

Progress Software Corp. (PRGS – NASDAQ - \$28.67 – Buy)

First Quarter Results Meet Expectations Enterprise Infrastructure Revenues Up 25%

For the first quarter of fiscal 2008 Progress reported revenues of \$121.6 million, up 6% compared with revenues of \$115.2 million in the first quarter of fiscal 2007. Revenues were flat on a constant currency basis. The Enterprise Infrastructure business revenues were up 25% year to year and contributed 18% of total revenues in the quarter. DataDirect revenues, 14% of total corporate revenues, increased 5% in the first quarter. Revenues from the OpenEdge division totaled \$83 million and were up 1.5% year to year.

In the first fiscal quarter the company's GAAP operating income was \$17.1 million, up 39% from \$12.4 million in the year ago quarter, and net income was \$12.8 million, or \$0.29 per share diluted, compared with \$8.7 million, or \$0.20 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 \$25.5 million, up 8% from \$23.5 million a year ago. Non-GAAP net income was \$18.6 million, or \$0.42 per share diluted, compared with net income of \$16.2 million, or \$0.37 per share diluted, in the year earlier quarter.

For the second fiscal quarter we expect revenues to increase about 6% to \$127 million compared with \$119.6 million in the second 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 \$13.5 million, or \$0.31 per share diluted, with non-GAAP net income of \$19.7 million, or \$0.45 per share.

Full year revenues are now forecast to be \$523.6 million, up 6% compared with \$493.5 million in fiscal 2007, and \$3 million higher than our previous estimate. Non-GAAP net income is expected to be \$85.0 million, or \$1.93 per share in fiscal 2008, compared with \$77.4 million, or \$1.76 in fiscal 2007. These estimates are based on continuing growth from the DataDirect and Enterprise Infrastructure businesses, the company's strong international business, and the breadth of domestic business from small and mid-sized enterprises. Our preliminary estimates for fiscal 2009 are for revenues of \$562 million, up 7%, and non-GAAP EPS of \$2.20, up 14% year over year.

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.

Based on our 2008 estimate of \$1.93 per share, Progress stock is selling for 14.9x earnings and only 13.0x our 2009 estimate. We view Progress as a solid, well-managed company with good growth prospects. The shares have traditionally been less volatile than the market in uncertain times, and we continue to rate the stock **Buy** at current valuations.

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March 20, 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 2209.96 March 19, 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.

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