

Progress Software Corporation
GAAP Condensed Consolidated Statements of Operations

Three Months Ended

<i>(In thousands except per share data)</i>	August 31, 2010	August 31, 2009	Percent Change
Revenue:			
Software licenses	\$ 44,748	\$ 39,173	14 %
Maintenance and services	83,989	80,260	5 %
Total revenue	<u>128,737</u>	<u>119,433</u>	8 %
Costs of revenue:			
Cost of software licenses	2,025	1,758	15 %
Cost of maintenance and services	17,845	15,957	12 %
Amortization of purchased technology	4,839	4,811	1 %
Total costs of revenue	<u>24,709</u>	<u>22,526</u>	10 %
Gross profit	<u>104,028</u>	<u>96,907</u>	7 %
Operating expenses:			
Sales and marketing	39,362	45,511	(14) %
Product development	21,941	22,378	(2) %
General and administrative	11,937	17,717	(33) %
Amortization of other acquired intangibles	2,733	2,310	18 %
Acquisition-related expenses	53	110	
Restructuring expense	11,533	(211)	
Total operating expenses	<u>87,559</u>	<u>87,815</u>	0 %
Income from operations	<u>16,469</u>	<u>9,092</u>	81 %
Other income (expense), net	(1,720)	(187)	
Income before provision for income taxes	<u>14,749</u>	<u>8,905</u>	66 %
Provision for income taxes	<u>5,505</u>	<u>3,384</u>	63 %
Net income	<u>\$ 9,244</u>	<u>\$ 5,521</u>	67 %
Earnings per share:			
Basic	\$0.21	\$0.14	50 %
Diluted	\$0.21	\$0.13	62 %
Weighted average shares outstanding:			
Basic	43,224	40,117	8 %
Diluted	<u>44,424</u>	<u>41,261</u>	8 %

Nine Months Ended

<i>(In thousands except per share data)</i>	August 31, 2010	August 31, 2009	Percent Change
Revenue:			
Software licenses	\$ 136,093	\$ 123,538	10 %
Maintenance and services	247,847	233,802	6 %
Total revenue	<u>383,940</u>	<u>357,340</u>	7 %
Costs of revenue:			
Cost of software licenses	5,633	5,602	1 %
Cost of maintenance and services	53,086	49,287	8 %
Amortization of purchased technology	15,222	14,609	4 %
Total costs of revenue	<u>73,941</u>	<u>69,498</u>	6 %
Gross profit	<u>309,999</u>	<u>287,842</u>	8 %
Operating expenses:			
Sales and marketing	122,707	133,331	(8) %
Product development	68,481	70,320	(3) %
General and administrative	38,167	46,123	(17) %
Amortization of other acquired intangibles	7,833	7,149	10 %
Acquisition-related expenses	468	330	42 %
Restructuring expense	37,508	5,237	
Total operating expenses	<u>275,164</u>	<u>262,490</u>	5 %
Income from operations	<u>34,835</u>	<u>25,352</u>	37 %
Other income, net	4,955	582	751 %
Income before provision for income taxes	<u>39,790</u>	<u>25,934</u>	53 %
Provision for income taxes	<u>12,495</u>	<u>9,855</u>	27 %
Net income	<u>\$ 27,295</u>	<u>\$ 16,079</u>	70 %
Earnings per share:			
Basic	\$0.65	\$0.40	63 %
Diluted	\$0.62	\$0.39	59 %
Weighted average shares outstanding:			
Basic	42,280	40,018	6 %
Diluted	<u>43,782</u>	<u>40,826</u>	7 %

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

<i>(In thousands except per share data)</i>	Three Months Ended August 31, 2010			Three Months Ended August 31, 2009			Percent Change
	As		Non-GAAP	As		Non-GAAP	
	Reported	Adjustments		Reported	Adjustments		
Total revenue	\$ 128,737	\$ 79	\$ 128,816	\$ 119,433	286	\$ 119,719	8 %
Purchase accounting adjustments for deferred revenue (1)	(79)	79		(286)	286		
Income from operations	\$ 16,469	\$ 23,226	\$ 39,695	\$ 9,092	\$ 15,834	\$ 24,926	59 %
Purchase accounting adjustments for deferred revenue (1)	(79)	79		(286)	286		
Amortization of acquired intangibles	(7,572)	7,572		(7,121)	7,121		
Acquisition-related expenses	(53)	53		(110)	110		
Restructuring expense	(11,533)	11,533		211	(211)		
Stock option investigation (2)	-	-		321	(321)		
Stock-based compensation (3)	(3,989)	3,989		(8,849)	8,849		
Operating margin percentage	12.8%		30.8%	7.6%		20.8%	48 %
Other income (expense), net	\$ (1,720)	\$ -	\$ (1,720)	\$ (187)	\$ -	\$ (187)	
Provision for income taxes (5)	\$ 5,505	\$ 7,501	\$ 13,006	\$ 3,384	\$ 4,903	\$ 8,287	57 %
Net income	\$ 9,244	\$ 15,725	\$ 24,969	\$ 5,521	\$ 10,931	\$ 16,452	52 %
Earnings per share - diluted	\$0.21		\$0.56	\$0.13		\$0.40	40 %
Weighted average shares outstanding - diluted	44,424		44,424	41,261		41,261	8 %

<i>(In thousands except per share data)</i>	Nine Months Ended August 31, 2010			Nine Months Ended August 31, 2009			Percent Change
	As		Non-GAAP	As		Non-GAAP	
	Reported	Adjustments		Reported	Adjustments		
Total revenue	\$ 383,940	\$ 1,138	\$ 385,078	\$ 357,340	2,529	\$ 359,869	7 %
Purchase accounting adjustments for deferred revenue (1)	(1,138)	1,138		(2,529)	2,529		
Income from operations	\$ 34,835	\$ 73,505	\$ 108,340	\$ 25,352	\$ 46,648	\$ 72,000	50 %
Purchase accounting adjustments for deferred revenue (1)	(1,138)	1,138		(2,529)	2,529		
Amortization of acquired intangibles	(23,055)	23,055		(21,758)	21,758		
Acquisition-related expenses	(468)	468		(330)	330		
Restructuring expense	(37,508)	37,508		(5,237)	5,237		
Stock option investigation (2)	1,330	(1,330)		120	(120)		
Stock-based compensation (3)	(12,666)	12,666		(16,914)	16,914		
Operating margin percentage	9.1%		28.1%	7.1%		20.0%	41 %
Other income, net (4)	\$ 4,955	\$ (899)	\$ 4,056	\$ 582	\$ -	\$ 582	597 %
Provision for income taxes (5)	\$ 12,495	\$ 26,001	\$ 38,496	\$ 9,855	\$ 14,459	\$ 24,314	58 %
Net income	\$ 27,295	\$ 46,605	\$ 73,900	\$ 16,079	\$ 32,189	\$ 48,268	53 %
Earnings per share - diluted	\$0.62		\$1.69	\$0.39		\$1.18	43 %
Weighted average shares outstanding - diluted	43,782		43,782	40,826		40,826	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 nine months ended August 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 August 31, 2010			Three Months Ended August 31, 2009		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Cost of software licenses	\$ 7	\$ (7)	\$ -	\$ 8	\$ (8)	\$ -
Cost of maintenance and services	225	(225)	-	238	(238)	-
Sales and marketing	1,340	(1,340)	-	1,445	(1,445)	-
Product development	1,066	(1,066)	-	1,037	(1,037)	-
General and administrative	1,351	(1,351)	-	6,121	(6,121)	-
	<u>\$ 3,989</u>	<u>\$ (3,989)</u>	<u>\$ -</u>	<u>\$ 8,849</u>	<u>\$ (8,849)</u>	<u>\$ -</u>

	Nine Months Ended August 31, 2010			Nine Months Ended August 31, 2009		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Cost of software licenses	\$ 22	\$ (22)	\$ -	\$ 28	\$ (28)	\$ -
Cost of maintenance and services	684	(684)	-	706	(706)	-
Sales and marketing	4,132	(4,132)	-	4,331	(4,331)	-
Product development	3,139	(3,139)	-	2,984	(2,984)	-
General and administrative	4,689	(4,689)	-	8,865	(8,865)	-
	<u>\$ 12,666</u>	<u>\$ (12,666)</u>	<u>\$ -</u>	<u>\$ 16,914</u>	<u>\$ (16,914)</u>	<u>\$ -</u>

In addition, the restructuring expense for the three and nine months ended August 31, 2010 includes approximately \$0.2 million and \$0.5 million of stock-based compensation expense, respectively.

(4) The non-GAAP adjustment in other income for the nine months ended August 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 34.3% for the three and nine months ended August 31, 2010, and 33.5% for the three and nine months ended August 31, 2009. 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 nine months ended August 31, 2010 also excludes a one-time benefit of \$2.5 million.

Progress Software Corporation
Condensed Consolidated Balance Sheets

<i>(In thousands)</i>	August 31, 2010	November 30, 2009
Assets		
Cash and short-term investments	\$ 269,213	\$ 224,121
Accounts receivable, net	84,966	98,872
Other current assets	40,198	34,626
Total current assets	<u>394,377</u>	<u>357,619</u>
Property and equipment, net	57,963	59,625
Goodwill and intangible assets, net	330,117	304,887
Other assets	77,863	76,719
Total	<u>\$ 860,320</u>	<u>\$ 798,850</u>
Liabilities and shareholders' equity		
Accounts payable and other current liabilities	\$ 79,171	\$ 85,681
Short-term deferred revenue	134,334	141,243
Total current liabilities	<u>213,505</u>	<u>226,924</u>
Long-term deferred revenue	3,342	4,511
Other liabilities	10,335	11,963
Shareholders' equity:		
Common stock and additional paid-in capital	314,562	247,265
Retained earnings	318,576	308,187
Total shareholders' equity	<u>633,138</u>	<u>555,452</u>
Total	<u>\$ 860,320</u>	<u>\$ 798,850</u>

Condensed Consolidated Statements of Cash Flows

<i>(In thousands)</i>	Nine Months Ended	
	August 31, 2010	August 31, 2009
Cash flows from operations:		
Net income	\$ 27,295	\$ 16,079
Depreciation, amortization and other noncash items	44,551	47,465
Other changes in operating assets and liabilities	(2,023)	(27,822)
Net cash flows from operations	<u>69,823</u>	<u>35,722</u>
Capital expenditures	(7,091)	(6,061)
Redemptions and reclassification of auction-rate securities	1,250	24,925
Acquisitions, net of cash acquired	(49,186)	-
Share issuances, net of repurchases	38,478	2,262
Other	(8,182)	11,140
Net change in cash and short-term investments	<u>45,092</u>	<u>67,988</u>
Cash and short-term investments, beginning of period	224,121	118,529
Cash and short-term investments, end of period	<u>\$ 269,213</u>	<u>\$ 186,517</u>

Progress Software Corporation
Reconciliation of Forward-Looking Guidance

Diluted Earnings Per Share Range

Three Months Ended November 30, 2010

GAAP expectation	\$0.38	-	\$0.46
Adjustment to exclude stock-based compensation	\$0.07	-	\$0.08
Adjustment to exclude amortization of acquired intangibles	\$0.11	-	\$0.11
Adjustment to exclude restructuring and transition expenses	\$0.04	-	\$0.07
Non-GAAP expectation	<u>\$0.64</u>	-	<u>\$0.68</u>

Twelve Months Ended November 30, 2010

GAAP expectation	\$1.01	-	\$1.09
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	\$0.62	-	\$0.65
Other adjustments	(\$0.09)	-	(\$0.09)
Non-GAAP expectation	<u>\$2.32</u>	-	<u>\$2.36</u>

Twelve Months Ended November 30, 2011

GAAP expectation	\$1.60	-	\$1.80
Adjustment to exclude stock-based compensation	\$0.27	-	\$0.29
Adjustment to exclude amortization of acquired intangibles	\$0.36	-	\$0.36
Adjustment to exclude restructuring and transition expenses	\$0.15	-	\$0.30
Non-GAAP expectation	<u>\$2.50</u>	-	<u>\$2.60</u>

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