

## **Progress Software Corp. (PRGS – NASDAQ - \$25.57 – Strong Buy)**

### **Progress to Acquire Iona Technologies**

Progress has announced an agreement to acquire Iona Technologies for \$4.05 per share in cash, a total of \$162 million, or \$106 million net of cash and marketable securities. The transaction is expected to be completed in September and Iona will become an indirect wholly-owned subsidiary of Progress. Iona provides Web-standards based integration technologies in support of Service Oriented Architecture (SOA) infrastructure and open source SOA integration components. These products will expand Progress' SOA suite and are largely complementary to Progress' current products.

Iona is an Irish company incorporated in 1991 with headquarters in Dublin, Ireland and a U.S. subsidiary with principal offices in Waltham, Massachusetts. Company revenues peaked in 2001 at \$181 million, declined to \$123 million in 2002 and to \$74 million in 2003. Since then the company has recorded revenue growth of approximately 1% per year. Iona reported losses in 2001, 2002, 2003, 2005 and 2007 with very modest profits in 2004 and 2006. In April management indicated that 2008 revenues were expected to be \$80 to \$85 million.

Progress plans to complete this transaction in September pending regulatory and Iona shareholder approval. The timing of the actual closing will determine the impact on Progress' results for the November quarter. Iona is on a calendar year and revenues in the third month of the quarter are significantly greater than either of the first two months of the period. If the transaction closes early in September, Progress will be able to record these revenues in its fourth quarter. However, if the closing does not occur until the end of the month, Progress will record Iona revenues only from October and November in the company's fourth fiscal quarter. In addition, due to accounting rules, Iona's maintenance revenues will not be added to Progress' revenues at full value.

We estimate that the addition of Iona will decrease Progress' GAAP diluted earnings per share \$0.08 to \$0.15 for the fourth fiscal quarter from our current estimate of \$0.41. On a non-GAAP basis, we believe Progress diluted earnings per share in the fourth quarter would decrease by \$0.04 to \$0.10 per share. Once the Iona transaction is completed, we expect Progress to reduce costs but there will be little opportunity to benefit from cost cuts in the fourth quarter. During fiscal 2009, we believe Progress will bring costs down to be in line with its typical levels and that the addition of Iona will be accretive to the company's earnings. On a preliminary basis, we think the acquisition of Iona could add \$0.08 to \$0.12 per share to GAAP earnings in fiscal 2009.

*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.*

We view the acquisition of Iona as a modest positive for Progress. At a minimum, the combination should result in reduced costs and a profit on the existing revenues. It also has the potential to increase revenue growth by providing a broader suite of products for the SOA infrastructure market and adding the stability and financial strength of Progress to the Iona operations.

We are not changing our estimates for Progress at this time since the transaction is pending and the timing is indefinite. The recently-announced acquisition of privately-held Mindreef Inc. adds entry-level capabilities to Progress' SOA portfolio, but is not significant from either a cost or revenue standpoint. Progress stock is selling for 13.4x our fiscal 2008 non-GAAP EPS estimate of \$1.91 and 11.6x our fiscal 2009 non-GAAP estimate of \$2.20. At these levels we believe the stock offers substantial value to investors and we re-iterate our **Strong Buy** rating on the stock.

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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 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 2272.98 June 30, 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.