



*2002
Annual
Report*

Progress Software Corporation

Financial Highlights

(In thousands, except per share data)	2002	2001	2000
Revenue	\$273,123	\$263,584	\$273,080
Income from operations	\$ 28,224	\$ 21,305	\$ 38,695
Net income	\$ 20,587	\$ 17,643	\$ 33,651
Diluted earnings per share	\$0.54	\$0.46	\$0.85
Weighted average shares outstanding	38,132	38,425	39,472
Cash and short-term investments	\$177,193	\$174,516	\$158,106
Shareholders' equity	\$172,963	\$185,176	\$166,813

Operating Companies



the Progress Company
www.progress.com



Sonic Software Corporation
www.sonicsoftware.com



PeerDirect Corporation
www.peerdirect.com

On The Cover (From top to bottom)

Gregory J. O'Connor, President, Sonic Software Corporation, www.sonicsoftware.com

David G. Ireland, President, the Progress Company, www.progress.com

Lorne J. Cooper, President, PeerDirect Corporation, www.peerdirect.com

Additional Information

A wealth of information on Progress Software Corporation, its products and services, its operating companies, plus employment opportunities and additional information, is available on the PSC web site at www.progress.com, or at the operating company web sites listed above. A copy 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/investor, or by sending an email with your contact information to finance-info@progress.com, or 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.

Today's users demand software applications that are responsive, comprehensive, reliable 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 applications; and
- simplifying the integration of applications across and amongst enterprises.

Our goals are to maximize the benefits of information automation while minimizing technology 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

PSC delivers products and services through its subsidiaries and business units.

The Progress Company provides the Progress® OpenEdge™ platform. OpenEdge offers superior capabilities for developing applications to be deployed and managed over a wide range of computing platforms and across the Internet, including the market leading embedded database. The Progress family of products now also includes the market leading object oriented database, ObjectStore®.

Our Sonic Software subsidiary is the market leader in standards-based integration. Sonic products provide reliable, manageable and cost-effective distributed infrastructure to integrate applications and orchestrate business processes across the extended enterprise.

Our PeerDirect subsidiary enables organizations to effectively distribute business applications across enterprises, including remote offices and individual users, using patented replication technologies. PeerDirect combines the advantages of distributed application deployment with the control and cost-effectiveness of centralized management.

Our Markets and Partners

Our companies deliver products and services directly to user organizations, through OEMs and distributors, and through our Application Partners.

2,000 Application Partners 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 fields. Over 50,000 organizations, including 70 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.

To Our Employees, Customers and Shareholders:

2002 was a very successful year for Progress Software Corporation, particularly when viewed against the turmoil visible throughout much of the IT industry. PSC was able to grow its business and strengthen its financial position. Simultaneously, we made major progress on our strategic goal of providing a broader portfolio of products and services to assist businesses and IT professionals in developing, deploying, integrating and managing critical business applications.

We announced the acquisition of eXcelon Corporation in October, 2002 and finalized the merger shortly after the close of the fiscal year. With eXcelon's people and products, we have added valuable XML and BPM capabilities to our Sonic Software family of products. Additionally, we expect the business generated by eXcelon's ObjectStore product line, the leader in object databases, to benefit from the broad worldwide expertise of the Progress Company. And with the launch of PeerDirect, we offer a brand new approach to distributed application deployment and management.

Sonic Software: Distributed, Standards-based Integration

Sonic Software delivers a standards-based, easily managed and cost-effective infrastructure that reliably connects applications and orchestrates business processes across the extended enterprise.

Sonic Software in 2002 pioneered a new, more effective approach to application integration: the enterprise service bus (ESB). The SonicXQ™ ESB provides a far more flexible, manageable and scalable solution to application integration than traditional integration broker technology. Leading industry analysts predict that ESBs will become a significant market force during 2003.

With the additional capabilities of the people and products from eXcelon Corporation, Sonic is now able to deliver a comprehensive integration suite. Sonic's expanded integration suite now includes Sonic XIS™, an advanced XML data engine, Sonic BPM™, the most robust process management and partner integration server, and Sonic Stylus Studio™, a complete XML development environment.

Further, Sonic Software is the market leader in enterprise-class messaging based on Internet standards. Major corporations depend on the SonicMQ® backbone to ensure that critical data is routed reliably, rapidly and securely, even under the most challenging conditions.

The Progress Company: The OpenEdge® Platform for Cost Effective Application Development and Deployment

Standards-based applications from the Progress Company adapt easily to changes in market conditions and underlying technology infrastructure. Our commitment to open standards has proven effective for our customers and partners who, for example, have easily extended their GUI client/server applications to offer Internet browser-based access. Our Future Proof™ architecture remains at the heart of the OpenEdge platform. OpenEdge provides all of the technology needed to build applications for Internet-based infrastructures, and allows users to meet the demand for easier application integration, both among internal applications and data sources, and across the Internet for more efficient collaboration with partners and customers.

Progress Dynamics™, the application framework for the OpenEdge platform, represents a new development paradigm, with application objects and their properties stored in a repository rather than in source programs. This means developers have less code to write and debug, and applications can be dynamically generated at runtime — all leading to faster and more efficient application delivery.

The Progress Fathom™ family is a set of enterprise-class application management tools focused on optimizing the availability and performance of Progress-based applications. From resource management to capacity planning and fail-over capabilities, the Fathom family of products provides improved application availability, easier resource management and reduced operating costs.

We recognize that it is not enough to supply industry leading technology to customers and partners. Our Empowerment Programs accelerate our partners' and customers' ability to leverage the new Dynamics framework and maximize their return on the OpenEdge platform.

PeerDirect: Greater Flexibility and Lower Costs for Distributed Enterprises

PeerDirect Corporation was recently launched as a new operating company of Progress Software Corporation in December, 2002. PeerDirect provides advanced, patented technology for distributed application deployment and management. The company's flagship product suite, PeerDirect™ Distributed Enterprise, allows organizations to distribute previously centralized applications and databases across widely dispersed locations and offline users. Companies implementing PeerDirect can improve the productivity of distributed offices and workers by ensuring that they always have access to their critical applications, even when disconnected from the network.

PeerDirect Distributed Enterprise accomplishes this with a core technology that replicates, distributes and synchronizes data and application components across multiple locations, giving customers more responsive and reliable applications with less dependency on network connectivity to a central data center.

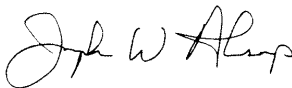
Deployed by IT departments and software vendors in industries as diverse as retail, banking, field maintenance, and healthcare, PeerDirect Distributed Enterprise is based on patented technology that allows automatic bi-directional data synchronization between any combination of databases, including those from the Progress Company, Oracle, Microsoft, IBM, and Sybase, as well as the PostgreSQL open source database. This support for heterogeneous database environments, combined with support for Linux, Windows, and UNIX operating systems, allows customers to select the optimal database and operating system combination for their specific needs.

A Commitment to Technology that Makes Sense and Saves Dollars

As yesterday's future becomes today's reality, we continue to invest in products that exploit new advances in technology, anticipate market trends and provide business advantage to our partners and customers. In addition to our commitment to protect the business application investments of our partners and customers, we enable them to take advantage of emerging opportunities such as Internet-based integration among business partners and their customers.

We remain steadfast in our commitment to empowering our partners and customers to build and deploy the world's best business applications.

On behalf of the employees and management team at Progress Software Corporation,



Joseph W. Alsop
Co-Founder and CEO
January 31, 2003

THE PSC EXECUTIVE TEAM



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Melbourne (Malvern East)
Sydney (Pymble)

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Bridgetown (*Regional Business Systems*)

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Brussels (Vilvoorde)

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Sao Paulo

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Sofia (*CTC Software*)

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Toronto, Ontario

CHILE

Santiago

CHINA

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COLOMBIA

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San Jose (*Reinsa*)

CROATIA

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Prague

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Guayaquil (*Prosoft*)

EL SALVADOR

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(*Original Software & Consult, Inc.*)

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Lima (*Icomred*)

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Makati City (*First Technologies Phils. Inc.*)

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(*PSP Thailand Co.*)

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Boston, Massachusetts (Bedford)
Cambridge, Massachusetts
Wilmington, Massachusetts
Minneapolis, Minnesota (Eden Prairie)
Nashua, New Hampshire
Parsippany, New Jersey
Red Bank, New Jersey
Dallas, Texas (Addison)
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VENEZUELA

Caracas

Corporate Officers

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David G. Ireland
President, the Progress Company

Gregory J. O'Connor
President, Sonic Software Corporation

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Vice President and General Counsel

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Vice President, Progress Products

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Co-Founder and Chief Executive Officer,
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Director, various companies

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