Annual Report 2007

PROGRESS
S O F T W A R E

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

Year Ended November 30,		2005	2006	2007
	Revenue	$ 405,376	$ 447,063	$ 493,500
GAAP Basis	Income from operations	$ 59,950	$ 40,943	$ 57,216
	Net income	$ 46,257	$ 29,401	$ 42,280
	Diluted earnings per share	$ 1.12	$ 0.68	$ 0.96
*Non-GAAP Basis**	Income from operations	$ 78,300	$ 84,684	$ 109,447
	Net income	$ 54,814	$ 58,966	$ 77,403
	Diluted earnings per share	$ 1.32	$ 1.36	$ 1.76
	Weighted average shares outstanding	41,424	43,271	43,943
	Cash flow from operations	$ 80,630	$ 67,915	$ 104,007
	Cash and short-term investments	$ 266,420	$ 241,315	$ 339,525
	Shareholders' equity	$ 374,004	$ 444,564	$ 517,874

Revenue (in millions): 2005 $405, 2006 $447, 2007 $494

GAAP Income from Operations (in millions): 2005 $60, 2006 $41, 2007 $57

GAAP Diluted Earnings per Share: 2005 $1.12, 2006 $.68, 2007 $.96

Non-GAAP Income from Operations* (in millions): 2005 $78, 2006 $85, 2007 $109

Non-GAAP Diluted Earnings per Share*: 2005 $1.32, 2006 $1.36, 2007 $1.76

Cash Flow from Operations (in millions): 2005 $81, 2006 $68, 2007 $104
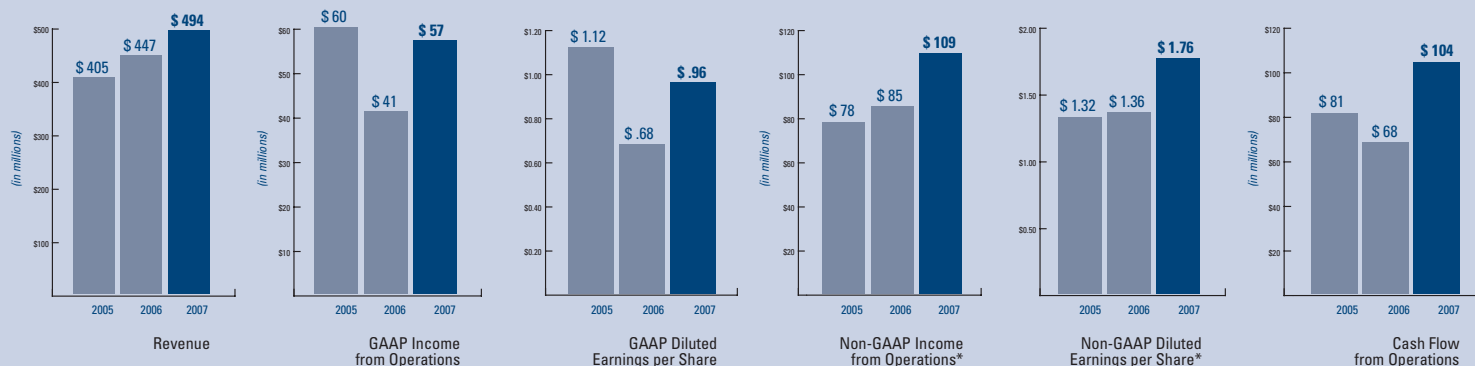
* Non-GAAP results exclude the impact of charges for stock-based compensation, amortization of acquired intangibles, impairment of goodwill, certain other acquisition-related expenses, professional services fees associated with derivative lawsuits and the option investigation and certain one-time tax benefits. A reconciliation of our GAAP results to our Non-GAAP results is as follows:

Year Ended November 30,	2005	2006	2007
GAAP net income	$ 46,257	$ 29,401	$ 42,280
Non-GAAP operating income adjustments:			
Stock-based compensation expense	2,746	23,068	22,933
Amortization of purchased intangibles	9,399	15,508	17,395
Impairment of goodwill			8,174
Compensation expense from repurchase of subsidiary stock options	2,803		
Stock option investigation-related expenses		3,316	3,729
Acquisition-related expenses	3,403	1,849	
Total Non-GAAP operating income adjustments	18,351	43,741	52,231
Provision for income taxes for Non-GAAP adjustments	(9,794)	(14,176)	(17,108)
Non-GAAP net income	$ 54,814	$ 58,966	$ 77,403

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.

John Bates, Vice President and General Manager, Apama Division, and Bud Robertson, Senior Vice President, Finance and Administration and Chief Financial Officer of Progress Software, in Times Square after ringing the opening bell at NASDAQ.

Our Mission

To deliver superior software products and services that empower our partners and customers to dramatically improve their development, deployment, integration and management of quality applications worldwide.

Our Business

Progress Software supplies application infrastructure software to simplify and accelerate the development, deployment, integration and management of business applications. Users of information technology today demand software applications that are comprehensive, reliable, responsive and cost-effective. Our goal is to maximize the benefits of information technology while minimizing its complexity and total cost of ownership.

Our Products and Services

Progress offers a broad portfolio of category-leading infrastructure software spanning *SOA Infrastructure, Data Infrastructure* and *Application Platform* products that includes:

SOA Infrastructure Products

> The **Progress® Sonic™** product line features the market-leading Sonic ESB® messaging-based Enterprise Service Bus (ESB) to provide integration of new and existing business services across organizational boundaries and to remote sites with low latency, high reliability and continuous availability.

> 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.

To Our Employees, Customers, and Shareholders

I am pleased to report that fiscal 2007 was an excellent year of solid growth and achievement for Progress Software, both financially and competitively. Progress continues its course as a strong and growing business that is trusted and respected by stakeholders around the world.

We continued our long record of revenue growth and profitability, with 2007 fiscal year revenue increasing 10% to $494 million from $447 million. On a GAAP basis, operating income increased 40% to $57 million from $41 million in fiscal 2006 and diluted earnings per share increased 41% to 96 cents from 68 cents in fiscal 2006. Non-GAAP operating income increased 29% to $109 million from $85 million in fiscal 2006 and non-GAAP diluted earnings per share also increased 29% to $1.76 from $1.36 in fiscal 2006.

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. Our strategic acquisitions in 2006 (now Progress Actional, DataDirect Shadow, Progress DataXtend and DataDirect OpenAccess) are all well integrated and showing solid growth. They complement the ongoing innovations in our existing products, and together we now have a strong and broad portfolio of best-in-class infrastructure products for a Service Oriented Architecture (SOA). Starting in 2008 we are offering customers the opportunity to purchase and use our SOA infrastructure products more comprehensively, since together they offer substantially all of the capabilities needed to address the major challenges in building, deploying and managing a SOA. At the same time, each product will remain open and best-in-class—able to provide superior value in the multi-vendor IT environments typically found in most medium and large IT organizations. Our global sales force now offers a portfolio of products to meet almost any SOA infrastructure requirement, individually, or as an entire SOA foundation.

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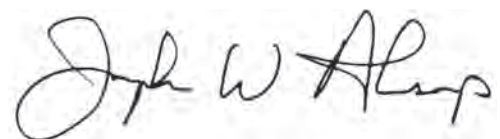
For 2007, DataDirect product revenue increased by 19%, and we anticipate continuing double digit growth.

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

— ●— Progress Software Corporation

— ■— NASDAQ Composite

- - ■ - - NASDAQ Computer & Data Processing
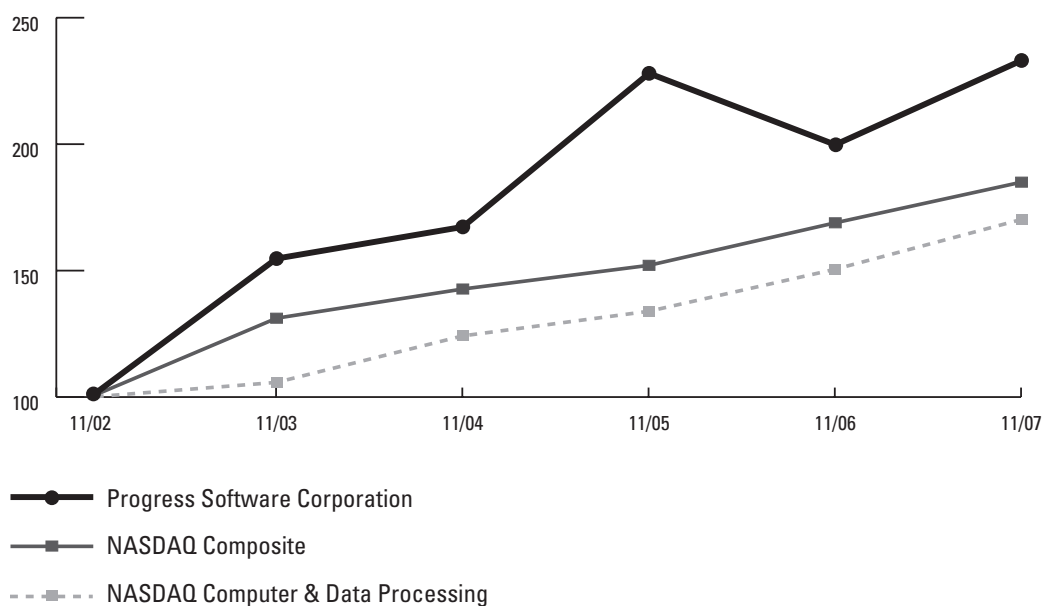
* $100 invested on 11/30/02 in stock or index, including reinvestment of dividends. Fiscal year ending November 30.

	11/02	11/03	11/04	11/05	11/06	11/07
Progress Software Corporation	**100.00**	**154.76**	**167.28**	**228.00**	**199.78**	**233.09**
NASDAQ Composite	100.00	131.18	142.72	152.09	168.90	184.98
NASDAQ Computer & Data Processing	100.00	105.80	124.19	133.93	150.54	170.24

WORLDWIDE AND NORTH AMERICAN HEADQUARTERS
Progress Software Corporation
14 Oak Park Drive
Bedford, MA 01730 USA
Tel: +1 781 280-4000
Fax: +1 781 280-4095

ARGENTINA
Buenos Aires

AUSTRALIA
Brisbane
Melbourne (Malvern East)
North Sydney

AUSTRIA
Vienna (Brunn am Gebirge)

BARBADOS
Bridgetown
(Regional Business Systems)

BELGIUM
Brussels (Vilvoorde)
Duffel

BRAZIL
Sao Paulo

BULGARIA
Sofia *(CTC Software)*

CANADA
Calgary, Alberta
Mississauga, Ontario
Northyork, Ontario, (Toronto)
Montreal, Quebec (St. Laurent)
Quebec City, Quebec

CHILE
Santiago
(Global Technology Software)

CHINA
Hong Kong
Shanghai

COLOMBIA
Bogota *(Quantum Data Systems)*

COSTA RICA
San Jose *(Reinsa)*

CROATIA
Varazdin *(Infodesign)*

CYPRUS
Nicosia *(4th GL Prodata)*

CZECH REPUBLIC
Prague

ASIA/PACIFIC HEADQUARTERS
Progress Software PTY.LTD
Level 2, 194 Miller Street
North Sydney, NSW 2060
Australia
Tel: +61 2 9919-7100
Fax: +61 2 8920-9520

DENMARK
Farum

ESTONIA
Tallinn *(Microlink Systems)*

FINLAND
Helsinki (Espoo)

FRANCE
Lyon
Paris

GERMANY
Cologne
Munich

GREECE
Athens *(CSD)*

HUNGARY
Budapest *(Online)*

ICELAND
Reykjavik
(AX Business Intelligence)

INDIA
Bangalore
(Kingslake Engineering Systems)
Hyderabad
Mumbai *(M4II)*

INDONESIA
Jakarta
(PT Programa Reka Piranti)

ISRAEL
Tel Aviv *(Moding,* Netanya)

ITALY
Milan

JAPAN
Tokyo

LEBANON
Beirut *(Data Quest)*

LITHUANIA
Vilnius *(Baltic Amadeus)*

EMEA HEADQUARTERS
Progress Software Europe B.V.
Schorpioenstraat 67
3067 GG Rotterdam
The Netherlands
Tel: +31 10 286-5700
Fax: +31 10 286-5777

MALAYSIA
Kuala Lumpur

MEXICO
Mexico City
Monterrey (Garza Garcia)

THE NETHERLANDS
Rotterdam

NEW ZEALAND
Auckland *(Team Progress)*

NORWAY
Oslo (Lysaker)

PERU
Lima *(Icomred)*

PHILIPPINES
Makati City
(First Technologies Phils.)

POLAND
Warsaw

PORTUGAL
Lisbon *(Infos - Informatica e Servicos,* Leca de Palmeira)

PUERTO RICO
San Juan
(Computer Distributors)

ROMANIA
Bucharest *(Crescendo)*

RUSSIA
St. Petersburg
(Progress Technologies)

SAUDI ARABIA
Riyadh
(Saudico Electronics System)

SINGAPORE

SOUTH AFRICA
Johannesburg (Midrand)

SOUTH KOREA
Seoul *(Orca IT Corp., Datec)*

LATIN AMERICAN HEADQUARTERS
Progress Software Corporation
8323 Northwest 12 Street, Suite 216
Miami, FL 33126 USA
Tel: +1 305 716-1007
Fax: +1 305 716-0133

SPAIN
Barcelona
Madrid

SRI LANKA
Colombo
(Kingslake Engineering Systems)

SWEDEN
Stockholm (Kista)

SWITZERLAND
Zurich (Dietikon)

TAIWAN
Taipei *(Lancer Systems, Ivan Information Technology Company)*

THAILAND
Bangkok *(PSP Thailand Co.)*

TUNISIA
Tunis *(Discovery Informatiques)*

TURKEY
Istanbul *(Servodata)*

UNITED KINGDOM
Cambridge
London
Slough

UNITED STATES
Mountain View, California
San Diego, California
San Jose, California (Los Gatos)
Denver, Colorado
Miami, Florida
Atlanta, Georgia (Buford)
Chicago, Illinois (Oak Brook)
Rockville, Maryland
Boston, Massachusetts (Bedford)
Nashua, New Hampshire
New York, New York
Raleigh, North Carolina
(Morrisville)
Austin, Texas
Houston, Texas (Sugar Land)
Norfolk, Virginia
Washington, D.C.
(McLean, Virginia)

VENEZUELA
Caracas *(Progressive Solutions)*

Note: Names in italics are distributors

PROGRESS
S O F T W A R E

Prod Code 4027

0000116955