

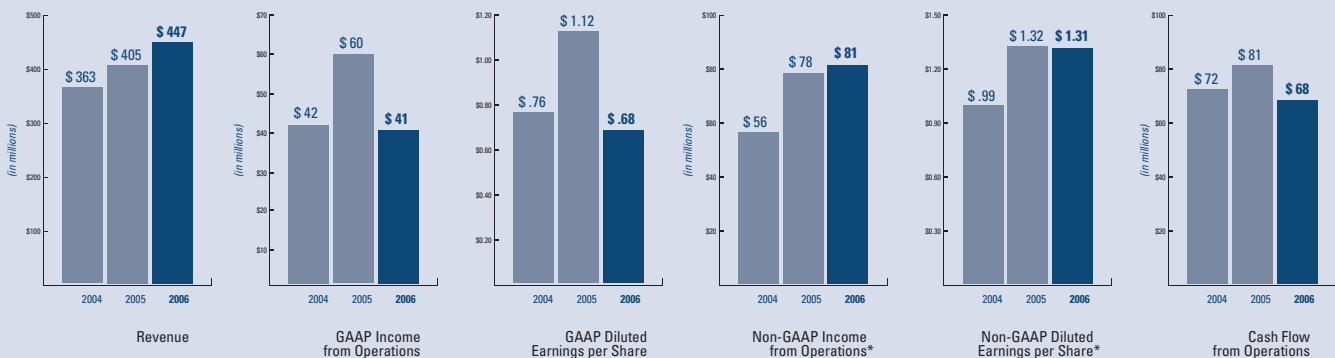


Annual Report 2006

PROGRESS
SOFTWARE

Financial Highlights (In thousands, except per share data)

Year Ended November 30,		2004	2005	2006
Revenue		\$ 362,662	\$ 405,376	\$ 447,063
GAAP Basis	Income from operations	\$ 42,414	\$ 59,950	\$ 40,943
	Net income	\$ 29,368	\$ 46,257	\$ 29,401
	Diluted earnings per share	\$ 0.76	\$ 1.12	\$ 0.68
Non-GAAP Basis*	Income from operations	\$ 55,558	\$ 78,300	\$ 81,368
	Net income	\$ 38,336	\$ 54,814	\$ 56,765
	Diluted earnings per share	\$ 0.99	\$ 1.32	\$ 1.31
Weighted average shares outstanding		38,807	41,424	43,269
Cash flow from operations		\$ 72,188	\$ 80,630	\$ 67,915
Cash and short-term investments		\$ 191,267	\$ 266,420	\$ 241,315
Shareholders' equity		\$ 265,317	\$ 374,004	\$ 444,564



* Non-GAAP 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. A reconciliation of our GAAP results to our Non-GAAP results is as follows:

Year Ended November 30,	2004	2005	2006
GAAP net income	\$ 29,368	\$ 46,257	\$ 29,401
Non-GAAP operating income adjustments:			
Stock-based compensation expense	3,468	2,745	23,068
Amortization of purchased intangibles	7,076	9,399	15,508
Compensation expense from repurchase of subsidiary stock options	---	2,803	---
Acquisition-related expenses	2,600	3,403	1,849
Total Non-GAAP operating income adjustments	13,144	18,350	40,425
Provision for income taxes for Non-GAAP adjustments	(4,176)	(9,753)	\$ (13,061)
Non-GAAP net income	\$ 38,336	\$ 54,814	\$ 56,765

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.



Bud Robertson, senior vice president, finance and administration and chief financial officer and Joseph Alsop, co-founder and chief executive officer of Progress Software in Times Square and in front of NASDAQ after celebrating the company's 25th anniversary by 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 infrastructure software spanning Services Infrastructure, Business Application platforms and Data Infrastructure that simplify and accelerate the development, deployment, integration and management of business applications, and includes:

Services Infrastructure Products

- The Progress® Sonic™ product line leverages the market-leading Sonic ESB® messaging-based Enterprise Service Bus to provide integration of new and existing business applications across organizational boundaries and to remote sites with low latency, high reliability and continuous availability.
- The Progress® Actional® product line offers Web services and service-oriented architecture (SOA) management including monitoring, analysis, security and policy control.
- DataDirect® Shadow® RTE enables mainframe and legacy applications to be full participants in SOA and Web services production and consumption.

Business Application Platforms

- The Progress® OpenEdge® platform provides rapid development and deployment of business applications that are standards-based, service-oriented and have a lower total cost of ownership.
- The Progress® Apama® Event Processing platform can monitor rapidly moving event streams, detect sophisticated patterns, and take action—all within milliseconds. The Apama® product provides the foundation for event-driven applications, including business activity monitoring, algorithmic trading, transaction monitoring, market abuse detection and RFID applications.
- The Progress® EasyAsk® product line provides business users and consumers the ability to find the information they need using natural language search and navigation, supporting a wide variety of applications ranging from customer facing e-commerce Web sites to ad-hoc query.

Data Infrastructure Products

- The Progress® DataXtend™ product line provides data integration for distributed applications and delivers real-time views of shared data in the form that applications need. The DataXtend™ Semantic Integrator product employs a common semantic data model to create sophisticated data transformations, enabling organizations to share and integrate heterogeneous data without disruption to existing applications.
- DataDirect Technologies is the industry's only comprehensive provider of software for connecting business applications to data and services, running on any platform, using proven and emerging industry standards. Developers worldwide depend on DataDirect® products to connect their applications to an unparalleled range of data sources using standards-based interfaces such as ODBC, JDBC®, ADO.NET, XQuery and SOAP.

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 Application Partners (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.



"I am pleased to report that fiscal 2006 was another year of solid growth and achievement for Progress Software."

Joseph Alsop, co-founder and CEO

To Our Employees, Customers, and Shareholders

I am pleased to report that fiscal 2006 was another year of solid growth and achievement for Progress Software, both financially and in strengthening our competitive position through internal development complemented by strategic acquisitions.

Our record of revenue growth and profitability remains among the top in the software industry. For the fiscal year ended November 30, 2006, revenue increased 10% to \$447 million from \$405 million. On a GAAP basis, operating income decreased 32% to \$40.9 million from \$60.0 million in fiscal 2005 and diluted earnings per share decreased 39% to 68 cents from \$1.12 in fiscal 2005. Non-GAAP operating income increased 4% to \$81.4 million from \$78.3 million in fiscal 2005 while non-GAAP diluted earnings per share decreased 1% to \$1.31 from \$1.32 in fiscal 2005. Earnings for 2006 were negatively impacted by higher than usual severance costs and the legal and accounting costs associated with a stock option related investigation and a resulting financial restatement for fiscal years 2005, 2004 and 2003.

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. We welcome both in their new roles in further strengthening our Board.

During fiscal 2006, 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 January 2006, we acquired NEON Systems, a leading provider of mainframe data access and integration software, and Actional Corporation, a provider of service-oriented architecture (SOA) management software. In June, we acquired Pantero, the industry's first product to address real-time semantic data integration challenges through a model-driven approach. In October, we acquired OpenAccess Software, a provider of development toolkits for rapid development of ODBC and JDBC drivers as well as ADO.NET and OLE DB providers. We are pleased to welcome all four teams to Progress Software.

The last year has seen increased interest by IT organizations in implementing an SOA—creating reusable plug and play software components—and in purchasing SOA infrastructure products to ensure that the intended benefits of SOA are realized. Through internal development and strategic acquisitions, Progress now offers a portfolio of products in support of SOA, each of which can stand on its own as best-in-class, or can be used together to create an open and scalable SOA foundation.

Progress Software develops and markets its products and services through the Progress OpenEdge Division, the Progress Enterprise Infrastructure Division, the Progress Apama Division, the Progress EasyAsk Division and DataDirect Technologies. Each division provides software infrastructure products for the development, deployment, integration, or management of business applications. However, each targets a particular segment of that market and focuses on maintaining leadership in its segment.

Progress OpenEdge Division

Supporting the latest advancements in SOA development and deployment technology, the OpenEdge® 10.1 product was widely adopted by Progress partners and customers in fiscal 2006. With these SOA capabilities, we believe that the OpenEdge platform will extend its lead as the most productive, flexible and efficient development and deployment platform in the industry. The OpenEdge Division's revenue and profit contribution grew modestly in fiscal 2006 and we expect that trend to continue.

Progress Enterprise Infrastructure Division

The Enterprise Infrastructure Division (EID) is responsible for the development, marketing and sales of our Sonic™, Actional®, ObjectStore® and DataXtend product lines. The DataXtend product line now includes DataXtend Semantic Integrator, formerly Pantero, which was acquired in June, 2006. EID combines the former Sonic Software and Real Time divisions. In fiscal 2006, EID product lines continued their combined double-digit license and total revenue growth, with Sonic products demonstrating particularly strong growth.

In addition, the acquisition of Actional Corporation enabled us to extend our SOA offerings to include system and process-level visibility, as well as policy enforcement, across an entire SOA infrastructure incorporating many different technologies.

With the acquisition of Pantero and the subsequent release of the DataXtend Semantic Integrator product, inconsistencies across data models and data representations can be normalized and their meaning shared across application boundaries—a key issue when implementing an SOA.

Progress Apama Division

The industry's most comprehensive event processing platform enables organizations to transform all forms of event data into real-time business intelligence in applications such as algorithmic trading for financial services, real-time fraud detection and compliance, and real-time supply chains. The Progress Apama platform is the first complex event processing (CEP) system to allow users to monitor, detect and act on rapidly moving streams of events—all within microseconds. And it is the only event processing platform to offer graphical Business Activity Monitoring (BAM) dashboards, a CEP correlation engine, and data stream management services (via an event data store) that together comprise a comprehensive platform for the creation, testing, deployment and management of event processing applications.

In a recent industry report, Philip Howard, Bloor Research Director, wrote, "The Progress Apama platform has several major advantages over nearly all of its rivals: it has the longevity and customer base that can prove its capabilities, and it is a global player. No other supplier can offer all of these qualities together with the performance and breadth of capability that the Apama platform offers."

The initial market focus of the Apama Division has been the financial services market, in which we more than doubled our business in fiscal 2006. With event processing becoming more and more recognized as the key technology for many other real-time application areas, we believe that this division has a very bright future.

DataDirect Technologies

The combination of DataDirect and recently acquired NEON Systems, adding extensive mainframe data access capabilities, creates an unparalleled leader in data connectivity. With NEON, DataDirect also addresses all facets of mainframe integration, including SOA and Web services integration, real-time event processing and transactional integration. DataDirect revenue increased over 70% in fiscal 2006 and, as the market leader in its segment, our expectation is for continued double digit growth.

Progress EasyAsk Division

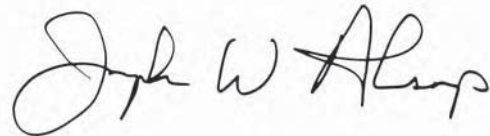
The EasyAsk Division continues to grow steadily as market demand increases for natural language query solutions that provide access to critical structured and unstructured data across the enterprise. The EasyAsk Division is also enjoying significant success in the eCommerce market, where retailers want to increase conversion rates by offering consumers the ability to find the right products using precise search, navigation and merchandising techniques.

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, semantic 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

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, Progress EasyAsk Division*
Gordon Van Huizen, *Vice President and General Manager, Enterprise Infrastructure Division*
David G. Ireland, *President, OpenEdge Division and Senior Vice President, Progress Field Operations*
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, Products, Enterprise Infrastructure Division*
Jeffrey P. Stamen, *Senior Vice President, Corporate Development and Strategy*

Board of Directors

Joseph W. Alsop, *Co-Founder and Chief Executive Officer, Progress Software*
Roger J. Heinen, Jr., *Partner, Flagship Ventures*
Charles F. Kane, *Chief Financial Officer, One Laptop per Child*
Michael L. Mark, *Chairman of the Board, Progress Software*
Scott A. McGregor, *President and Chief Executive Officer, Broadcom Corporation*
Amram Rasiel, *Director, various companies*

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 Stock Market under the symbol "PRGS."

WORLDWIDE AND NORTH AMERICAN HEADQUARTERS

Progress Software Corporation
14 Oak Park
Bedford, MA 01730 USA
Tel: +1 781 280-4000
Fax: +1 781 280-4095

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

EMEA HEADQUARTERS

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

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

ARGENTINA
Buenos Aires

AUSTRALIA
Brisbane
Melbourne (Malvern East)
North Sydney

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Vienna (Brunn am Gebirge)

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VENEZUELA
Caracas *(Progressive Solutions)*

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