Annual Report 2004

PROGRESS
S O F T W A R E

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

|	*Year ended November 30,*	2002	2003	2004
	Revenue	$ 273,123	$ 309,060	**$ 362,662**
GAAP Basis	Income from operations	$ 28,224	$ 36,752	**$ 46,364**
	Net income	$ 20,587	$ 27,074	**$ 32,101**
	Diluted earnings per share	$ 0.54	$ 0.72	**$ 0.82**
Pro forma Basis	Income from operations	$ 28,724	$ 39,242	**$ 56,040**
	Net income	$ 20,937	$ 28,817	**$ 38,681**
	Diluted earnings per share	$ 0.55	$ 0.77	**$ 0.99**
	Weighted average shares outstanding	38,132	37,554	**39,010**
	Cash flow from operations	$ 44,412	$ 57,680	**$ 72,188**
	Cash and short-term investments	$ 177,193	$ 219,131	**$ 191,267**
	Shareholders' equity	$ 172,963	$ 222,041	**$ 266,978**
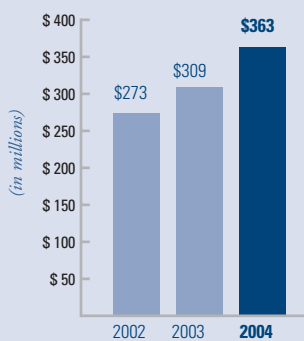
Revenue
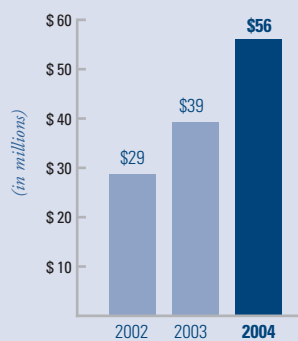
Pro forma Income from Operations*
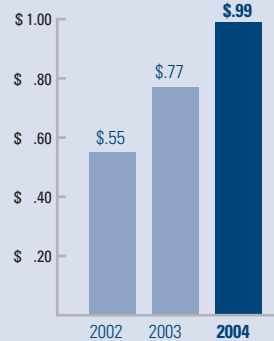
Pro forma Diluted Earnings per Share*
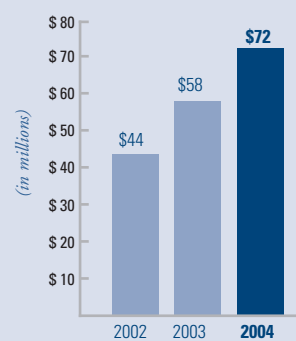
Cash flow from operations

* Pro forma results exclude the impact of noncash acquisition-related charges for amortization of acquired intangibles and in-process research and development.

To Our Employees, Customers and Shareholders

I am pleased to report that in fiscal 2004 Progress Software Corporation (PSC) extended its consistent multi-year financial performance while strengthening its product line and competitive position. Our record of growth and profitability outpaces virtually all other software industry leaders. For the fiscal year ended November 30, 2004, revenue increased 17 percent to $363 million from $309 million. Pro forma net income increased 34 percent to $38.7 million from $28.8 million in fiscal 2003.

During fiscal 2004, we also made major progress on our strategic goal of providing a broader portfolio of products to assist businesses and IT professionals in developing, deploying, integrating and managing critical business applications. In December 2003 we acquired DataDirect Technologies, which is now an operating unit of PSC. In November of 2004 we added new capabilities to our ObjectStore Division through the acquisition of Persistence Software. We are pleased to welcome both teams of strong leaders and contributors who are already adding materially to our growth and profitability.

Currently, PSC delivers products and services through four primary operating units: the Progress OpenEdge Division, Sonic Software, the ObjectStore Division and DataDirect Technologies. While each operating unit provides software infrastructure involved in the development, deployment or integration of applications, each targets a particular segment of that market and focuses on establishing and maintaining leadership within that segment.

Progress OpenEdge Division

The Progress OpenEdge Division, newly renamed from the Progress Company, offers the complete OpenEdge family of products for application development, deployment and management, a "one stop shop" for independent software vendors (ISVs) or application builders within IT organizations. OpenEdge has been widely recognized in independent studies as providing the most productive application development environment with the most efficient platform for deploying enterprise business applications, offering the lowest overall total cost of ownership (TCO). Fiscal 2004 saw the rollout of OpenEdge 10, which supports the latest advance in software development and deployment technology: Service Oriented Architecture (SOA). Under SOA, applications are built as reusable services that can interoperate dynamically through industry standard Web Services interfaces. OpenEdge 10 has achieved rapid acceptance among our partners, and fiscal 2004 saw continued growth in OED revenue and profit contribution, which we expect to continue into 2005 and future years. Particularly with the emergence of SOA, we believe there are many opportunities ahead for OpenEdge as 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 becoming widely recognized as the best foundation for deploying a Service Oriented Architecture across the heterogeneous, distributed IT assets of an enterprise. Using open industry standards, the Sonic ESB® enables the reliable connection, mediation and control of distributed software services and their interactions. Sonic ESB is particularly well-suited for integrating large numbers of mission critical applications that must interoperate across a global enterprise and with its many business partners. During the past year, Sonic customers benefited from major performance and usability enhancements to Sonic ESB, as well as the addition of key shared services for business process management and XML transformation. Reflecting broader market acceptance of its products, revenue for Sonic was up 14% in 2004. Industry analysts are now predicting that the SOA and ESB markets will move from the current "early adopter" phase to rapid growth in the coming years. Sonic Software, with superior technology proven at over 700 customer sites is very well positioned to take advantage of this large, emerging opportunity.

ObjectStore Division

The ObjectStore Division provides real-time data management, access and synchronization products. ObjectStore products enable faster and easier access to existing enterprise data assets and the processing of real-time streaming data, such as financial stock feeds or RFID data. Starting with a very high performance, market leading object database, the ObjectStore® product line has expanded to perform caching of relational data for better performance, and complex event processing, which is required to process and analyze high-speed streaming data. At the end of fiscal 2004, PSC acquired Persistence Software, enabling the ObjectStore Division to greatly enhance its caching capabilities and incorporate the leading technology for object-relational mapping. We have also combined our PeerDirect subsidiary with ObjectStore to provide support for occasionally connected or disconnected users in applications such as sales force or field service automation. With revenue growth in fiscal 2004 of 32% and accelerating growth anticipated in 2005, ObjectStore's leading technology is much sought after by the most demanding enterprises that want to move beyond reactive IT systems to technologies which support the real-time enterprise.
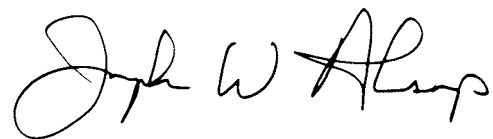
DataDirect Technologies

DataDirect Technologies provides data connectivity components that enable software developers to use industry standard SQL interfaces to connect any application running on any platform to any major database. DataDirect is by far the largest vendor in the relational data connectivity market, with components embedded in the products of over 250 top software companies and the applications of thousands of large enterprises. Under PSC, DataDirect has entered the XML tools market with its Stylus Studio interactive development environment and has announced the availability this fall of DataDirect XQuery™, an embeddable software product based on the XQuery and XQJ standards, which enables application developers to access multiple relational and XML data sources with a single XQuery query. Building on its current leading position in SQL-based data connectivity, DataDirect leads this exciting new market.

Our Technology Commitment

PSC 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 seek always to enable them to take advantage of emerging technology trends such as RFID, real-time data services, and SOA, while protecting existing business application investments. We are excited about the significant growth markets we serve with our Sonic, ObjectStore and DataDirect operating units. We are also very pleased with the continued growth and increased profit contributions from our largest business, the Progress OpenEdge Division. Our consistent operating results demonstrate that the market is receptive to our technologies and the continuous stream of advances 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,

Joseph W. Alsop
Co-Founder and CEO

www.progress.com

www.sonicsoftware.com

www.objectstore.com

www.datadirect.com

PSC Executive Team

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

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

Gregory J. O'Connor, *President, Sonic Software Corporation*

Richard D. Reidy, *President, DataDirect Technologies*

Peter G. Sliwkowski, *President, ObjectStore*

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

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

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

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

Board of Directors

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

Larry R. Harris, *Chairman, EasyAsk, Inc.*

Roger J. Heinen, Jr., *Partner, Flagship Ventures*

Michael L. Mark, *Director, various companies*

Scott A. McGregor, *President and Chief Executive Officer, Broadcom Corporation*

Amram Rasiel, *Director, various companies*

Legal Counsel

Foley, Hoag & Eliot 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 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 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 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.

Our Business

Progress Software Corporation (PSC) supplies 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. 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 responsive applications across internal networks, the Internet and even disconnected users, and
- simplifying the connectivity and integration of applications and data across the enterprise and between enterprises.

Our goal is to maximize the benefits of information automation while minimizing its total 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

The Progress OpenEdge Division offers a complete platform for developing and deploying business applications. OpenEdge™ facilitates the development of standards-based, service oriented business applications that can be deployed and managed over a wide range of platforms and across the Internet. It offers a unified environment including development tools, application servers, application management tools, embedded database, and the capability to easily connect and integrate with other applications and data sources.

Our Sonic Software subsidiary is the leading provider of the Enterprise Service Bus (ESB), the standards-based foundation for building a Service Oriented Architecture (SOA). Sonic products provide reliable, cost-effective distributed infrastructure to integrate applications and orchestrate business processes across the extended enterprise.

The ObjectStore Division provides data management, access and synchronization products for the real-time enterprise. These products help businesses stream event data such as RFID or stock tickers, accelerate the performance of existing relational databases, and support occasionally-connected users requiring real-time access.

DataDirect Technologies is the leading provider of components for connecting software to data. Products from this PSC operating unit use industry-standard interfaces such as ODBC, JDBC and, ADO.NET to ensure consistent behavior and performance. DataDirect also offers an XML development tool, Stylus Studio®, and has been instrumental in the development of the XQuery standard.

Our Markets and Partners

PSC operating units deliver products and services directly to user organizations, through OEMs and distributors, and through our 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, financial, retail, health care and many other markets. Over 60,000 organizations, including 80 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.

WORLDWIDE & 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
25 Ryde Road, Level 2
Pymble, NSW 2073
Australia
Tel: +61 2 9496-8439
Fax: +61 2 9498-7498

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
2255 Glades Road, Suite 300E
Boca Raton, FL 33431
USA
Tel: +1 561 998-2244
Fax: +1 561 998-1573

ARGENTINA
  Buenos Aires

AUSTRALIA
  Brisbane
  Melbourne (Malvern East)
  Sydney (Pymble)

AUSTRIA
  Vienna (Vösendorf)

BARBADOS
  Bridgetown
    (Regional Business Systems)

BELGIUM
  Brussels (Vilvoorde)
  Duffel

BRAZIL
  Sao Paulo

BULGARIA
  Sofia *(CTC Software)*

CANADA
  Calgary, Alberta
  Oakville, Ontario
  Toronto, Ontario
  Montreal, Quebec

CHILE
  Santiago

CHINA
  Hong Kong

COLOMBIA
  Bogota

COSTA RICA
  San Jose *(Reinsa)*

CROATIA
  Varazdin *(Infodesign)*

CYPRUS
  Nicosia *(4th GL Prodata)*

CZECH REPUBLIC
  Prague

DENMARK

ECUADOR
  Guayaquil *(Prosoft)*

ESTONIA
  Tallinn *(Andmevara)*

FINLAND
  Helsinki (Espoo)

FRANCE
  Lyon
  Paris

GERMANY
  Cologne
  Munich

GREECE
  Athens *(CSD)*

GUATEMALA
  Guatemala City
    (Soluciones de Centro America)

HUNGARY
  Budapest *(Online, Ltd.)*

ICELAND
  Reykjavik
    (AX Business Intelligence)

INDIA
  New Delhi *(JK Technosoft)*
  Mumbai *(M4II)*

INDONESIA
  Jakarta
    (PT Programa Reka Piranti)

IRELAND
  Dublin

ISRAEL
  Tel Aviv *(Moding Ltd.,* Netanya*)*

ITALY
  Milan

JAPAN
  Tokyo

LEBANON
  Beirut *(Data Quest)*

LITHUANIA
  Vilnius *(Baltic Amadeus)*

MALAYSIA
  Kuala Lumpur

MEXICO
  Mexico City
  Monterrey

THE NETHERLANDS
  Capelle a/d IJssel
  Rotterdam

NEW ZEALAND
  Auckland *(Team Progress)*

NORWAY
  Oslo (Sandvika)

PERU
  Lima *(Icomred)*

PHILIPPINES
  Makati City
    (First Technologies Phils. Inc.)

POLAND
  Warsaw

PORTUGAL
  Lisbon *(Infos - Informatica e
    Servicos,* Leca de Palmeira*)*

PUERTO RICO
  San Juan
    (Computer Distributors, Inc.)

ROMANIA
  Bucharest *(Crescendo)*

RUSSIA
  Moscow *(BIS)*
  St. Petersburg *(CSBI)*

SAUDI ARABIA
  Riyadh
    (Saudico Electronics System)

SINGAPORE

SOUTH AFRICA
  Cape Town
  Johannesburg (Midrand)

SOUTH KOREA
  Seoul *(eManagement Consulting
    Services, Datec)*

SPAIN
  Barcelona
  Madrid

SRI LANKA
  Colombo
    (Kingslake Engineering Systems)

SWEDEN
  Stockholm (Kista)

SWITZERLAND
  Zurich (Dietikon)
  Neuchatel (Vaumarcus)

TAIWAN
  Taipei *(Lancer Systems, Ivan
    Information Technology Company)*

THAILAND
  Bangkok *(PSP Thailand Co.)*

TURKEY
  Istanbul *(Servodata)*

UNITED KINGDOM
  Slough, Berkshire
  Cheadle, Cheshire

UNITED STATES
  Cupertino, California
  San Diego, California
  San Jose, California (Los Gatos)
  San Mateo, California
  Denver, Colorado
  Boca Raton, Florida
  Atlanta, Georgia
  Chicago, Illinois (Oak Brook)
  Rockville, Maryland
  Boston, Massachusetts (Bedford)
  Nashua, New Hampshire
  Red Bank, New Jersey
  New York, New York
  Raleigh, North Carolina
    (Morrisville)
  Austin, Texas
  Washington, D.C.
    (McLean, Virginia)

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

PROGRESS
S O F T W A R E