



Annual Report 2005

PROGRESS
SOFTWARE

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

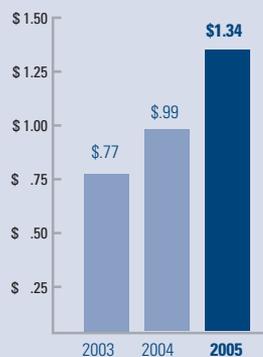
		Year ended November 30,		
		2003	2004	2005
<i>GAAP Basis</i>	Revenue	\$ 309,060	\$ 362,662	\$ 405,376
	Income from operations	\$ 36,752	\$ 46,364	\$ 63,765
	Net income	\$ 27,074	\$ 32,101	\$ 48,933
	Diluted earnings per share	\$ 0.72	\$ 0.82	\$ 1.18
<i>Pro Forma Basis</i>	Income from operations	\$ 39,242	\$ 56,040	\$ 79,504
	Net income	\$ 28,817	\$ 38,681	\$ 55,757
	Diluted earnings per share	\$ 0.77	\$ 0.99	\$ 1.34
	Weighted average shares outstanding	37,554	39,010	41,571
	Cash flow from operations	\$ 57,680	\$ 72,188	\$ 80,630
	Cash and short-term investments	\$ 219,131	\$ 191,267	\$ 266,420
	Shareholders' equity	\$ 222,041	\$ 266,978	\$ 381,659



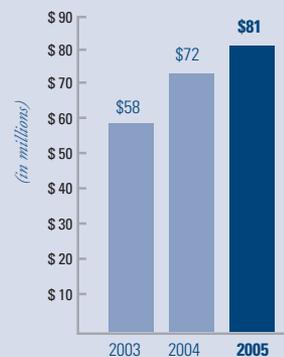
Revenue



Pro Forma Income from Operations*



Pro Forma Diluted Earnings per Share*



Cash Flow from Operations

* Pro forma results exclude the impact of charges for amortization of acquired intangibles, certain other acquisition-related expenses, stock-based compensation, and certain one-time tax benefits.



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 Corporation 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 automation while minimizing its total cost of ownership.

Our Products

The Progress® OpenEdge® product line is a comprehensive platform for the rapid development and deployment of business applications that are standards-based and service-oriented. OpenEdge can be deployed and managed over a wide range of computer platforms and across the Internet. OpenEdge provides a unified environment comprising development tools, application servers, application management tools, an embedded database, and the capability to easily connect and integrate with other applications and data sources.

The Sonic product line offers a standards-based foundation for building a Service-Oriented Architecture (SOA), integrating applications, and orchestrating business processes across the extended enterprise. The core product, Sonic ESB® (Enterprise Service Bus), is recognized as the market leader among ESBs. In addition, any enterprise SOA deployment can greatly benefit from the visibility, monitoring, and governance capabilities of Sonic's Actional® product line.

Progress Real Time products include event stream processing, data management, data access, and synchronization to enable the real-time enterprise. These products help businesses monitor, analyze, and act on streaming event data such as RFID or financial market data feeds, accelerate the performance of existing relational databases, and support occasionally-connected users requiring real-time access to shared enterprise data.

Our DataDirect Technologies operating unit is the leading provider of components for connecting software to data. DataDirect® products use industry-standard interfaces such as ODBC, JDBC™ and ADO.NET to ensure consistent behavior and performance in connecting to distributed systems as well as mainframes. The DataDirect product line also includes an XML development tool, Stylus Studio®, and has introduced the industry's first embeddable XQuery product.

Progress EasyAsk products provide natural language question/answer capabilities that empower non-technical users to quickly find and retrieve critical business information from multiple enterprise data sources. EasyAsk also offers capabilities to integrate search, navigation, and merchandising on e-commerce Web sites, optimizing the shopping experience for on-line customers.

Our Markets and Partners

Progress Software delivers products and services directly to end-user organizations, via distributors, and in partnership with Independent Software Vendors (ISVs) who embed our technology in their products. These include our OEMs and our unique network of OpenEdge 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, finance, retail, healthcare, and many other markets. Over 60,000 organizations, including 80% of Fortune 100 companies, utilize annually over \$5 billion of Progress technology and partner applications and services at over 100,000 sites in over 135 countries.

To Our Employees, Customers and Shareholders

I am pleased to report that in fiscal 2005 Progress Software Corporation strengthened its product line and strategic competitive position while extending its consistently strong financial performance. Our record of growth and profitability remains among the top in the software industry. For the fiscal year ended November 30, 2005, revenue increased 12% to \$405 million from \$363 million. Pro forma operating income increased 42% to \$80 million from \$56 million in fiscal 2004. Pro forma diluted earnings per share increased 35% to \$1.34 from 99 cents in fiscal 2004.

During fiscal 2005, we continued to make significant progress on our strategic goal of providing a richer and broader portfolio of products to assist business and IT professionals in developing, deploying, integrating, and managing critical business applications. In April of 2005 we acquired Apama, a leader in the emerging category of event stream processing. In May of 2005 we acquired EasyAsk, with their leading technology in enterprise-wide data access using everyday natural language. Continuing our strategy to acquire technologies that complement and broaden our data integration and Service-Oriented Architecture (SOA) offerings, in early fiscal 2006 we acquired NEON Systems, a leading provider of mainframe data access and integration software, and Actional Corporation, a provider of platform-independent SOA and Web Services visibility and management software. We are pleased to welcome all four teams and their industry-leading products, which complement and extend the exciting capabilities our development organizations have created.

Progress Software develops and delivers products and services through the Progress OpenEdge Division, Sonic Software, the Progress Real Time Division (formerly known as ObjectStore), DataDirect Technologies, and the Progress EasyAsk Division. While each unit provides software infrastructure for the development, deployment or integration of applications, each targets a particular segment of that market and focuses on maintaining leadership in its segment.

Progress OpenEdge Division

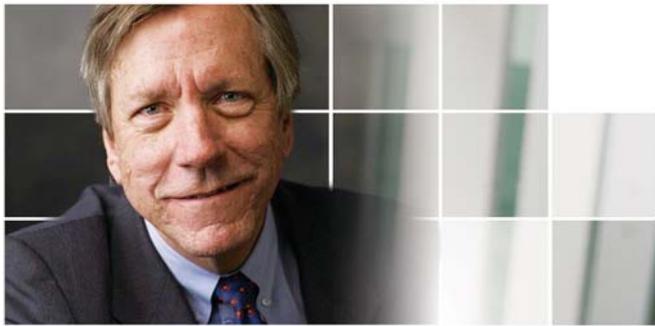
The Progress OpenEdge Division offers the fully integrated OpenEdge family of products for application development, deployment, and management; a "one stop shop" for independent software vendors (ISVs) and application builders within IT organizations. The OpenEdge product line has been widely recognized in independent studies as the platform with the lowest overall total cost of ownership (TCO) for deploying and managing enterprise business applications, together with the most productive environment for creating business applications.

Supporting the latest advancements in SOA development and deployment technology, OpenEdge 10 was widely adopted in fiscal 2005 and OpenEdge 10.1 was released in early 2006. Under SOA, applications are built as reusable services that can interoperate dynamically through industry-standard Web Services interfaces, bringing even greater flexibility to users of business applications based on OpenEdge.

The OpenEdge Division's revenue and profit contribution continued to grow in fiscal 2005 and we expect that trend to continue. With the greater acceptance of SOA, we believe that OpenEdge will continue to be 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 widely recognized as a strong foundation for deploying a Service-Oriented Architecture across the heterogeneous, distributed IT assets of an enterprise. Using open industry standards, the Sonic ESB reliably connects, mediates and orchestrates SOA services. The Sonic ESB is particularly well-suited for integrating



large numbers of mission-critical applications that must interoperate across a global enterprise and extend to its many business partners. In 2005, Sonic Software introduced the first comprehensive technical definition of an ESB in the industry. "Sonic ESB: An Architecture and Lifecycle Definition," examines both the core capabilities and usage of the Sonic ESB from application development to production.

Revenue for our Sonic product line was up 24% in fiscal 2005. With recent announcements of new ESB products by other industry vendors, the category Sonic created is gaining acceptance. Sonic Software, with industry-wide thought leadership and superior technology proven at over 1,000 customer sites, is very well positioned to take advantage of the high potential ESB opportunity.

Our recent acquisition of Actional Corporation enables us to extend the Sonic product line to include system and process-level visibility, as well as policy enforcement across a SOA infrastructure deployed on any combination of platforms. The Sonic and Actional product lines together establish Progress as the market's leading provider of platform-independent, enterprise-grade SOA infrastructure software.

Progress Real Time Division

The Progress Real Time Division provides event stream processing, data management, data access, and synchronization products to enable the real-time enterprise. Starting with a very high performance, market leading object database, ObjectStore, complemented by the acquisition of Persistence Software last year, the product line has expanded to offer caching of relational data for better performance and distributed processing, as well as the database synchronization required for remote, occasionally connected users.

The Progress Real Time Division leads in the emerging event stream processing category. With the acquisition of Apama, Progress Real Time offers products capable of simultaneously analyzing and processing a multitude of high velocity data streams, such as stock feeds and RFID data. Progress Real Time enjoyed a 56% revenue growth in fiscal 2005 and further growth is anticipated in 2006 as Progress Real Time's leading technology is deployed by enterprises that want to move beyond reactive IT systems to technologies that enable the real-time enterprise.

DataDirect Technologies

DataDirect Technologies provides data connectivity components that enable software developers to use industry-standard interfaces to connect any application running on any platform to any major database. With components embedded in the products of over 250 leading software companies and in the applications of thousands of large enterprises, DataDirect is the leader in the data connectivity market.

DataDirect also provides the Stylus Studio interactive development environment for the XML market, and is now rolling out DataDirect XQuery™, an embeddable software product based on the XQuery and XQJ standards. With DataDirect XQuery, application developers will be able to access and integrate data from multiple relational and XML data sources with a single query. Building on its current

leading position in SQL-based data connectivity, DataDirect is an early leader in this exciting new market. DataDirect revenue increased 26% in fiscal 2005.

The combination of DataDirect and recently acquired NEON Systems, adding strong mainframe integration capabilities, creates an unparalleled leader in data connectivity. With NEON, DataDirect now addresses all facets of mainframe integration, including data access, SOA and Web Services integration, real-time event processing, and transactional and presentation integration for screen-based applications.

Progress EasyAsk Division

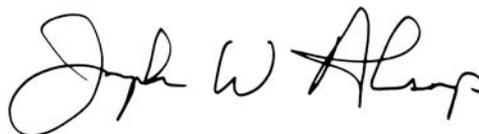
The Progress EasyAsk Division provides natural language question/answer capabilities that empower non-technical users to quickly find and retrieve critical business information from multiple enterprise data sources. We anticipate significant growth from its current modest level as market demand increases for search and information retrieval solutions that provide single-point access to critical content and insight for the enterprise, for e-commerce, and for ISVs.

Our Technology Commitment

Progress 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 endeavor always to enable our customers to take advantage of emerging technology trends such as SOA, RFID, and real-time data services, while protecting their existing investments in business applications.

Progress is pleased with the continued growth and increased profit contributions from our largest business, the Progress OpenEdge Division, and the significant growth and exciting potential from the other operating units. Our consistent operating results demonstrate that the market remains receptive to our technologies and the continuous stream of innovations 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 Corporation,



Joseph W. Alsop
Co-Founder and CEO



Progress Executive Team

Joseph W. Alsop, *Co-Founder and Chief Executive Officer*

Joseph A. Andrews, *Vice President, Human Resources*

James D. Freedman, *Senior Vice President and General Counsel*

Larry Harris, *Vice President and General Manager, EasyAsk*

David G. Ireland, *President, Progress OpenEdge Division*

Gregory J. O'Connor, *Vice President, Corporate Development and Strategy*

Richard D. Reidy, *President, DataDirect Technologies*

Norman R. Robertson, *Senior Vice President, Finance and Administration
and Chief Financial Officer*

Peter G. Sliwkowski, *Vice President and General Manager,
Progress Real Time Division*

Jeffrey P. Stamen, *Senior Vice President, Corporate Development
and Strategy*

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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 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 calling +1 781 280-4450, by sending an email to finance-info@progress.com, 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.

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Boston, Massachusetts (Bedford)
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New York, New York
Cary, North Carolina
Raleigh, North Carolina (Morrisville)
Austin, Texas
Dallas, Texas (Addison)
Houston, Texas (Sugar Land)
Washington, D.C.
(McLean, Virginia)

VENEZUELA
Caracas *(Progressive Solutions)*



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