Annual Report 2004
## Financial Highlights (In thousands, except per share data)

<table>
<thead>
<tr>
<th>Year ended November 30,</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$273,123</td>
<td>$309,060</td>
<td>$362,662</td>
</tr>
<tr>
<td>GAAP Basis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from operations</td>
<td>$28,224</td>
<td>$36,752</td>
<td>$46,364</td>
</tr>
<tr>
<td>Net income</td>
<td>$20,587</td>
<td>$27,074</td>
<td>$32,101</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>$0.54</td>
<td>$0.72</td>
<td>$0.82</td>
</tr>
<tr>
<td>Pro forma Basis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from operations</td>
<td>$28,724</td>
<td>$39,242</td>
<td>$56,040</td>
</tr>
<tr>
<td>Net income</td>
<td>$20,937</td>
<td>$28,817</td>
<td>$38,681</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>$0.55</td>
<td>$0.77</td>
<td>$0.99</td>
</tr>
<tr>
<td>Weighted average shares outstanding</td>
<td>38,132</td>
<td>37,554</td>
<td>39,010</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>$44,412</td>
<td>$57,680</td>
<td>$72,188</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>$177,193</td>
<td>$219,131</td>
<td>$191,267</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>$172,963</td>
<td>$222,041</td>
<td>$266,978</td>
</tr>
</tbody>
</table>

### Pro forma Diluted Earnings per Share*

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<thead>
<tr>
<th>Year ended November 30,</th>
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<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro forma Diluted Earnings per Share*</td>
<td>$0.55</td>
<td>$0.77</td>
<td>$0.99</td>
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</tbody>
</table>

### Pro forma Income from Operations*

<table>
<thead>
<tr>
<th>Year ended November 30,</th>
<th>2002</th>
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<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pro forma Income from Operations*</td>
<td>$29</td>
<td>$39</td>
<td>$56</td>
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### Revenue

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### Cash flow from operations

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<thead>
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<th>Year ended November 30,</th>
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<th>2003</th>
<th>2004</th>
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<td>Cash flow from operations</td>
<td>$44</td>
<td>$58</td>
<td>$72</td>
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*Pro forma results exclude the impact of noncash acquisition-related charges for amortization of acquired intangibles and in-process research and development.
To Our Employees, Customers and Shareholders

I am pleased to report that in fiscal 2004 Progress Software Corporation (PSC) extended its consistent multi-year financial performance while strengthening its product line and competitive position. Our record of growth and profitability outpaces virtually all other software industry leaders. For the fiscal year ended November 30, 2004, revenue increased 17 percent to $363 million from $309 million. Pro forma net income increased 34 percent to $38.7 million from $28.8 million in fiscal 2003.

During fiscal 2004, we also made major progress on our strategic goal of providing a broader portfolio of products to assist businesses and IT professionals in developing, deploying, integrating and managing critical business applications. In December 2003 we acquired DataDirect Technologies, which is now an operating unit of PSC. In November of 2004 we added new capabilities to our ObjectStore Division through the acquisition of Persistence Software. We are pleased to welcome both teams of strong leaders and contributors who are already adding materially to our growth and profitability.

Currently, PSC delivers products and services through four primary operating units: the Progress OpenEdge Division, Sonic Software, the ObjectStore Division and DataDirect Technologies. While each operating unit provides software infrastructure involved in the development, deployment or integration of applications, each targets a particular segment of that market and focuses on establishing and maintaining leadership within that segment.

Progress OpenEdge Division

The Progress OpenEdge Division, newly renamed from the Progress Company, offers the complete OpenEdge family of products for application development, deployment and management, a “one stop shop” for independent software vendors (ISVs) or application builders within IT organizations. OpenEdge has been widely recognized in independent studies as providing the most productive application development environment with the most efficient platform for deploying enterprise business applications, offering the lowest overall total cost of ownership (TCO). Fiscal 2004 saw the rollout of OpenEdge 10, which supports the latest advance in software development and deployment technology: Service Oriented Architecture (SOA). Under SOA, applications are built as reusable services that can interoperate dynamically through industry standard Web Services interfaces. OpenEdge 10 has achieved rapid acceptance among our partners, and fiscal 2004 saw continued growth in OED revenue and profit contribution, which we expect to continue into 2005 and future years. Particularly with the emergence of SOA, we believe there are many opportunities ahead for OpenEdge as the most productive, flexible and efficient development and deployment platform in the industry.
**Sonic Software**

Sonic Software is the inventor and leading provider of the Enterprise Service Bus (ESB), which is becoming widely recognized as the best foundation for deploying a Service Oriented Architecture across the heterogeneous, distributed IT assets of an enterprise. Using open industry standards, the Sonic ESB® enables the reliable connection, mediation and control of distributed software services and their interactions. Sonic ESB is particularly well-suited for integrating large numbers of mission critical applications that must interoperate across a global enterprise and with its many business partners. During the past year, Sonic customers benefited from major performance and usability enhancements to Sonic ESB, as well as the addition of key shared services for business process management and XML transformation. Reflecting broader market acceptance of its products, revenue for Sonic was up 14% in 2004. Industry analysts are now predicting that the SOA and ESB markets will move from the current "early adopter" phase to rapid growth in the coming years. Sonic Software, with superior technology proven at over 700 customer sites is very well positioned to take advantage of this large, emerging opportunity.

**ObjectStore Division**

The ObjectStore Division provides real-time data management, access and synchronization products. ObjectStore products enable faster and easier access to existing enterprise data assets and the processing of real-time streaming data, such as financial stock feeds or RFID data. Starting with a very high performance, market leading object database, the ObjectStore® product line has expanded to perform caching of relational data for better performance, and complex event processing, which is required to process and analyze high-speed streaming data. At the end of fiscal 2004, PSC acquired Persistence Software, enabling the ObjectStore Division to greatly enhance its caching capabilities and incorporate the leading technology for object-relational mapping. We have also combined our PeerDirect subsidiary with ObjectStore to provide support for occasionally connected or disconnected users in applications such as sales force or field service automation. With revenue growth in fiscal 2004 of 32% and accelerating growth anticipated in 2005, ObjectStore’s leading technology is much sought after by the most demanding enterprises that want to move beyond reactive IT systems to technologies which support the real-time enterprise.

**DataDirect Technologies**

DataDirect Technologies provides data connectivity components that enable software developers to use industry standard SQL interfaces to connect any application running on any platform to any major database. DataDirect is by far the largest vendor in the relational data connectivity market, with components embedded in the products of over 250 top software companies and the applications of thousands of large enterprises. Under PSC, DataDirect has entered the XML tools market with its Stylus Studio interactive development environment and has announced the availability this fall of DataDirect XQuery™, an embeddable software product based on the XQuery and XQJ standards, which enables application developers to access multiple relational and XML data sources with a single XQuery query. Building on its current leading position in SQL-based data connectivity, DataDirect leads this exciting new market.

**Our Technology Commitment**

PSC continues to invest strongly in product development that exploits new advances in software technologies, anticipates market trends and provides business advantage to our partners and customers. We seek always to enable them to take advantage of emerging technology trends such as RFID, real-time data services, and SOA, while protecting existing business application investments. We are excited about the significant growth markets we serve with our Sonic, ObjectStore and DataDirect operating units. We are also very pleased with the continued growth and increased profit contributions from our largest business, the Progress OpenEdge Division. Our consistent operating results demonstrate that the market is receptive to our technologies and the continuous stream of advances we make available. We are as committed as ever to helping our partners and customers create the world’s best business applications today and into the future.

On behalf of everyone at Progress Software,

Joseph W. Alsop
Co-Founder and CEO
PSC Executive Team
Joseph W. Alsop, Chief Executive Officer and Co-Founder, PSC
David G. Ireland, President, Progress OpenEdge Division
Gregory J. O’Connor, President, Sonic Software Corporation
Richard D. Reidy, President, DataDirect Technologies
Peter G. Sliwkowski, President, ObjectStore
James D. Freedman, Senior Vice President and General Counsel, PSC
Norman R. Robertson, Senior Vice President, Finance and Administration
and Chief Financial Officer, PSC
Jeffrey P. Stamen, Senior Vice President, Corporate Development
and Strategy, PSC
Joseph A. Andrews, Vice President, Human Resources, PSC

Board of Directors
Joseph W. Alsop, Chief Executive Officer and Co-Founder, PSC
Larry R. Harris, Chairman, EasyAsk, Inc.
Roger J. Heinen, Jr., Partner, Flagship Ventures
Michael L. Mark, Director, various companies
Scott A. McGregor, President and Chief Executive Officer,
Broadcom Corporation
Amram Rasiel, Director, various companies

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Additional Information
A wealth of information on Progress Software Corporation, its products and services, its subsidiaries and operating companies, plus employment opportunities and additional information, is available on the PSC web site at progress.com, or at the subsidiary or operating company web sites. 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 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 worldwide headquarters. The common stock of Progress Software Corporation trades on the Nasdaq Stock Market under the symbol PRGS.
Our Business
Progress Software Corporation (PSC) supplies 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. PSC products address their needs by:

- boosting application developer productivity, reducing time to application deployment, and accelerating the realization of business benefits,
- enabling highly distributed deployment of responsive applications across internal networks, the Internet and even disconnected users, and
- simplifying the connectivity and integration of applications and data across the enterprise and between enterprises.

Our goal is to maximize the benefits of information automation while minimizing its total cost of ownership.

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 Products and Services
The Progress OpenEdge Division offers a complete platform for developing and deploying business applications. OpenEdge™ facilitates the development of standards-based, service oriented business applications that can be deployed and managed over a wide range of platforms and across the Internet. It offers a unified environment including development tools, application servers, application management tools, embedded database, and the capability to easily connect and integrate with other applications and data sources.

Our Sonic Software subsidiary is the leading provider of the Enterprise Service Bus (ESB), the standards-based foundation for building a Service Oriented Architecture (SOA). Sonic products provide reliable, cost-effective distributed infrastructure to integrate applications and orchestrate business processes across the extended enterprise.

The ObjectStore Division provides data management, access and synchronization products for the real-time enterprise. These products help businesses stream event data such as RFID or stock tickers, accelerate the performance of existing relational databases, and support occasionally-connected users requiring real-time access.

DataDirect Technologies is the leading provider of components for connecting software to data. Products from this PSC operating unit use industry-standard interfaces such as ODBC, JDBC and, ADO.NET to ensure consistent behavior and performance. DataDirect also offers an XML development tool, Stylus Studio®, and has been instrumental in the development of the XQuery standard.

Our Markets and Partners
PSC operating units deliver products and services directly to user organizations, through OEMs and distributors, and through our Application Partners (APs).

2,000 APs worldwide utilize our technology to deliver over 5,000 business solutions configured to the needs of organizations in manufacturing, distribution, financial, retail, health care and many other markets. Over 80,000 organizations, including 80 percent of Fortune 100 companies, utilize annually over five billion dollars of our technology and partner applications and services at over 100,000 sites in over 120 countries.