

## **Progress Software Corp. (PRGS – NASDAQ - \$28.20 – Buy)**

### **Second Quarter Results Better Than Expected**

Results for the second fiscal quarter, ended May 31, 2005, were better than expected with revenues up 10% and pro forma net income up 54%. Revenues in the most recent quarter were \$100.2 million up 10% compared with \$90.8 million in the second quarter of fiscal 2004. In constant currency, revenues would have been up 7%; international revenues were 68% of the total in the quarter. On a GAAP basis, net income for the quarter was \$12.3 million, or \$0.30 per share diluted, compared with \$8.1 million, or \$0.21 per share diluted, in the second quarter of 2004. Pro forma net income, which excludes amortization of intangibles and acquisition-related expenses, in the second quarter of 2005 was \$14.4 million, or \$0.35 per share diluted, compared with \$9.4 million, or \$0.24 per share diluted, in the previous year quarter.

Revenues of the OpenEdge division, which includes the database and tools, increased 9% year over year and accounted for 78% of total revenues. DataDirect revenues increased 12% and accounted for 9% of the total revenues; the Sonic division revenues increased 12% and accounted for 7% of total revenues. Revenues from the Real Time division (formerly called ObjectStore) increased 23% with the addition of an estimated \$1 million of revenues from Persistence Software, which was acquired in November of 2004. Real Time accounted for 7% of total revenues in the second quarter of 2005.

The company ended the quarter with \$220 million of cash and short-term investments and \$2 million of long-term debt. During the quarter the company repurchased about 10,000 shares of common stock.

Guidance for the third quarter is for revenues of \$97 to \$99 million and pro forma diluted earnings per share of \$0.30 to \$0.32. Our forecast is for revenues of \$99 million and pro forma diluted earnings per share of \$0.31. We have not changed our revenue estimate; however, due largely to a higher gross margin, we have increased the EPS estimate by \$0.01 from our previous estimate for the quarter. For the full fiscal year, the company guidance is for revenues of \$397 to \$403 million and diluted pro forma earnings per share of \$1.26 to \$1.30. Our estimates are revenues of \$403 million and diluted pro forma earnings per share of \$1.29. These estimates are based on a euro/dollar conversion rate of \$1.20. The company's earlier guidance had assumed a conversion rate of \$1.32. Given this change in the estimated value of the dollar relative to the euro, the new guidance is actually for stronger business than previously.

Progress continues to report results above expectations. The company has a very solid database/tools business and is investing through research and development and

*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.*

acquisitions in new technologies. We believe pro forma net income per share will increase 30% in fiscal 2005 and about 14% in 2006. At the current price, the stock is selling for 21.9x our 2005 estimate and 19.3x our fiscal 2006 estimate. Given the company's long-term positioning and near-term outlook, we believe these valuations are reasonable and continue to rate the stock **Buy**.

*Jean W. Orr, CFA  
Nutmeg Securities, Ltd.  
847.658.3253  
June 16, 2005*

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 currently rate three stocks Buy (75%) and one stock Hold (25%). 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 12 months, has acquired common stock for the company under Progress Software's stock buyback program.*

*NASDAQ Composite Index closed at 2074.92 on June 15, 2005.*

#### **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.