

**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>November 30, 2010</b>	<b>November 30, 2009</b>	
Revenue:			
Software licenses	\$ 56,475	\$ 52,028	9 %
Maintenance and services	88,706	84,769	5 %
Total revenue	<u>145,181</u>	<u>136,797</u>	6 %
Costs of revenue:			
Cost of software licenses	2,290	2,174	5 %
Cost of maintenance and services	18,204	16,680	9 %
Amortization of purchased technology	4,887	4,850	1 %
Total costs of revenue	<u>25,381</u>	<u>23,704</u>	7 %
Gross profit	<u>119,800</u>	<u>113,093</u>	6 %
Operating expenses:			
Sales and marketing	46,081	48,896	(6) %
Product development	22,162	22,942	(3) %
General and administrative	13,638	13,489	1 %
Amortization of other acquired intangibles	2,617	1,898	38 %
Acquisition-related expenses	-	110	
Restructuring expense	2,467	(22)	
Total operating expenses	<u>86,965</u>	<u>87,313</u>	0 %
Income from operations	<u>32,835</u>	<u>25,780</u>	27 %
Other income (expense), net	<u>(1,197)</u>	<u>(534)</u>	
Income before provision for income taxes	<u>31,638</u>	<u>25,246</u>	25 %
Provision for income taxes	<u>10,362</u>	<u>8,570</u>	21 %
Net income	<u>\$ 21,276</u>	<u>\$ 16,676</u>	28 %
Earnings per share:			
Basic	<u>\$0.49</u>	<u>\$0.41</u>	20 %
Diluted	<u>\$0.47</u>	<u>\$0.40</u>	18 %
Weighted average shares outstanding:			
Basic	<u>43,711</u>	<u>40,355</u>	8 %
Diluted	<u>45,218</u>	<u>41,687</u>	8 %

<i>(In thousands except per share data)</i>	<b>Twelve Months Ended</b>		<b>Percent Change</b>
	<b>November 30, 2010</b>	<b>November 30, 2009</b>	
Revenue:			
Software licenses	\$ 192,568	\$ 175,566	10 %
Maintenance and services	336,552	318,571	6 %
Total revenue	<u>529,120</u>	<u>494,137</u>	7 %
Costs of revenue:			
Cost of software licenses	7,923	7,776	2 %
Cost of maintenance and services	71,290	65,967	8 %
Amortization of purchased technology	20,109	19,459	3 %
Total costs of revenue	<u>99,322</u>	<u>93,202</u>	7 %
Gross profit	<u>429,798</u>	<u>400,935</u>	7 %
Operating expenses:			
Sales and marketing	168,788	182,227	(7) %
Product development	90,643	93,262	(3) %
General and administrative	51,805	59,612	(13) %
Amortization of other acquired intangibles	10,449	9,047	15 %
Acquisition-related expenses	468	440	
Restructuring expense	39,975	5,215	
Total operating expenses	<u>362,128</u>	<u>349,803</u>	4 %
Income from operations	<u>67,670</u>	<u>51,132</u>	32 %
Other income, net	<u>3,758</u>	<u>48</u>	
Income before provision for income taxes	<u>71,428</u>	<u>51,180</u>	40 %
Provision for income taxes	<u>22,857</u>	<u>18,425</u>	24 %
Net income	<u>\$ 48,571</u>	<u>\$ 32,755</u>	48 %
Earnings per share:			
Basic	<u>\$1.14</u>	<u>\$0.82</u>	39 %
Diluted	<u>\$1.10</u>	<u>\$0.80</u>	38 %
Weighted average shares outstanding:			
Basic	<u>42,638</u>	<u>40,103</u>	6 %
Diluted	<u>44,141</u>	<u>41,041</u>	8 %

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

<i>(In thousands except per share data)</i>	<u>Three Months Ended November 30, 2010</u>			<u>Three Months Ended November 30, 2009</u>			<b>Percent Change</b>
	As Reported	Adjustments	Non-GAAP	As Reported	Adjustments	Non-GAAP	
Total revenue	\$ 145,181	\$ 74	\$ <b>145,255</b>	\$ 136,797	142	\$ 136,939	<b>6 %</b>
Purchase accounting adjustments for deferred revenue (1)	(74)	74		(142)	142		
Income from operations	\$ 32,835	\$ 15,444	\$ <b>48,279</b>	\$ 25,780	\$ 11,578	\$ 37,358	<b>29 %</b>
Purchase accounting adjustments for deferred revenue (1)	(74)	74		(142)	142		
Amortization of acquired intangibles	(7,504)	7,504		(6,748)	6,748		
Acquisition-related expenses	-	-		(110)	110		
Restructuring expense	(2,467)	2,467		22	(22)		
Stock option investigation (2)	-	-		22	(22)		
Transition expenses (3)	(479)	479		-	-		
Stock-based compensation (4)	(4,920)	4,920		(4,622)	4,622		
Operating margin percentage	22.6%		<b>33.2%</b>	18.8%		27.3%	<b>22 %</b>
Other income (expense), net	\$ (1,197)	\$ -	\$ <b>(1,197)</b>	\$ (534)	\$ -	\$ (534)	
Provision for income taxes (6)	\$ 10,362	\$ 4,567	\$ <b>14,929</b>	\$ 8,570	\$ 2,672	\$ 11,242	<b>33 %</b>
Net income	\$ 21,276	\$ 10,877	\$ <b>32,153</b>	\$ 16,676	\$ 8,906	\$ 25,582	<b>26 %</b>
Earnings per share - diluted	\$0.47		<b>\$0.71</b>	\$0.40		\$0.61	<b>16 %</b>
Weighted average shares outstanding - diluted	45,218		<b>45,218</b>	41,687		41,687	<b>8 %</b>

<i>(In thousands except per share data)</i>	<u>Twelve Months Ended November 30, 2010</u>			<u>Twelve Months Ended November 30, 2009</u>			<b>Percent Change</b>
	As Reported	Adjustments	Non-GAAP	As Reported	Adjustments	Non-GAAP	
Total revenue	\$ 529,120	\$ 1,213	\$ <b>530,333</b>	\$ 494,137	2,671	\$ 496,808	<b>7 %</b>
Purchase accounting adjustments for deferred revenue (1)	(1,213)	1,213		(2,671)	2,671		
Income from operations	\$ 67,670	\$ 88,949	\$ <b>156,619</b>	\$ 51,132	\$ 58,226	\$ 109,358	<b>43 %</b>
Purchase accounting adjustments for deferred revenue (1)	(1,213)	1,213		(2,671)	2,671		
Amortization of acquired intangibles	(30,558)	30,558		(28,506)	28,506		
Acquisition-related expenses	(468)	468		(440)	440		
Restructuring expense	(39,975)	39,975		(5,215)	5,215		
Stock option investigation (2)	1,330	(1,330)		142	(142)		
Transition expenses (3)	(479)	479		-	-		
Stock-based compensation (4)	(17,586)	17,586		(21,536)	21,536		
Operating margin percentage	12.8%		<b>29.5%</b>	10.3%		22.0%	<b>34 %</b>
Other income, net (5)	\$ 3,758	\$ (899)	\$ <b>2,859</b>	\$ 48	\$ -	\$ 48	
Provision for income taxes (6)	\$ 22,857	\$ 30,568	\$ <b>53,425</b>	\$ 18,425	\$ 17,131	\$ 35,556	<b>50 %</b>
Net income	\$ 48,571	\$ 57,482	\$ <b>106,053</b>	\$ 32,755	\$ 41,095	\$ 73,850	<b>44 %</b>
Earnings per share - diluted	\$1.10		<b>\$2.40</b>	\$0.80		\$1.80	<b>33 %</b>
Weighted average shares outstanding - diluted	44,141		<b>44,141</b>	41,041		41,041	<b>8 %</b>

(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 twelve months ended November 30, 2010 relates to insurance reimbursements in excess of previously estimated amounts.

(3) Transition expenses represent incremental costs incurred to transform our cost structure to a more efficient cost model and such expenses are included primarily within our product development and general and administrative expenses.

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

	Three Months Ended November 30, 2010			Three Months Ended November 30, 2009		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Cost of software licenses	\$ 7	\$ (7)	\$ -	\$ 9	\$ (9)	\$ -
Cost of maintenance and services	230	(230)	-	242	(242)	-
Sales and marketing	1,363	(1,363)	-	1,499	(1,499)	-
Product development	1,061	(1,061)	-	1,057	(1,057)	-
General and administrative	2,259	(2,259)	-	1,815	(1,815)	-
	<u>\$ 4,920</u>	<u>\$ (4,920)</u>	<u>\$ -</u>	<u>\$ 4,622</u>	<u>\$ (4,622)</u>	<u>\$ -</u>

  

	Twelve Months Ended November 30, 2010			Twelve Months Ended November 30, 2009		
	GAAP	Adjustments	Non-GAAP	GAAP	Adjustments	Non-GAAP
Cost of software licenses	\$ 29	\$ (29)	\$ -	\$ 37	\$ (37)	\$ -
Cost of maintenance and services	913	(913)	-	948	(948)	-
Sales and marketing	5,496	(5,496)	-	5,830	(5,830)	-
Product development	4,200	(4,200)	-	4,041	(4,041)	-
General and administrative	6,948	(6,948)	-	10,680	(10,680)	-
	<u>\$ 17,586</u>	<u>\$ (17,586)</u>	<u>\$ -</u>	<u>\$ 21,536</u>	<u>\$ (21,536)</u>	<u>\$ -</u>

In addition, the restructuring expense for the twelve months ended November 30, 2010 includes approximately \$0.5 million of stock-based compensation expense.

(5) The non-GAAP adjustment in other income for the twelve months ended November 30, 2010 relates to an insurance settlement gain from a pre-acquisition contingency assumed as part of a prior acquisition.

(6) The non-GAAP provision for income taxes was calculated reflecting an effective rate of 31.7% and 33.5% for the three and twelve months ended November 30, 2010, respectively, and 30.5% and 32.5% for the three and twelve months ended November 30, 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 twelve months ended November 30, 2010 also excludes a one-time benefit of \$2.5 million.

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

<i>(In thousands)</i>	November 30, 2010	November 30, 2009
<b>Assets</b>		
Cash and short-term investments	\$ 322,396	\$ 224,121
Accounts receivable, net	119,273	98,872
Other current assets	42,189	34,626
Total current assets	<u>483,858</u>	<u>357,619</u>
Property and equipment, net	58,207	59,625
Goodwill and intangible assets, net	321,551	304,887
Other assets	73,207	76,719
Total	<u>\$ 936,823</u>	<u>\$ 798,850</u>
<b>Liabilities and shareholders' equity</b>		
Accounts payable and other current liabilities	\$ 98,715	\$ 85,681
Short-term deferred revenue	138,961	141,243
Total current liabilities	<u>237,676</u>	<u>226,924</u>
Long-term deferred revenue	2,908	4,511
Other liabilities	7,907	11,963
Shareholders' equity:		
Common stock and additional paid-in capital	347,604	247,265
Retained earnings	340,728	308,187
Total shareholders' equity	<u>688,332</u>	<u>555,452</u>
Total	<u>\$ 936,823</u>	<u>\$ 798,850</u>

**Condensed Consolidated Statements of Cash Flows**

<i>(In thousands)</i>	<b>Twelve Months Ended</b>	
	November 30, 2010	November 30, 2009
<b>Cash flows from operations:</b>		
Net income	\$ 48,571	\$ 32,755
Depreciation, amortization and other noncash items	59,538	61,941
Other changes in operating assets and liabilities	(11,908)	(31,940)
Net cash flows from operations	<u>96,201</u>	<u>62,756</u>
Capital expenditures	(9,664)	(7,369)
Redemptions and reclassification of auction-rate securities	1,250	24,925
Acquisitions, net of cash acquired	(49,186)	-
Share issuances, net of repurchases	64,335	9,286
Other	(4,661)	15,994
Net change in cash and short-term investments	<u>98,275</u>	<u>105,592</u>
Cash and short-term investments, beginning of period	224,121	118,529
Cash and short-term investments, end of period	<u>\$ 322,396</u>	<u>\$ 224,121</u>

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

**Diluted Earnings Per Share Range**

**Three Months Ended February 28, 2011**

GAAP expectation	\$0.40		\$0.45
Adjustment to exclude stock-based compensation	\$0.07	-	\$0.08
Adjustment to exclude amortization of acquired intangibles	\$0.09	-	\$0.09
Adjustment to exclude restructuring and transition expenses	\$0.03	-	\$0.04
Non-GAAP expectation	<u>\$0.61</u>		<u>\$0.64</u>

**Twelve Months Ended November 30, 2011**

GAAP expectation	\$1.84		\$1.98
Adjustment to exclude stock-based compensation	\$0.30	-	\$0.31
Adjustment to exclude amortization of acquired intangibles	\$0.35	-	\$0.35
Adjustment to exclude restructuring and transition expenses	\$0.07	-	\$0.11
Non-GAAP expectation	<u>\$2.61</u>		<u>\$2.70</u>

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