2003 Annual Report

PROGRESS SOFTWARE

Progress Software Corporation

Financial Highlights

(In thousands, except per share data)

Year Ended November 30,	2003	2002	2001
Revenue	$309,060	$273,123	$263,584
Income from operations	$ 36,752	$ 28,224	$ 21,305
Net income	$ 27,074	$ 20,587	$ 17,643
Diluted earnings per share	$0.72	$0.54	$0.46
Weighted average shares outstanding	37,554	38,132	38,425
Cash and short-term investments	$219,131	$177,193	$174,516
Shareholders' equity	$222,041	$172,963	$185,176

Subsidiaries and Operating Companies

the Progress Company
www.progress.com

Sonic Software Corporation
www.sonicsoftware.com

DataDirect Technologies
www.datadirect.com

ObjectStore
www.objectstore.net

PeerDirect Corporation
www.peerdirect.com

On The Cover (From top left to bottom right)

David G. Ireland, President, the Progress Company
Gregory J. O'Connor, President, Sonic Software Corporation
Edward M. Peters, President, DataDirect Technologies
Peter Sliwkowski, Vice President and General Manager, ObjectStore
Lorne J. Cooper, President, PeerDirect Corporation

Additional Information

A wealth of information on Progress Software Corporation, its products and services, its subsidiaries and operating companies, plus employment opportunities and additional information, is available on the PSC web site at www.progress.com, or at the subsidiary or operating company web sites listed above. 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/investor, by sending an email to finance-info@progress.com, by calling +1 781 280-4450, or by written request to Investor Relations at our worldwide headquarters. The common stock of Progress Software Corporation trades on the Nasdaq Stock Market under the symbol PRGS.

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Our Business

Progress Software Corporation (PSC) supplies software to simplify and accelerate the development, deployment, integration and management of business applications.

Users want business applications that are rapidly implemented but comprehensive, responsive, reliable and cost effective. Implementing applications to automate complex business processes and integrate business functions and organizations remains, however, a challenging, delay-plagued, error-prone process. Most applications fail to meet user needs when initially implemented, and then fail to adapt to the rapid changes of a volatile, global, technology-driven economy. We offer capabilities which have proven extremely effective in helping organizations address these challenges and profit from the information technology revolution.

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, an operating company of PSC, provides the Progress® OpenEdge™ platform for developing and deploying business applications. Progress OpenEdge applications deliver rapid business benefits, offer flexible deployment across the Internet and a wide range of computing platforms, and provide easy management and low ongoing costs of ownership.

Our Sonic Software subsidiary delivers a distributed, standards-based, communications and integration infrastructure that reliably and easily integrates existing applications and orchestrates business processes across the extended enterprise. It is based on the world's first enterprise service bus (ESB).

DataDirect, an operating company of PSC, offers the most comprehensive and proven line of standards-based data connectivity components for easily accessing all leading databases from a wide variety of computing environments.

ObjectStore, a division of Progress Software, provides advanced data management software for developing high performance real-time applications which require processing massive amounts of data.

Our PeerDirect subsidiary supplies advanced, patented technology to centrally manage distributed applications and fully synchronize multiple databases. It can be deployed across widely distributed locations and mobile users.

Our Markets and Partners

We deliver products and services directly to user organizations, through OEMs and distributors, in partnership with systems integrators, and through our Application Partners. The Progress Company's 2,000 Application Partners deliver more than 5,000 Progress-based business solutions.

Over three million users around the world rely daily on business applications driven by PSC technology that precisely meet the business needs of organizations in manufacturing, distribution, finance, retail, health care, telecommunications, government and many other fields. More than 50,000 organizations of all sizes, including over 90 of the Fortune 100 companies, utilize annually over five billion dollars of PSC technology and partner applications and services, at over 100,000 sites in more than 120 countries.

To Our Employees, Customers and Shareholders:

Progress Software in 2003 achieved significant growth, reporting record revenue of $309 million coupled with strong growth in profitability. We extended our multi-year record of consistent growth and profitability, outpacing virtually all other software industry leaders. During fiscal 2003, we also 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 added the ObjectStore division as part of the eXcelon acquisition completed in December 2002, and in December 2003 acquired DataDirect Technologies, now the newest PSC operating company.

Each of our operating companies made significant progress in better serving customers and partners in 2003 and is well positioned for continued growth in 2004:

The Progress Company: The OpenEdge™ Platform Delivers Flexible, Cost-Effective Application Development, Deployment and Management

Released in December 2003, OpenEdge10 provides all of the technology needed to build, deploy and manage distributed applications. OpenEdge10 enables users to easily integrate internal applications and data sources while extending application functionality across the Internet for more efficient collaboration with partners and customers.

With the OpenEdge platform, the Progress Company enables Application Partners to leverage the superior business logic and reliable back-end processing capabilities of their existing applications and rapidly build exciting new functionality, while still taking advantage of the latest technology advancements, including full .NET interoperability. OpenEdge makes possible reuse and extension of existing business logic in order to easily support Web services and enables easy integration of OpenEdge applications with other technologies, applications and business processes. More than 100 Progress Application Partners and customers participated in testing OpenEdge10 in a global beta program, confirming that it enables developers to quickly and easily expose their high functionality applications as Web services.

In addition, our Empowerment Programs accelerate the abilities of our partners and customers to leverage the new capabilities of the OpenEdge platform and through focused business planning maximize their return on their technology investment. We are pleased that the 250 Application Partners who participated in the Empowerment Programs last year achieved average growth in their businesses of over 20 percent.

Sonic Software: Distributed, Standards-based Integration

Sonic Software is the leader in distributed, standards-based integration software. Sonic is the world's fastest growing major integration and middleware company, and counts global leaders in financial services, manufacturing, telecommunications and retail among its 700 customers.

Sonic pioneered a new, more effective approach to application integration: the Enterprise Service Bus. ESBs provide a far more flexible, manageable and scalable approach to application integration than traditional integration brokers or application servers. Leading industry analysts predict that all major integration suites will have an ESB core by the end of 2006[1], and that most major enterprises will have an ESB running by the end of 2004[2]. ESBs have become a significant market force, and Sonic ESB™ is the proven leader in this exciting new category.

Sonic has significantly expanded its product offering to deliver a comprehensive integration suite. The Sonic Business Integration Suite,™ delivered in September 2003, provides a distributed, flexible and standards-based integration infrastructure, based on the Sonic ESB, which allows companies to connect, orchestrate and manage any number of services or applications — from a few up to many thousands — across the extended enterprise. The Sonic Suite includes Sonic Orchestration Server,™ Sonic XML Server™ and Sonic Integration Workbench.™ These three products complement the capabilities of Sonic ESB to provide sophisticated business process management, XML processing, storage and query, and an integrated toolset for the suite.

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

DataDirect: Data Connectivity Components to Speed Development, Deployment and Integration

In December 2003, PSC acquired substantially all the assets and certain subsidiaries of DataDirect Technologies Limited, a privately-held software company.

DataDirect Technologies is the largest provider of components for connecting software to relational and XML data. Standards-based technology components from DataDirect ensure consistent data access behavior and performance of across diverse environments such as J2EE, .NET, Web and client/server. With the most comprehensive support for ODBC, JDBC, ADO.NET and XML, this newest operating company of PSC helps developers bring software to market faster by speeding development, deployment and integration. DataDirect products are embedded in the products of over 250 top software companies and the applications of thousands of large enterprises.

DataDirect adds a profitable, market leading operating company to PSC as it extends and enhances the most comprehensive and proven line of database-independent data connectivity components.

[1] Predicts 2004: Enterprise Service Buses are Taking Off; Gartner, Inc., December 16, 2003. (SPA-21-7617)

[2] Predicts 2003: Enterprise Service Buses Emerge; Gartner, Inc., December 9, 2002. (DF-18-7304)

ObjectStore: Processing Massive Volumes of Complex Data in Real Time

ObjectStore provides advanced data management software for developing real-time, high-performance operational applications. ObjectStore products are deployed at leading financial, telecommunications, GIS and travel companies where real-time response while processing massive data volumes is a critical business requirement.

ObjectStore products enable complex relationships among data elements to be modeled identically in memory and on disk, providing fast storage and retrieval of complex data structures at in-memory speeds. Storing and retrieving complexly-structured data efficiently, combined with the ability to handle massive volumes of data in real time, make ObjectStore products ideal for the world's most demanding operational applications, including new applications which must process the vast amounts of data generated by the new technology of Radio Frequency Identification (RFID).

PeerDirect: Greater Flexibility and Lower Costs for Distributed Enterprises

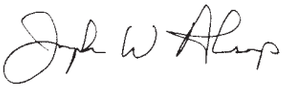
PeerDirect Corporation is a leading supplier of advanced, patented technology for distributed deployment and management of databases and applications. PeerDirect products help make applications mobile and available both on-line and off-line, across any number of remote offices and mobile computers. PeerDirect offers database synchronization technologies that integrate data from different locations, and embedded application management that enables easy installation, update and support from a central office. Deploying applications with PeerDirect products eliminates requirements for continuous network connectivity and minimizes the performance and latency disadvantages that plague traditional network-centric application architectures, all while providing complete centralized control of applications and data.

PeerDirect recently announced two new product offerings. The PeerDirect™ Remote Office product suite enables software developers to build distributed applications that can be deployed directly to remote offices and centrally managed. PeerDirect™ Mobilized Enterprise provides independent software vendors (ISVs) and enterprise IT departments with the technology needed to add mobility attributes to existing and new enterprise applications.

A Commitment to Superior, Cost-Effective Software Technologies

We continue to invest strongly in product development that exploits new advances in software technologies, anticipates market trends and provides business advantage to our partners and customers. We seek always to enable them to take advantage of emerging technologies such as ASP/SaS, RFID, .NET, Web services and service-oriented integration among business partners and their customers, while protecting their business application investments. Our consistent operating results demonstrate that the market is receptive to our strong technology commitment and the continuous stream of advances we make available. We are committed as ever to helping our partners and customers provide the world's best business applications today and into the future.

On behalf of everyone at Progress Software,



Joseph W. Alsop
Co-Founder and CEO
January 31, 2004

The PSC Executive Team

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Red Bank, New Jersey
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(Morrisville)
Austin, Texas
Norfolk, Virginia
Washington, D.C.
(McLean, Virginia)

VENEZUELA
Caracas (QSD Softools, Computaciones Madieca, Set-up Software de Venezuela, Progressive Solutions)

Corporate Officers

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Co-Founder and Chief Executive Officer

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David G. Ireland
President, the Progress Company

Gregory J. O'Connor
President, Sonic Software Corporation

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President, DataDirect Technologies

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Products and Corporate Development

Norman R. Robertson
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Finance and Administration
and Chief Financial Officer

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Vice President and Corporate Controller

James D. Freedman
Vice President and General Counsel

Peter G. Sliwkowski
Vice President, Progress Products and
General Manager, ObjectStore

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Co-Founder and Chief Executive Officer,
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Roger J. Heinen, Jr.
Director, various companies

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SOFTWARE

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