Nutmeg Securities, Ltd. EQUITY RESEARCH

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Progress Software Corp. (PRGS – NASDAQ - $25.38 – Strong Buy)

Second Quarter Results Better Than Expected
Upgrading Rating from Buy to Strong Buy

Progress reported results for the second fiscal quarter that were slightly better than estimates. The company noted that customers are taking longer to make decisions and lowered expectations for the third fiscal quarter. Expectations for the fourth quarter were not changed with the result that full year forecasts were modestly lowered. With lower estimates and weakness in the stock market, Progress stock has declined from $31.16 on June 5, 2008 to the current price of $25.38 or 13.3x our fiscal 2008 estimate of $1.91. We think the market has overcompensated for the moderate reduction in the earnings outlook for the company and that the stock is undervalued at this price. Therefore, we are upgrading our rating on the stock from **Buy** to **Strong Buy**.

Revenues in the second fiscal quarter were up 7% to $127.9 million compared with $119.6 million in the year earlier quarter. On a constant currency basis, revenue would have been up 1%. The company's GAAP operating income was $20.6 million, up 83% from $11.3 million in the year ago quarter, and net income was $14.5 million, or $0.33 per share diluted, compared with $8.4 million, or $0.19 per share diluted, in the year earlier quarter. On a non-GAAP basis, which excludes stock-based compensation, amortization of acquired intangibles, and professional services fees associated with the investigation and shareholder derivative lawsuits related to the company's historical stock option grant practices, operating income was $29.1 million, up 15% from $25.3 million a year ago. Non-GAAP net income was $20.4 million, or $0.47 per share diluted, compared with net income of $17.8 million, or $0.41 per share diluted, in the year earlier quarter. These results were slightly higher than we had forecast.

In the second quarter North America accounted for 40% of total revenues, EMEA 46%, Asia/Pacific 7% and Latin America 7%. The fastest growing segment was again the Enterprise Infrastructure business with a 12% increase in revenues year over year. OpenEdge revenues increased 6% and DataDirect revenues were up 4%. OpenEdge was 68% of total revenues, DataDirect accounted for 14% and Enterprise Infrastructure 18% of the total. The balance sheet remains strong with $259 million of cash and short-term investments and no long-term debt. The company reclassified $67.7 million of auction-rate securities from short-term to 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.

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.

In these uncertain economic times, organizations are taking longer to make decisions as more levels of management are involved in the process. Accordingly, we have reduced our estimates for the third fiscal quarter. We now expect revenues to increase about 4% to $127 million compared with $121.8 million in the third quarter of fiscal 2007. The growth of revenues will continue to come largely from the DataDirect and Enterprise Infrastructure divisions; the OpenEdge business, which shows little growth, contributes the majority of the firm's earnings. We estimate GAAP net income in the second quarter will be about $13.6 million, or $0.31 per share diluted, with non-GAAP net income of $19.5 million, or $0.45 per share. Previously, we had forecast revenues of $130 million with non-GAAP diluted earnings per share of $0.49.

By the fourth quarter we think that transactions that have been deferred by slower decisions in the second and third quarters will begin to be completed and the fourth quarter will be unaffected. Therefore, we have not changed our estimates for the fourth quarter. Full year revenues are now forecast to be $521.5 million, up almost 6% compared with $493.5 million in fiscal 2007, and $2 million lower than our previous estimate. Non-GAAP net income is expected to be $83.6 million, or $1.91 per share in fiscal 2008, compared with $77.4 million, or $1.76 in fiscal 2007. Our preliminary estimates for fiscal 2009 remain revenues of $562 million, up 8%, and non-GAAP EPS of $2.20, up 15% year over year.

Progress stock is selling for 13.3x fiscal 2008 earnings and only 11.5x our 2009 estimate. The company has a broad customer base; a steady, profitable database business; and strong growth prospects for its newer businesses. We think there is limited downside risk in the stock and the potential for a quick recovery from the recent decline. This outlook leads us to upgrade our rating on the equity from **Buy** to **Strong Buy.**

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June 24, 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 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 2368.28 June 24, 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.