on the NASDAQ Global Select Market under the symbol “PRGS.”
Comparison of 5 Year Cumulative Total Return*

Among Progress Software Corporation, the NASDAQ Composite Index and the NASDAQ Computer & Data Processing Index

* $100 invested on 11/30/02 in stock or index, including reinvestment of dividends. Fiscal year ending November 30.

<table>
<thead>
<tr>
<th>Year</th>
<th>Progress Software Corporation</th>
<th>NASDAQ Composite</th>
<th>NASDAQ Computer &amp; Data Processing</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/02</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>11/03</td>
<td>154.76</td>
<td>131.18</td>
<td>105.80</td>
</tr>
<tr>
<td>11/04</td>
<td>167.28</td>
<td>142.72</td>
<td>124.19</td>
</tr>
<tr>
<td>11/05</td>
<td>228.00</td>
<td>152.09</td>
<td>133.93</td>
</tr>
<tr>
<td>11/06</td>
<td>199.78</td>
<td>168.90</td>
<td>150.54</td>
</tr>
<tr>
<td>11/07</td>
<td>233.09</td>
<td>184.98</td>
<td>170.24</td>
</tr>
</tbody>
</table>