

## Progress Software Corp. (PRGS – NASDAQ - \$22.67 – Strong Buy)

### Second Quarter Earnings Meet Expectations

### Outlook for Fiscal 2009 Increased Slightly

Progress reported revenue for the second fiscal quarter ended May 31, 2009 was \$117.0 million, down 9% from \$127.9 million in the second quarter of fiscal 2008. Operating income declined 44% to \$11.5 million from \$20.6 million in the prior year quarter and net income was down 52% to \$6.9 million, or \$0.17 per share diluted, compared with \$14.5 million, or \$0.33 per share diluted, a year earlier. With 53% of revenue from outside North America, currency caused reported revenue in the most recent quarter to be 10% less than if exchange rates had been constant year to year.

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, revenue was \$117.7 million. Non-GAAP operating income was \$24.3 million, down 17% from \$29.1 million a year ago, and net income was \$16.1 million, or \$0.39 per share diluted, compared with net income of \$20.4 million, or \$0.47 per share diluted, in the year earlier quarter. These results were slightly higher than we had forecast.

In the second quarter of 2009 North America accounted for 47% of total revenue compared with 40% in the year earlier quarter, EMEA 41% versus 46%, Asia/Pacific 6% versus 7% and Latin America 6% versus 7%. The fastest growing segment was the Data Infrastructure business with a 38% increase in revenue year over year. OpenEdge revenue declined 23%; Enterprise Infrastructure revenue was up 14% in the second quarter. OpenEdge was 57% of total revenue; Data Infrastructure accounted for 22% and Enterprise Infrastructure 23% of the total. The balance sheet remains strong with \$149 million of cash and short-term investments and no long-term debt. The company has \$58.2 million of auction-rate securities classified as non-current assets due to current market conditions.

The outlook for the remainder of fiscal 2009 continues to be for 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. We are modestly revising our estimates for the third quarter and fiscal year based on some stabilization in the level of

*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.*

business. We now expect GAAP revenue in fiscal 2009 to be \$496.9 million, down 4% from fiscal 2008 revenue. On a GAAP basis we expect diluted earnings per share to be \$0.83 and non-GAAP diluted earnings per share \$1.76, down about 8% from fiscal 2008 earnings. Previously we had forecast revenues of \$494 million and non-GAAP diluted EPS of \$1.73. Our preliminary estimate for fiscal 2010 non-GAAP diluted earnings per share is \$2.11, based on improved economic conditions worldwide and continuing growth of Progress Enterprise and Data Infrastructure businesses.

For the third fiscal quarter we estimate revenue of \$121 million (GAAP and non-GAAP) and GAAP earnings per share diluted of \$0.18 with non-GAAP earnings per share diluted of \$0.39. In the third quarter of fiscal 2008 revenue was \$126.6 million, GAAP earnings per share diluted \$0.30 and non-GAAP earnings per share diluted \$0.45.

Progress stock is currently selling for 12.9x our fiscal 2009 estimate and 10.7x our preliminary 2010 estimate. We expect revenue and earnings comparisons to be negative in the third quarter with the fourth quarter about flat with the year earlier results and comparisons in fiscal 2010 positive in each quarter. With this outlook for improving results we continue to rate Progress stock **Strong Buy**.

*Jean W. Orr, CFA  
Nutmeg Securities, Ltd.  
847.658.3253  
June 18, 2009*

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 executed common stock transactions for the company under Progress Software's stock buyback program.*

*NASDAQ Composite Index closed at 1808.06 on June 17, 2009.*

**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.

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