

**Progress Software Corporation**  
**GAAP Condensed Consolidated Statements of Operations**

<i>(In thousands except per share data)</i>	<b>Three Months Ended</b>		<b>Percent Change</b>
	<b>May 31, 2010</b>	<b>May 31, 2009</b>	
Revenue:			
Software licenses	\$ 44,228	\$ 38,513	15 %
Maintenance and services	83,428	78,534	6 %
Total revenue	<u>127,656</u>	<u>117,047</u>	9 %
Costs of revenue:			
Cost of software licenses	1,619	1,527	6 %
Cost of maintenance and services	18,327	15,997	15 %
Amortization of purchased technology	5,285	5,069	4 %
Total costs of revenue	<u>25,231</u>	<u>22,593</u>	12 %
Gross profit	<u>102,425</u>	<u>94,454</u>	8 %
Operating expenses:			
Sales and marketing	40,140	43,505	(8) %
Product development	23,153	23,023	1 %
General and administrative	13,448	13,830	(3) %
Amortization of other acquired intangibles	2,736	2,474	11 %
Acquisition-related expenses	-	110	(100) %
Restructuring expense	203	(30)	
Total operating expenses	<u>79,680</u>	<u>82,912</u>	(4) %
Income from operations	<u>22,745</u>	<u>11,542</u>	97 %
Other income (expense), net	3,919	(460)	
Income before provision for income taxes	<u>26,664</u>	<u>11,082</u>	141 %
Provision for income taxes	7,606	4,175	82 %
Net income	<u>\$ 19,058</u>	<u>\$ 6,907</u>	176 %
Earnings per share:			
Basic	\$0.45	\$0.17	165 %
Diluted	\$0.43	\$0.17	153 %
Weighted average shares outstanding:			
Basic	42,537	39,997	6 %
Diluted	<u>44,237</u>	<u>40,697</u>	9 %

<i>(In thousands except per share data)</i>	<b>Six Months Ended</b>		<b>Percent Change</b>
	<b>May 31, 2010</b>	<b>May 31, 2009</b>	
Revenue:			
Software licenses	\$ 91,345	\$ 84,365	8 %
Maintenance and services	163,858	153,542	7 %
Total revenue	<u>255,203</u>	<u>237,907</u>	7 %
Costs of revenue:			
Cost of software licenses	3,608	3,844	(6) %
Cost of maintenance and services	35,241	33,330	6 %
Amortization of purchased technology	10,383	9,797	6 %
Total costs of revenue	<u>49,232</u>	<u>46,971</u>	5 %
Gross profit	<u>205,971</u>	<u>190,936</u>	8 %
Operating expenses:			
Sales and marketing	83,346	87,820	(5) %
Product development	46,540	47,942	(3) %
General and administrative	26,230	28,406	(8) %
Amortization of other acquired intangibles	5,100	4,840	5 %
Acquisition-related expenses	415	220	89 %
Restructuring expense	25,974	5,448	
Total operating expenses	<u>187,605</u>	<u>174,676</u>	7 %
Income from operations	<u>18,366</u>	<u>16,260</u>	13 %
Other income, net	6,675	769	768 %
Income before provision for income taxes	<u>25,041</u>	<u>17,029</u>	47 %
Provision for income taxes	6,989	6,471	8 %
Net income	<u>\$ 18,052</u>	<u>\$ 10,558</u>	71 %
Earnings per share:			
Basic	\$0.43	\$0.26	65 %
Diluted	\$0.42	\$0.26	62 %
Weighted average shares outstanding:			
Basic	41,808	39,969	5 %
Diluted	<u>43,461</u>	<u>40,609</u>	7 %

**Progress Software Corporation**  
**Reconciliation of GAAP to Non-GAAP Financial Measures**

<i>(In thousands except per share data)</i>	Three Months Ended May 31, 2010			Three Months Ended May 31, 2009			Percent Change
	As Reported	Adjustments	Non-GAAP	As Reported	Adjustments	Non-GAAP	
Total revenue	\$ 127,656	\$ 605	\$ <b>128,261</b>	\$ 117,047	695	\$ 117,742	9 %
Purchase accounting adjustments for deferred revenue (1)	(605)	605		(695)	695		
Income from operations	\$ 22,745	\$ 13,144	\$ <b>35,889</b>	\$ 11,542	\$ 12,737	\$ 24,279	48 %
Purchase accounting adjustments for deferred revenue (1)	(605)	605		(695)	695		
Amortization of acquired intangibles	(8,021)	8,021		(7,543)	7,543		
Acquisition-related expenses	-	-		(110)	110		
Restructuring expense	(203)	203		30	(30)		
Stock option investigation (2)	130	(130)		(170)	170		
Stock-based compensation (3)	(4,445)	4,445		(4,249)	4,249		
Operating margin percentage	17.8%		<b>28.0%</b>	9.9%		20.6%	36 %
Other income (expense), net	\$ 3,919	\$ -	\$ <b>3,919</b>	\$ (460)	\$ -	\$ (460)	
Provision for income taxes (5)	\$ 7,606	\$ 5,942	\$ <b>13,548</b>	\$ 4,175	\$ 3,587	\$ 7,762	75 %
Net income	\$ 19,058	\$ 7,202	\$ <b>26,260</b>	\$ 6,907	\$ 9,150	\$ 16,057	64 %
Earnings per share - diluted	\$0.43		<b>\$0.59</b>	\$0.17		\$0.39	51 %
Weighted average shares outstanding - diluted	44,237		<b>44,237</b>	40,697		40,697	9 %

<i>(In thousands except per share data)</i>	Six Months Ended May 31, 2010			Six Months Ended May 31, 2009			Percent Change
	As Reported	Adjustments	Non-GAAP	As Reported	Adjustments	Non-GAAP	
Total revenue	\$ 255,203	\$ 1,059	\$ <b>256,262</b>	\$ 237,907	2,243	\$ 240,150	7 %
Purchase accounting adjustments for deferred revenue (1)	(1,059)	1,059		(2,243)	2,243		
Income from operations	\$ 18,366	\$ 50,278	\$ <b>68,644</b>	\$ 16,260	\$ 30,814	\$ 47,074	46 %
Purchase accounting adjustments for deferred revenue (1)	(1,059)	1,059		(2,243)	2,243		
Amortization of acquired intangibles	(15,483)	15,483		(14,637)	14,637		
Acquisition-related expenses	(415)	415		(220)	220		
Restructuring expense	(25,974)	25,974		(5,448)	5,448		
Stock option investigation (2)	1,330	(1,330)		(201)	201		
Stock-based compensation (3)	(8,677)	8,677		(8,065)	8,065		
Operating margin percentage	7.2%		<b>26.8%</b>	6.8%		19.6%	37 %
Other income, net (4)	\$ 6,675	\$ (899)	\$ <b>5,776</b>	\$ 769	\$ -	\$ 769	651 %
Provision for income taxes (5)	\$ 6,989	\$ 18,500	\$ <b>25,489</b>	\$ 6,471	\$ 9,556	\$ 16,027	59 %
Net income	\$ 18,052	\$ 30,879	\$ <b>48,931</b>	\$ 10,558	\$ 21,258	\$ 31,816	54 %
Earnings per share - diluted	\$0.42		<b>\$1.13</b>	\$0.26		\$0.78	45 %
Weighted average shares outstanding - diluted	43,461		<b>43,461</b>	40,609		40,609	7 %

(1) The purchase accounting adjustment for deferred revenue is included within maintenance and services revenue and represents the write-down to fair value of the deferred maintenance revenue of Savvion and Iona Technologies at the date of each acquisition.

(2) Stock option investigation expenses are included within general and administrative expenses and primarily represent professional services fees associated with the SEC's investigation and shareholder derivative lawsuits related to the company's historical stock option grant practices. The credit amount for the three and six months ended May 31, 2010 relates to insurance reimbursements in excess of previously estimated amounts.

(3) Stock-based compensation expense, representing the fair value of equity awards, is included in the following GAAP expenses:

	Three Months Ended May 31, 2010			Three Months Ended May 31, 2009		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Cost of software licenses	\$ 6	\$ (6)	\$ -	\$ 8	\$ (8)	\$ -
Cost of maintenance and services	204	(204)	-	231	(231)	-
Sales and marketing	1,215	(1,215)	-	1,398	(1,398)	-
Product development	966	(966)	-	1,003	(1,003)	-
General and administrative	2,054	(2,054)	-	1,609	(1,609)	-
	\$ 4,445	\$ (4,445)	\$ -	\$ 4,249	\$ (4,249)	\$ -

  

	Six Months Ended May 31, 2010			Six Months Ended May 31, 2009		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Cost of software licenses	\$ 15	\$ (15)	\$ -	\$ 20	\$ (20)	\$ -
Cost of maintenance and services	458	(458)	-	468	(468)	-
Sales and marketing	2,793	(2,793)	-	2,886	(2,886)	-
Product development	2,074	(2,074)	-	1,947	(1,947)	-
General and administrative	3,337	(3,337)	-	2,744	(2,744)	-
	\$ 8,677	\$ (8,677)	\$ -	\$ 8,065	\$ (8,065)	\$ -

In addition, the restructuring expense for the six months ended May 31, 2010 includes approximately \$0.3 million of stock-based compensation expense.

(4) The non-GAAP adjustment in other income for the six months ended May 31, 2010 relates to an insurance settlement gain from a pre-acquisition contingency assumed as part of a prior acquisition.

(5) The non-GAAP provision for income taxes was calculated reflecting an effective rate of 34.0% and 32.6% for the three months ended May 31, 2010 and 2009, respectively, and 34.3% and 33.5% for the six months ended May 31, 2010 and 2009, respectively. The difference between the effective rate under GAAP and the effective tax rate utilized in the preparation of non-GAAP financial measures primarily relates to the tax effects of stock-based compensation and amortization of acquired intangibles, which are excluded from the determination of non-GAAP net income. The non-GAAP effective tax rate for the three months ended May 31, 2010 also excludes a one-time benefit of \$2.5 million.

**Progress Software Corporation**  
**Condensed Consolidated Balance Sheets**

<i>(In thousands)</i>	May 31, 2010	November 30, 2009
<b>Assets</b>		
Cash and short-term investments	\$ 260,568	\$ 224,121
Accounts receivable, net	86,842	98,872
Other current assets	44,612	34,626
Total current assets	<u>392,022</u>	<u>357,619</u>
Property and equipment, net	57,289	59,625
Goodwill and intangible assets, net	336,053	304,887
Other assets	76,682	76,719
Total	<u>\$ 862,046</u>	<u>\$ 798,850</u>
<b>Liabilities and shareholders' equity</b>		
Accounts payable and other current liabilities	\$ 82,377	\$ 85,681
Short-term deferred revenue	136,946	141,243
Total current liabilities	<u>219,323</u>	<u>226,924</u>
Long-term deferred revenue	3,788	4,511
Other liabilities	9,887	11,963
Shareholders' equity:		
Common stock and additional paid-in capital	316,629	247,265
Retained earnings	312,419	308,187
Total shareholders' equity	<u>629,048</u>	<u>555,452</u>
Total	<u>\$ 862,046</u>	<u>\$ 798,850</u>

**Condensed Consolidated Statements of Cash Flows**

<i>(In thousands)</i>	Six Months Ended	
	May 31, 2010	May 31, 2009
<b>Cash flows from operations:</b>		
Net income	\$ 18,052	\$ 10,558
Depreciation, amortization and other noncash items	30,224	27,754
Other changes in operating assets and liabilities	2,643	(20,391)
Net cash flows from operations	<u>50,919</u>	<u>17,921</u>
Capital expenditures	(4,076)	(3,242)
Redemptions of auction-rate securities	575	5,400
Acquisitions, net of cash acquired	(49,177)	-
Share issuances, net	51,460	1,675
Other	(13,254)	8,452
Net change in cash and short-term investments	<u>36,447</u>	<u>30,206</u>
Cash and short-term investments, beginning of period	224,121	118,529
Cash and short-term investments, end of period	<u>\$ 260,568</u>	<u>\$ 148,735</u>

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**Progress Software Corporation**  
**Reconciliation of Forward-Looking Guidance**

**Diluted Earnings Per Share Range**

	<b>Three Months Ended August 31, 2010</b>		
GAAP expectation	\$0.09	-	\$0.19
Adjustment to exclude stock-based compensation	\$0.08	-	\$0.09
Adjustment to exclude amortization of acquired intangibles	\$0.11	-	\$0.11
Adjustment to exclude restructuring and transition expenses	\$0.18	-	\$0.24
Non-GAAP expectation	<u>\$0.53</u>	-	<u>\$0.56</u>

	<b>Twelve Months Ended November 30, 2010</b>		
GAAP expectation	\$0.89	-	\$1.04
Adjustment to exclude stock-based compensation	\$0.29	-	\$0.30
Adjustment to exclude amortization of acquired intangibles	\$0.45	-	\$0.45
Adjustment to exclude restructuring and transition expenses	\$0.59	-	\$0.65
Other adjustments	(\$0.02)	-	(\$0.01)
Non-GAAP expectation	<u>\$2.28</u>	-	<u>\$2.35</u>

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