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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington D.C., 20549

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): December 18, 2006

**Progress Software Corporation**

(Exact name of registrant as specified in its charter)

Commission file number: 0-19417

Massachusetts  
(State or other jurisdiction of  
incorporation or organization)

04-2746201  
(I.R.S. employer  
identification no.)

14 Oak Park  
Bedford, Massachusetts 01730  
(Address of principal executive offices, including zip code)

(781) 280-4000  
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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### **Section 2 — Financial Information**

#### ***Item 2.02 Results of Operations and Financial Condition***

On December 18, 2006, we issued a press release announcing that, after the close of business, we had filed with the Securities and Exchange Commission our amended annual report on Form 10-K/A for the fiscal year ended November 30, 2005, our amended quarterly report on Form 10-Q/A for the fiscal quarter ended February 28, 2006 and our quarterly reports on Form 10-Q for each of the fiscal quarters ended May 31, 2006 and August 31, 2006. The press release included selected restated financial results for our fiscal years ended November 30, 2003, November 30, 2004 and November 30, 2005 and our first fiscal quarter ended February 28, 2006. The press release also included selected financial results for our second fiscal quarter ended May 31, 2006 and our third fiscal quarter ended August 31, 2006. A copy of this press release is furnished as Exhibit 99.1 to this report. The information under the heading “Restated Financial Results” in the press release and in Exhibit A to the press release shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of ours, whether made before or after the date of this report, regardless of any general incorporation language in the filing.

On December 20, 2006, we issued a press release announcing financial results for our fourth fiscal quarter ended November 30, 2006. A copy of this press release is furnished as Exhibit 99.2 to this report. This information shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of ours, whether made before or after the date of this report, regardless of any general incorporation language in the filing.

### **Section 8 — Other Events**

#### ***Item 8.01 Other Events***

On December 18, 2006, we issued a press release announcing several key findings of the Special Committee of our Board of Directors conducting an internal investigation into our historical stock option practices and related accounting. A copy of this press release is furnished as Exhibit 99.1 to this report. The information in the press release (other than the information under the heading “Restated Financial Results” in the press release and in Exhibit A to the press release) is incorporated herein by reference.

On December 20, 2006, we issued a press release announcing that Michael L. Mark, who is currently serving as an independent member of our Board of Directors, was appointed as the Non-Executive Chairman of our Board of Directors and that Charles F. Kane, a member of our Board of Directors, was appointed as the Chairman of the Audit Committee of our Board of Directors. A copy of this press release is furnished as Exhibit 99.2 to this report.

As previously disclosed in our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 27, 2006, we received written notice on June 23, 2006 that the Boston, Massachusetts office of the Securities and Exchange Commission was conducting an informal inquiry into our option-granting practices. On December 19, 2006, the Securities and Exchange Commission informed us that it had issued a formal order of investigation.

### **Section 9 — Financial Statements and Exhibits**

#### ***Item 9.01 Financial Statements and Exhibits***

(c) Exhibits

99.1 Press Release dated December 18, 2006

99.2 Press Release dated December 20, 2006

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**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 hereunto duly authorized.

Date: December 20, 2006

Progress Software Corporation

By: /s/ Norman R. Robertson  
Senior Vice President, Finance and  
Administration and Chief Financial Officer

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**Progress Software Files Restated Financial Statements****Company also Reports on Review of Historical  
Stock Option Practices and Related Accounting**

**Bedford, MA, December 18, 2006**—Progress Software Corporation (Nasdaq: PRGS) a supplier of leading technology to develop, deploy, integrate and manage business applications, today announced that, after the close of business, it has filed with the Securities and Exchange Commission an amended annual report on Form 10-K/A including its restated financial statements for each of the years in the three year period ended November 30, 2005, an amended quarterly report on Form 10-Q/A for the three months ended February 28, 2006, and quarterly reports on Form 10-Q for each of the three months ended May 31, 2006 and August 31, 2006. The company expects to announce its results for the fourth fiscal quarter ended November 30, 2006 on December 20, 2006.

As previously announced, the company undertook a review of its historical stock option practices and related accounting. The review was conducted under the direction of a Special Committee of independent members of the Board of Directors, who were assisted by counsel, including special counsel with no prior relationship to the company or its management.

In making today's announcement, the company said, "The mandate of the Special Committee was to conduct a careful, diligent and thorough review of historical stock option practices and related accounting. The company has accepted and followed the Special Committee's recommendations and taken steps to remedy past errors. The company now looks forward to executing its strategic plan for delivering industry leading products that meet the mission critical needs of its customers."

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## Restated Financial Results

Progress Software had previously announced that, as a result of the Special Committee's review, the company expected to restate prior financial statements to correct errors related to accounting for stock-based compensation expense. As a result of the restatement, the company has recorded additional stock-based compensation charges in the aggregate amount of approximately \$29 million for fiscal years 1996 through 2005 and the first quarter of fiscal 2006.

The table below sets forth the company's net income and earnings per share for fiscal years 2003, 2004 and 2005 and for the first quarter of fiscal 2006, as originally reported by the company and as restated, presented both on the basis of accounting principles generally accepted in the United States (GAAP) and on a Non-GAAP basis (in millions, except per share data):

	Fiscal year ended November 30,							
	2003		2004		2005		Three months ended February 28, 2006	
	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated
Net income, GAAP	\$ 27.1	\$ 24.1	\$ 32.1	\$ 29.4	\$ 48.9	\$ 46.3	\$ 5.8	\$ 5.9
Net income, Non-GAAP	\$ 28.8	\$ 28.5	\$ 38.7	\$ 38.3	\$ 55.8	\$ 54.8	\$ 13.1	\$ 12.9
Earnings per share, GAAP	\$ 0.72	\$ 0.65	\$ 0.82	\$ 0.76	\$ 1.18	\$ 1.12	\$ 0.14	\$ 0.14
Earnings per share, Non-GAAP	\$ 0.77	\$ 0.77	\$ 0.99	\$ 0.99	\$ 1.34	\$ 1.32	\$ 0.31	\$ 0.30

The company's net income and earnings per share on a Non-GAAP basis exclude the after-tax effects of charges for stock-based compensation, amortization of acquired intangibles, compensation expense from repurchase of subsidiary stock and acquisition-related expenses, including in-process research and development and retention bonuses for key employees of acquired companies. For a reconciliation of GAAP net income to Non-GAAP net income for the periods presented above, see Exhibit A.

More complete information about the restatement of the company's historical financial statements, including restated information for fiscal years prior to fiscal 2003, is included in the company's amended Annual Report on Form 10-K/A for fiscal year 2005, filed today with the Securities and Exchange Commission.

The company's net income and earnings per share on a GAAP basis for the second quarter of fiscal 2006 was \$7.7 million and 18 cents per share, respectively. The company's net income and earnings per share on a Non-GAAP basis for the second quarter of fiscal 2006 was \$14.7 million and 34 cents per share, respectively.

The company's net income and earnings per share on a GAAP basis for the third quarter of fiscal 2006 was \$8.9 million and 21 cents per share, respectively. The company's net income and earnings per share on a Non-GAAP basis for the third quarter of fiscal 2006 was \$15.0 million and 35 cents per share, respectively. The GAAP and Non-GAAP results for the third quarter include an after-tax charge of \$0.8 million, or 2 cents per share, for legal and accounting expenses associated with our stock option accounting investigation and restatement.

### **Special Committee Conclusions**

Several key findings and additional details related to the Special Committee's review are described below:

- The Special Committee, advised by outside legal counsel and special legal counsel, concluded that nearly all option grants made between December 1995 and July 2005 were accounted for improperly, and concluded that stock-based compensation expense associated with nearly all grants was misstated in fiscal years 1996 through 2005 and in the first quarter of fiscal 2006.
- The Special Committee identified several practices which caused errors related to stock option grant measurement dates and stock-based compensation. First, our option grants were made by means of unanimous written consents executed by the Compensation Committee. However, during the period from December 1995 through July 2005, the Compensation Committee generally did not execute those written consents on the dates appearing on those consents. Instead, the consents were generally executed by the Compensation Committee after the dates stated on the consents.
- In addition, during fiscal years 1996 through 2002, we generally selected the dates used as the grant dates retrospectively. Particularly for our annual grants, which represented the largest number of options granted each year, we generally chose as the grant date a date on which the closing price of our common stock was at or near the lowest price for the quarter in which the annual grant was made.
- For our large annual grants made between December 2002 and November 2004, we used as the measurement date the date reported by our Section 16 officers as the grant date on their Forms 4, which were timely filed. Generally, however, as of the reported grant date, we had not made a final determination of the number of options to be granted to individual recipients other than our Section 16 officers and chose as the grant date the date with the lowest price within the 2-day Section 16 reporting period.



- The Special Committee also concluded, based on its review of the facts and circumstances surrounding our option grant practices, that past and present members of management knew that relevant accounting rules required us to record stock-based compensation charges when we made below fair market value option grants and recorded such charges when discounted grants were identified; however, management did not apply those rules correctly or assure that they were being applied correctly to option grants when grant dates were selected retrospectively and therefore failed to record necessary accounting charges. The Special Committee further concluded that there was no evidence to indicate that the practices that caused errors related to stock option grant measurement dates and stock-based compensation resulted from willful misconduct.
- Outside counsel routinely attended meetings of the Board of Directors and were actively involved in the affairs of the Company. There is evidence that outside counsel was aware of the retrospective dating of unanimous written consents and that certain members of the compensation committee and management may have relied on such involvement in believing that certain aspects of the Company's stock option granting practices were acceptable.
- In 2005, members of the Compensation Committee and management undertook to change the process for granting stock options on a going forward basis. During the second half of fiscal 2005, prior to the commencement of the investigation by the Audit Committee and the Special Committee, we revised our stock option grant practices. The revised grant process includes, among other things, fixed grant dates during the year, review by the Compensation Committee of a preliminary grant list in advance of the fixed grant date and a final approval by the Compensation Committee of the final list of grant recipients on the fixed grant date. When this change in process occurred, we did not consider whether we should have used a different accounting treatment for historical option grants under our previous process.

The Special Committee concluded that there was no evidence to indicate that the practices that caused errors related to stock option grant measurement dates and stock-based compensation resulted from willful misconduct, but the Special Committee also concluded that it would be inappropriate for certain employees who participated in, or knew or should have known of, the practices described above, to retain the benefit arising from the below-market nature of the option grants. These employees were the Chief Executive Officer, the Senior Vice President and Chief Financial Officer, the Vice President and Controller, the Senior Vice President and General Counsel and one non-officer employee.

Accordingly, the Special Committee requested and each of these persons has agreed that all outstanding options to purchase our common stock issued to such persons during periods when they participated in, or knew or should have known of, the practices described above will be amended to increase the exercise prices of these options to an amount equal to the fair market value of our common stock on the measurement dates of such options for accounting and tax purposes, as determined by the Special Committee. To the extent that any such below-market option has already been exercised, each such person has agreed to pay us an amount equal to the bargain element of the grant, i.e., the amount by which the fair market value exceeded the exercise price on the measurement date. The payment will be reduced by the amount of any federal and state taxes on the bargain element already paid or incurred by the individual in connection with such exercise. Among other things, we will accept as payment the cancellation of vested options having an in-the-money value equal to the amount of the payment.

Each of our non-employee directors has agreed voluntarily to amend any below-market option he received to increase its exercise price and, to the extent the option has already been exercised, to make a payment to us on the same terms as apply to the five employees.

We have also taken steps, and will in the future take additional steps, to enhance our corporate governance processes. In November 2006, we added a new independent director, Charles Kane, to our Board of Directors. Also, the Special Committee has recommended, and our Board of Directors has resolved, to take additional steps, including:

- adding at least one additional independent director as a member of the Board of Directors;
- appointing a non-management director as Chairman;
- enhancing the structure for reporting by management to the Board; and
- directing the Nominating and Governance Committee of the Board to conduct a comprehensive review of our governance structure to ensure that it is following best practices to ensure sound governance and legal compliance.

The company said, “We believe that with the filing of our restated financial statements and the related actions approved by our Board of Directors, we have taken important steps toward addressing the problems associated with past errors in our stock option grant practices. This should help enable us to focus renewed energy on creating value for our customers and shareholders.”

The company intends to hold its usual conference call after the release of earnings on Wednesday, December 20, 2006 at 9:00 AM.

## Safe Harbor Statement

Except for the historical information and discussions contained herein, statements contained in this release may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including but not limited to the following: unanticipated consequences of the restatement; the risk that the Nasdaq Stock Market will delist the company’s common stock; the risk that the company will face additional claims and proceedings in connection with its stock option grant practices, including additional shareholder litigation and more formal proceedings by the SEC or other governmental agencies; and the financial impact of the foregoing, including potentially significant litigation defense costs and claims for indemnification and advancement of expenses by directors, officers and others. The company undertakes no obligation to update information contained in this release. For further information regarding risks and uncertainties associated with the company’s business, please refer to the company’s filings with the Securities and Exchange Commission.

## About Progress Software

Progress Software Corporation (NASDAQ: PRGS) provides application infrastructure software for the development, deployment, integration and management of business applications. Our goal is to maximize the benefits of information technology while minimizing its complexity and total cost of ownership. Progress can be reached at [www.progress.com](http://www.progress.com) or +1-781-280-4000.

*Progress, OpenEdge, Sonic, Apama and EasyAsk are trademarks or registered trademarks of Progress Software Corporation or one of its subsidiaries or affiliates in the U.S. and other countries. Any other trademarks or service marks contained herein are the property of their respective owners.*

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### Reconciliation of GAAP Net Income to Non-GAAP Net Income

The company's net income on a Non-GAAP basis excludes the after-tax effects of charges for stock-based compensation, amortization of acquired intangibles, compensation expense from repurchase of subsidiary stock and acquisition-related expenses, including in-process research and development and retention bonuses for key employees of acquired companies, and is computed as follows (in millions):

	Fiscal year ended November 30,						Three months ended	
	2003		2004		2005		February 28, 2006	
	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated	As Reported	As Restated
Net income, GAAP	\$ 27.1	\$ 24.1	\$ 32.1	\$ 29.4	\$ 48.9	\$ 46.3	\$ 5.8	\$ 5.9
Stock-based compensation	—	3.6	—	3.5	0.1	2.7	6.4	5.9
Amortization of acquired intangibles	2.3	2.3	7.1	7.1	9.4	9.4	2.9	2.9
Compensation expense from repurchase of subsidiary stock options	—	—	—	—	2.8	2.8	—	—
Acquisition-related expenses	0.2	0.2	2.6	2.6	3.4	3.4	1.5	1.5
Tax impact of the above adjustments	(0.8)	(1.7)	(3.1)	(4.3)	(8.8)	(9.8)	(3.5)	(3.3)
Net income, non- GAAP	\$ 28.8	\$ 28.5	\$ 38.7	\$ 38.3	\$ 55.8	\$ 54.8	\$ 13.1	\$ 12.9

## Exhibit A (continued)

	Three months ended,	
	May 31, 2006	Aug 31, 2006
Net income, GAAP	\$ 7.7	\$ 8.9
Stock-based compensation	5.8	5.1
Amortization of acquired intangibles	4.0	4.2
Compensation expense from repurchase of subsidiary stock options	—	—
Acquisition-related expenses	0.3	—
Tax impact of the above adjustments	<u>(3.1)</u>	<u>(3.2)</u>
Net income, non- GAAP	<u>\$ 14.7</u>	<u>\$ 15.0</u>

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**PROGRESS SOFTWARE REPORTS FOURTH QUARTER RESULTS  
RECORD REVENUE FOR THE QUARTER AND YEAR**

**BEDFORD, Mass., December 20, 2006**—Progress Software Corporation (Nasdaq: PRGS), a provider of leading application infrastructure software to develop, deploy, integrate and manage business applications, today announced results for its fourth quarter ended November 30, 2006. Revenue for the quarter was a record \$122 million, up 13 percent (10 percent at constant currency) from \$108 million in the fourth quarter of fiscal 2005. Software license revenue increased 12 percent (10 percent at constant currency) to \$49.4 million from \$44.1 million in the same quarter last year.

On a generally accepted accounting principles (GAAP) basis, operating income decreased 49 percent to \$9.5 million from \$18.6 million in the fourth quarter of fiscal 2005. Net income decreased 49 percent to \$6.9 million from \$13.6 million in the same quarter last year. Diluted earnings per share decreased 50 percent to 16 cents from 32 cents in the fourth quarter of fiscal 2005.

On a non-GAAP basis, operating income decreased 11 percent to \$20.1 million from \$22.5 million in the same quarter last year. Non-GAAP net income decreased 13 percent to \$14.1 million from \$16.2 million in the same quarter last year and non-GAAP diluted earnings per share decreased 16 percent to 32 cents per share from 38 cents in the fourth quarter of fiscal 2005.

The non-GAAP results in the fourth quarter of fiscal 2006 exclude after-tax charges of \$4.0 million for stock-based compensation, \$0.4 million for an accrual for payments to be made to current and former employees for options that were cancelled or expired during the suspension of the issuance of shares under the company's option plans and reimbursements for excise taxes resulting from the exercise of below market options in fiscal 2006 and \$2.8 million for amortization of acquired intangibles. The non-GAAP results in the fourth quarter of fiscal 2005 exclude after-tax charges of \$0.5 million for

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stock-based compensation, \$1.7 million for amortization of acquired intangibles and \$0.4 million for certain other acquisition-related expenses.

The GAAP and non-GAAP results for the fourth quarter of fiscal 2006 include an after-tax charge of \$1.5 million, or 3 cents per share, for legal and accounting expenses associated with our stock option accounting investigation and restatement.

For the twelve months ended November 30, 2006, revenue increased 10 percent (11 percent at constant currency) to \$447 million from \$405 million in fiscal 2005. On a GAAP basis, operating income decreased 32 percent to \$40.9 million from \$60.0 million in fiscal 2005. Net income decreased 36 percent to \$29.4 million from \$46.3 million in fiscal 2005 and diluted earnings per share decreased 39 percent to 68 cents from \$1.12 in fiscal 2005.

On a non-GAAP basis, operating income increased 4 percent to \$81.4 million from \$78.3 million last year. Non-GAAP net income increased 4 percent to \$56.8 million from \$54.8 million last year and non-GAAP diluted earnings per share decreased 1 percent to \$1.31 from \$1.32 in fiscal 2005.

The non-GAAP results in fiscal 2006 exclude after-tax charges of \$15.9 million for stock-based compensation, \$0.4 million for an accrual for payments to be made to current and former employees for options that were cancelled or expired during the suspension of the issuance of shares under the company's option plans and reimbursements for excise taxes resulting from the exercise of below market options in fiscal 2006, \$9.8 million for amortization of acquired intangibles and \$1.3 million for certain other acquisition-related expenses. The non-GAAP results in fiscal 2005 exclude after-tax charges of \$1.9 million for stock-based compensation, \$6.3 million for amortization of acquired intangibles, \$2.3 million for certain other acquisition-related expenses and \$1.9 million for compensation expense from repurchase of subsidiary stock and a tax benefit of \$3.8 million.

The GAAP and non-GAAP results for fiscal 2006 include an after-tax charge of \$2.2 million, or 5 cents per share, for legal and accounting expenses associated with our stock option accounting investigation and restatement.

The company's cash and short-term investments at the end of the quarter totaled \$241 million. The company did not purchase any shares in the open market in the fourth quarter of fiscal 2006. The company's existing repurchase authorization, under which approximately 10 million shares remain available for repurchase, expires on September 30, 2007.

The above amounts reflect the restatement of the company's previously issued consolidated financial statements, which were recently filed with the Securities and Exchange Commission.

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“Overall, we achieved double-digit growth in software license revenue and total revenue for the fourth quarter and for the full fiscal year. Our Progress® OpenEdge® division and our DataDirect Technologies® division, which includes the DataDirect® Shadow® mainframe integration products acquired earlier this year, performed extremely well this quarter and for the entire fiscal year,” stated Joseph Alsop, co-founder and chief executive officer of Progress Software. “Our Enterprise Infrastructure product line was slightly down this quarter, but achieved double-digit software license revenue and total revenue growth for the year, with Data Services products performing less than anticipated and Sonic and Apama products demonstrating solid growth.”

#### **Other Developments**

On December 19, 2006, the Board of Directors elected Michael Mark, who is currently serving as an independent member of our Board of Directors, as Non-Executive Chairman of the Board of Directors and appointed Chuck Kane, who joined the board in November, as Chairman of the Audit Committee of our Board of Directors.

In June 2006, we announced that we had received an informal inquiry from the SEC regarding our option-granting practices. On December 19, 2006, the SEC informed us that it had issued a formal order of investigation.

#### **Highlights**

DataDirect Technologies announced the launch of XQuery.com ([www.xquery.com](http://www.xquery.com)). The Web site provides software developers and IT architects with a comprehensive resource for navigating the complexity of today’s application architectures via the power of XQuery — the XML Query Language under development by the World Wide Web Consortium (W3C).

<http://www.progress.com/xquerylaunch>

Progress Software announced that Expedia, Inc., the world’s leading online travel company, has selected Progress Sonic products as the messaging infrastructure for its reservation system.

<http://www.progress.com/expedia>

Progress Software announced that leading Korean financial IT vendor, Koscom, has selected the Progress® Apama® algorithmic trading platform to enable algorithmic trading on the Korea Exchange (KRX). In addition, Progress and Koscom have entered into a strategic partnership, whereby Koscom will develop a localized version of the Apama platform for distribution in Asia. This partnership makes the Apama platform the first commercial algorithmic trading system available in Korea.

<http://www.progress.com/koscom>

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DataDirect Technologies announced its acquisition of OpenAccess Software, Inc., a provider of development toolkits for rapid development of ODBC and JDBC drivers, as well as ADO.NET and OLE DB providers.

<http://www.progress.com/openaccess>

### **Significant New Customer and Partner Wins, New Technology Adoptions, and Major Deployments**

Significant new partners and customers adopting technology from Progress Software operating companies, or deploying solutions using Progress technology, include: Federal Retirement Thrift Investment Board, Fidelity Information Services, Gesenu Spa, Global DVD Ltd, Group Mutuel, Hernando County Property Appraiser, IRI Ubiteq, Journal Sentinel Inc., Kuraray Company, Mercedes-Benz USA, Mississippi Lime Company, New York City Housing Authority, Nord-West Oelleitung GMBH, Normah Medical Specialists, Open Integration Incorporate, Operax, Orange Lake Resort & Country Club, Plamatels Corporation, Public School Retirement Systems, Rex Materials Inc., Scottish Power PLC., Shin Nikkei Company Ltd., Sincor, Somerfield Stores Ltd., Sonofon, Star Garment Company Ltd., State of Maryland, T&K Toka Company Ltd., Trust Solutions., Unitrin Services Company, Valley Medial Center, Ventura Foods, Visiting Nurse Service of New York and Vocel Inc.

Significant existing partners and customers adopting technology from different Progress Software operating companies, or making substantial additional deployments of Progress technology, include: A.O. Smith Electrical Products, Alliance One, Altivity Packaging, Banco Hipotecario S.A., BANK DELEN, Banque Privee Edmond de Rothschild, Beneficiência Médica Brasileira, Bolsa Mexicana de Valores, Bristol Group S.A., City of San Francisco, El Comercio Cia.de Seguros, Conseco Services, DBS Bank Ltd., Del Monte Foods, Federal Home Loan Bank, Freedom Mortgage, Homeserve GB Ltd., Imprivata, Inc., Imtac, Inva Spa, Kal Tire, Laboratorios Combix, Micro Electronics Inc., Mikaru, Norfolk Southern, O'Neill Europe, Origin Energy Services Ltd., Ouro Fino Saude Animal Ltda, Purolator Courier Ltd., Quicken Loans, Rakuten Inc., Reimbursement Technologies Inc., Sanmina-SCI, SELESTA S.P.A., Teacher Housing Authority NS, Technological Resources Ltd., Telmex, Tecsidel, Toemda Soriana, Tintas Coral Ltda., Wachovia Corporation, Wells Fargo & Company, Wolf Informatik GmbH, Yui Co. Ltd. and Zacharias Group.

### **Business Outlook**

The company is providing the following guidance for the fiscal year ending November 30, 2007:

- Revenue is expected to be in the range of \$465 million to \$475 million.
  - GAAP diluted earnings per share are expected to be in the range of \$1.07 to \$1.14.
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- On a non-GAAP basis, diluted earnings per share are expected to be in the range of \$1.65 to \$1.72.
- The non-GAAP projections exclude after-tax charges of approximately \$15 million (34 cents per share) for stock-based compensation and approximately \$11 million (24 cents per share) for amortization of acquired intangibles.
- The GAAP and non-GAAP projections exclude any costs associated with the stock option inquiry and restatement, shareholder-related litigation and the current or any future investigations by regulatory agencies.

The company is providing the following guidance for the first fiscal quarter ending February 28, 2007:

- Revenue is expected to be in the range of \$110 million to \$112 million.
- GAAP diluted earnings per share are expected to be in the range of 18 cents to 20 cents.
- On a non-GAAP basis, diluted earnings per share are expected to be in the range of 34 cents to 36 cents.
- The non-GAAP projections exclude after-tax charges of approximately \$4 million (9 cents per share) for stock-based compensation and \$3 million (7 cents per share) for amortization of acquired intangibles.
- The GAAP and non-GAAP projections exclude any costs associated with the stock option inquiry and restatement, shareholder-related litigation and the current or any future investigations by regulatory agencies.

#### **Legal Notice Regarding Non-GAAP Financial Information**

The company provides non-GAAP operating income, net income and earnings per share as additional information for investors. These measures are not in accordance with, or an alternative to, generally accepted accounting principles in the United States (GAAP). Such measures are intended to supplement GAAP and may be different from non-GAAP measures used by other companies. The company believes that the non-GAAP results described in this release are useful for an understanding of its ongoing operations and provide additional detail and an alternative method of assessing its operating results.

Management of the company uses these non-GAAP results to compare the company's performance to that of prior periods for analysis of trends and for budget and planning purposes. A reconciliation of non-GAAP adjustments to the company's GAAP financial results is included in the tables below.

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## Conference Call

PSC's conference call to discuss its fourth quarter results will be Webcast live today at 9:00 a.m. Eastern via CCBN on the company's Web site, located at [www.progress.com/investors](http://www.progress.com/investors). The call will also be Webcast live via Yahoo ([www.yahoo.com](http://www.yahoo.com)), Motley Fool ([www.fool.com](http://www.fool.com)), Streetevents ([www.streetevents.com](http://www.streetevents.com)), TD Waterhouse ([www.tdwaterhouse.com](http://www.tdwaterhouse.com)) and Fidelity.com ([www.fidelity.com](http://www.fidelity.com)). An archived version of the conference call will be available for replay.

## About Progress Software Corporation

Progress Software Corporation (Nasdaq: PRGS) provides application infrastructure software for the development, deployment, integration and management of business applications. Our goal is to maximize the benefits of information technology while minimizing its complexity and total cost of ownership. Progress can be reached at [www.progress.com](http://www.progress.com) or +1-781-280-4000.

## Safe Harbor Statement

Except for the historical information and discussions contained herein, statements contained in this release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including but not limited to the following: the receipt and shipment of new orders, the timely release of enhancements to the company's products, 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, business and consumer use of the Internet, and the company's ability to penetrate international markets and manage its international operations; unanticipated consequences of the restatement; the risk that the Nasdaq Stock Market will delist the company's common stock; risks associated with the SEC's formal investigation of the company's option-grant practices; the risk that the company will face additional claims and proceedings in connection with those stock option grant practices, including additional shareholder litigation and additional proceedings by the other governmental agencies; and the financial impact of the foregoing, including potentially significant litigation defense costs and claims for indemnification and advancement of expenses by directors, officers and others. The company undertakes no obligation to update information contained in this release. For further information regarding risks and uncertainties associated with the company's business, please refer to the company's filings with the Securities and Exchange Commission.

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**Progress Software Corporation**  
**Condensed Consolidated Statements of Income**

<i>(In thousands except per share data)</i>	Three Months Ended		Percent Change
	November 30, 2006	November 30, 2005	
<b>Revenue:</b>			
Software licenses	\$ 49,412	\$ 44,084	12%
Maintenance and services	72,782	63,873	14%
Total revenue	122,194	107,957	13%
<b>Costs of revenue:</b>			
Cost of software licenses	1,380	2,505	
Cost of maintenance and services	16,796	14,048	
Amortization of purchased technology	2,378	1,350	
Total costs of revenue	20,554	17,903	15%
Gross profit	101,640	90,054	13%
<b>Operating expenses:</b>			
Sales and marketing	54,050	43,592	
Product development	19,708	15,465	
General and administrative	16,358	10,584	
Amortization of other acquired intangibles	2,030	1,188	
Acquisition-related expenses, net	15	653	
Total operating expenses	92,161	71,482	29%
Income from operations	9,479	18,572	(49)%
Other income, net	1,757	1,557	
Income before provision for income taxes	11,236	20,129	(44)%
Provision for income taxes	4,332	6,571	
Net income	\$ 6,904	\$ 13,558	(49)%
<b>Earnings per share:</b>			
Basic	\$ 0.17	\$ 0.34	(50)%
Diluted	\$ 0.16	\$ 0.32	(50)%
<b>Weighted average shares outstanding:</b>			
Basic	41,207	39,953	3%
Diluted	43,643	42,962	2%

**Non-GAAP Condensed Consolidated Statements of Income**

<i>(In thousands except per share data)</i>	Three Months Ended November 30, 2006			Three Months Ended November 30, 2005			Percent Change
	As Reported	Adjustments	Non-GAAP	As Reported	Adjustments	Non-GAAP	
<b>Revenue:</b>							
Software licenses	\$ 49,412		\$ 49,412	\$ 44,084		\$ 44,084	12%
Maintenance and services	72,782		72,782	63,873		63,873	14%
Total revenue	122,194		122,194	107,957		107,957	13%
<b>Costs and expenses:</b>							
Cost of software licenses (1)	1,380	(38)	1,342	2,505	(4)	2,501	
Cost of maintenance and services (1) (2)	16,796	(441)	16,355	14,048	(52)	13,996	
Amortization of purchased technology	2,378	(2,378)	—	1,350	(1,350)	—	
Total costs of revenue	20,554	(2,857)	17,697	17,903	(1,406)	16,497	
Gross profit	101,640	2,857	104,497	90,054	1,406	91,460	
<b>Operating expenses:</b>							
Sales and marketing (1) (2)	54,050	(2,281)	51,769	43,592	(291)	43,301	
Product development (1) (2)	19,708	(1,422)	18,286	15,465	(169)	15,296	
General and administrative (1) (2)	16,358	(2,012)	14,346	10,584	(202)	10,382	
Amortization of other acquired intangibles	2,030	(2,030)	—	1,188	(1,188)	—	
Acquisition-related expenses, net	15	(15)	—	653	(653)	—	
Total costs and expenses	92,161	(7,760)	84,401	71,482	(2,503)	68,979	22%
Income from operations	9,479	10,617	20,096	18,572	3,909	22,481	(11)%
Other income, net	1,757		1,757	1,557		1,557	
Income before provision for income taxes	11,236	10,617	21,853	20,129	3,909	24,038	(9)%
Provision for income taxes	4,332	3,419	7,751	6,571	1,275	7,846	
Net income	\$ 6,904	\$ 7,198	\$ 14,102	\$ 13,558	\$ 2,634	\$ 16,192	(13)%
<b>Earnings per share:</b>							
Basic	\$ 0.17		\$ 0.34	\$ 0.34		\$ 0.41	(17)%
Diluted	\$ 0.16		\$ 0.32	\$ 0.32		\$ 0.38	(16)%

Weighted average shares  
outstanding:

Basic	<b>41,207</b>	<b>41,207</b>	39,953	39,953	<b>3%</b>
Diluted	<b>43,643</b>	<b>43,643</b>	42,962	42,962	<b>2%</b>

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- (1) Non-GAAP adjustments represent amounts recorded for stock-based compensation in these costs and expenses
- (2) Non-GAAP adjustments also include an accrual for payments to be made to current and former employees for options that were cancelled or expired during the suspension of the issuance of shares under the company's option plans and reimbursements for excise taxes resulting from the exercise of below market options in fiscal 2006.
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**Progress Software Corporation**  
**Condensed Consolidated Statements of Income**

<i>(In thousands except per share data)</i>	Twelve Months Ended		Percent Change
	November 30, 2006	November 30, 2005	
<b>Revenue:</b>			
Software licenses	\$ 175,845	\$ 156,846	12%
Maintenance and services	271,218	248,530	9%
Total revenue	447,063	405,376	10%
<b>Costs of revenue:</b>			
Cost of software licenses	7,441	8,170	
Cost of maintenance and services	61,196	55,752	
Amortization of purchased technology	8,150	5,122	
Total costs of revenue	76,787	69,044	11%
Gross profit	370,276	336,332	10%
<b>Operating expenses:</b>			
Sales and marketing	186,286	158,544	
Product development	77,269	64,010	
General and administrative	56,571	43,345	
Amortization of other acquired intangibles	7,358	4,277	
Compensation expense from repurchase of subsidiary stock options	—	2,803	
Acquisition-related expenses, net	1,849	3,403	
Total operating expenses	329,333	276,382	19%
Income from operations	40,943	59,950	(32)%
Other income, net	4,640	3,099	
Income before provision for income taxes	45,583	63,049	(28)%
Provision for income taxes	16,182	16,792	
Net income	\$ 29,401	\$ 46,257	(36)%
<b>Earnings per share:</b>			
Basic	\$ 0.72	\$ 1.21	(40)%
Diluted	\$ 0.68	\$ 1.12	(39)%
<b>Weighted average shares outstanding:</b>			
Basic	40,976	38,227	7%
Diluted	43,269	41,424	4%

**Non-GAAP Condensed Consolidated Statements of Income**

<i>(In thousands except per share data)</i>	Twelve Months Ended November 30, 2006			Twelve Months Ended November 30, 2005			Percent Change
	As Reported	Adjustments	Non-GAAP	As Reported	Adjustments	Non-GAAP	
<b>Revenue:</b>							
Software licenses	\$ 175,845		\$ 175,845	\$ 156,846		\$ 156,846	12%
Maintenance and services	271,218		271,218	248,530		248,530	9%
Total revenue	447,063		447,063	405,376		405,376	10%
<b>Costs and expenses:</b>							
Cost of software licenses (1)	7,441	(148)	7,293	8,170	(20)	8,150	
Cost of maintenance and services (1) (2)	61,196	(1,692)	59,504	55,752	(202)	55,550	
Amortization of purchased technology	8,150	(8,150)	—	5,122	(5,122)	—	
Total costs of revenue	76,787	(9,990)	66,797	69,044	(5,344)	63,700	
Gross profit	370,276	9,990	380,266	336,332	5,344	341,676	
<b>Operating expenses:</b>							
Sales and marketing (1) (2)	186,286	(8,560)	177,726	158,544	(1,050)	157,494	
Product development (1) (2)	77,269	(5,281)	71,988	64,010	(571)	63,439	
General and administrative (1) (2)	56,571	(7,387)	49,184	43,345	(902)	42,443	
Amortization of other acquired intangibles	7,358	(7,358)	—	4,277	(4,277)	—	
Compensation expense from repurchase of subsidiary stock options	—	—	—	2,803	(2,803)	—	
Acquisition-related expenses, net	1,849	(1,849)	—	3,403	(3,403)	—	
Total costs and expenses	329,333	(30,435)	298,898	276,382	(13,006)	263,376	13%
Income from operations	40,943	40,425	81,368	59,950	18,350	78,300	4%
Other income, net	4,640		4,640	3,099		3,099	
Income before provision for income taxes	45,583	40,425	86,008	63,049	18,350	81,399	6%
Provision for income taxes	16,182	13,061	29,243	16,792	9,793	26,585	

Net income	<u>\$ 29,401</u>	<u>\$ 27,364</u>	<u>\$ 56,765</u>	<u>\$ 46,257</u>	<u>\$ 8,557</u>	<u>\$ 54,814</u>	<u>4%</u>
Earnings per share:							
Basic	\$ 0.72		\$ 1.39	\$ 1.21		\$ 1.43	(3)%
Diluted	\$ 0.68		\$ 1.31	\$ 1.12		\$ 1.32	(1)%
Weighted average shares outstanding:							
Basic	40,976		40,976	38,227		38,227	7%
Diluted	43,269		43,269	41,424		41,424	4%

(1) Non-GAAP adjustments represent amounts recorded for stock-based compensation in these costs and expenses

(2) Non-GAAP adjustments also include an accrual for payments to be made to current and former employees for options that were cancelled or expired during the suspension of the issuance of shares under the company's option plans and reimbursements for excise taxes resulting from the exercise of below market options in fiscal 2006.

**Progress Software Corporation**  
**Condensed Consolidated Balance Sheets**

<i>(In thousands)</i>	November 30, 2006	November 30, 2005
<b>Assets</b>		
Cash and short-term investments	\$ 241,315	\$ 266,420
Accounts receivable, net	82,762	66,592
Other current assets	36,062	28,192
<b>Total current assets</b>	<b>360,139</b>	<b>361,204</b>
Property and equipment, net	57,585	42,816
Goodwill and intangible assets, net	232,927	132,187
Other assets	19,588	25,508
<b>Total</b>	<b>\$ 670,239</b>	<b>\$ 561,715</b>
<b>Liabilities and shareholders' equity</b>		
Accounts payable and other current liabilities	\$ 93,195	\$ 77,428
Short-term deferred revenue	120,974	99,697
<b>Total current liabilities</b>	<b>214,169</b>	<b>177,125</b>
Long-term debt	1,657	1,938
Long-term deferred revenue	6,355	5,068
Other liabilities	3,494	3,580
<b>Shareholders' equity:</b>		
Common stock and additional paid-in capital	197,748	155,205
Retained earnings	246,816	218,799
<b>Total shareholders' equity</b>	<b>444,564</b>	<b>374,004</b>
<b>Total</b>	<b>\$ 670,239</b>	<b>\$ 561,715</b>

**Condensed Consolidated Statements of Cash Flows**

<i>(In thousands except per share data)</i>	Twelve Months Ended November 30,	
	2006	2005
<b>Cash flows from operations:</b>		
Net income	\$ 29,401	\$ 46,257
Depreciation, amortization and other noncash charges	48,084	20,934
Tax benefit from stock plans	1,064	17,745
Other changes in operating assets and liabilities	(11,882)	(4,306)
<b>Net cash flows from operations</b>	<b>66,667</b>	<b>80,630</b>
Capital expenditures	(21,738)	(10,909)
Acquisitions, net of cash acquired	(78,040)	(31,488)
Share issuances, net of repurchases	53	43,481
Other	7,953	(6,561)
Net change in cash and short-term investments	(25,105)	75,153
Cash and short-term investments, beginning of period	266,420	191,267
Cash and short-term investments, end of period	<b>\$ 241,315</b>	<b>\$ 266,420</b>

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