

Progress Software Corp. (PRGS – NASDAQ - \$18.96 – Strong Buy)

Fourth Quarter Earnings Exceed Expectations Revising Outlook for 2009

Progress completed the acquisition of Iona Technologies in mid-September 2008; results for the fourth fiscal quarter include Iona results from the date of acquisition as well costs and write-downs related to the transaction. Revenues in the fourth fiscal quarter ended November 30, 2008 were somewhat less than we had forecast. The company reported revenues of \$139.4 million on a GAAP basis compared with \$136.8 million in the fourth quarter of fiscal 2007. We had expected revenues to be about \$145 million; the shortfall was in software licenses, particularly for the OpenEdge product. On a constant currency basis revenues would have been up 8% and actually been higher than our estimate. GAAP net income for the fourth quarter of 2008 was \$6.5 million, or \$0.16 per share diluted, compared with \$12.1 million, or \$0.27 per share diluted, in the prior year fourth quarter.

On a non-GAAP basis, which excludes stock-based compensation, amortization of acquired intangibles, restructuring and acquisition-related costs, purchase accounting adjustments for deferred revenue, impairment of goodwill, and professional services fees associated with the investigation and shareholder derivative lawsuits related to the company's historical stock option grant practices, revenues were \$142.1 million. Non-GAAP operating income was \$34.0 million, up 2% from \$33.4 million a year ago, and net income was \$24.0 million, or \$0.58 per share diluted, compared with net income of \$23.9 million, or \$0.54 per share diluted, in the year earlier quarter. These results were modestly higher than we had forecast.

For the full fiscal year, Progress reported GAAP revenues of \$515.6 million, up 4% from \$493.5 million in fiscal 2007. GAAP operating income for the year was \$64.4 million, up 13% from \$57.2 million in the prior fiscal year while net income was \$46.3 million, or \$1.08 per share diluted, compared with \$42.3 million, or \$0.96 per share diluted. Non-GAAP revenues for the year were \$518.3 million, up 5% from \$493.5 million in fiscal 2007. Operating income on a non-GAAP basis was \$115.9 million compared with \$109.4 million a year earlier. Net income was \$81.9 million, or \$1.92 per share diluted, up 6% from \$77.4 million, or \$1.76 per share diluted, in fiscal 2007.

In the fourth quarter North America accounted for 46% of total revenues, EMEA 42%, Asia/Pacific 6% and Latin America 6%. The fastest growing segment was the Enterprise

Disclosure

I, Jean W. Orr, certify that (1) the views expressed in this report reflect my personal views on all of the subject companies and securities and (2) my opinions are not affected by my compensation which is derived solely from brokerage trade commission(s) which may or may not be of securities discussed in this report.

Infrastructure business with a 75% increase in revenues year over year largely due to the addition of revenues from Iona. OpenEdge revenues declined 12%; the negative effect of currency was a big factor in this decline. DataDirect revenues were down 4% in the fourth quarter. OpenEdge was 56% of total revenues, DataDirect accounted for 16% and Enterprise Infrastructure 28% of the total. The balance sheet remains strong with \$119 million of cash and short-term investments and no long-term debt. The company has \$65.2 million of auction-rate securities classified as non-current assets due to current market conditions; however, while these securities are less liquid at present, we consider the risk of significant loss minimal.

We are revising our estimates for fiscal 2009 based on the continuing weak economic growth worldwide. Customers are taking longer to make decisions and in some cases delaying projects, and currency continues to be a headwind for U.S. companies. Our new estimate for GAAP revenues in fiscal 2009 is \$537.5 million, up 4% from fiscal 2008 revenues. On a GAAP basis we expect diluted earnings per share to be \$1.00 and non-GAAP diluted earnings per share of \$1.94, about flat with fiscal 2008 earnings. Previously we had forecast revenues of \$590 million and non-GAAP diluted EPS of \$2.09. We expect the company to be profitable in all quarters and to generate considerable positive cash flow from operations. The company is well positioned to weather the challenging environment we foresee for fiscal 2009 and has the resources to make acquisitions to further strengthen its business when the opportunities arise.

At the current price Progress stock is selling for 9.8x our fiscal 2009 earnings estimate. The company has a broad customer base; a steady, profitable database business; and strong growth prospects for its newer businesses over the longer term. We think there is limited downside risk in the stock and the prospect of a good recovery when economic growth resumes. In our opinion, investors should take advantage of the current market to acquire equity in companies that will remain profitable during the tough times and be strong competitors when business conditions improve. Progress meets these criteria and we continue to rate the stock **Strong Buy**.

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December 19, 2008*

Additional information is available upon request.

Note: Nutmeg initially rated the stock Buy on March 5, 2002 when the stock was selling for \$17.76 per share and the NASDAQ Composite Index was 1859.32 (closing prices on March 4, 2002). We changed the rating to Strong Buy on June 24, 2008 when the stock was at \$25.38 per share and the NASDAQ Composite Index was 2368.28. We currently rate eight stocks Buy (53%) and no stocks Sell (0%). Nutmeg Securities has not acted as manager or co-manager for any equity offering, nor received investment banking fees from Progress Software. Nutmeg Securities, within the past two years, has acquired common stock for the company under Progress Software's stock buyback program.

NASDAQ Composite Index closed at 1552.37 December 18, 2008.

DEFINITION OF OUR RATING SYSTEM

In general, we have three basic ratings of followed securities: Buy, Sell and Hold (Not Rated is a term we use where a security is not followed, or if followed, where not enough information is currently available to base an opinion).

BUY – is our rating for a stock that we consider currently attractive for purchase for most technology investors. It is a stock that we believe will outperform the market, as measured by the NASDAQ Composite, in a six to eighteen month timeframe. The recommendation could be based on industry or company fundamentals, on equity prices, or any one of a host of other factors, as assessed by the analyst.

We have also formed additional sub-categories of “BUY” rated stocks to make our position clearer. The most common of these are listed below:

- **STRONG BUY** – where the analyst feels a stock is especially attractive, in some cases due to recent price declines, in some where conventional wisdom on prospects is viewed as wrong, in some where there is a visible catalyst that will call attention to the security.
- **LONG-TERM BUY** – where the analyst considers the stock as fundamentally attractive but where fruition appears extended over a longer than normal period of time, or where the stock price currently is higher than levels where the analyst would rate the stock “BUY”.
- **SPECULATIVE BUY** – where the analyst considers the stock as very attractive on the price and the fundamentals but where well above average risk must be assumed by the investor.

HOLD – is our rating for a stock where prospects appear more or less in line with the market, or where we feel a compelling case cannot be made either for BUY or for SELL.

SELL – is our rating for a stock that in our opinion is likely to underperform the market as measured by the NASDAQ Composite in a six to eighteen month time frame.

This report has been prepared from original sources and company data that we believe to be reliable, but make no representation as to its accuracy or completeness. This report is published solely for informational purposes and is not to be construed as an offer to sell, a solicitation of an offer to buy any security, or the provision of or an offer to provide investment services in any state where such an offer, solicitation, or provision would be illegal. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Recommendations contained in this report represent a high degree of risk and may not be suitable for all investors. Nutmeg Securities, Ltd., its affiliates, its subsidiaries, and/or its officers and employees may from time to time acquire, hold, or sell a position in the securities mentioned herein. Additional information on subjects in this report is available upon request. Member NASD, SIPC and Chicago Stock Exchange. All rights reserved by Nutmeg Securities, Ltd.