PROGRESS SOFTWARE CORP /MA
Form DEF 14A
March 15, 2002

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant o **Filed by a Party other than the Registrant o**

Check the appropriate box:
o Preliminary Proxy Statement
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Progress Software Corporation
(Name of Registrant as Specified In Its Charter)

Progress Software Corporation

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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PROGRESS SOFTWARE CORPORATION

14 Oak Park
Bedford, Massachusetts 01730

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Progress Software Corporation (the Company) will be held on Friday, April 19, 2002, commencing at 10:00 A.M., local time, at the principal executive offices of the Company, 14 Oak Park, Bedford, Massachusetts 01730, for the following purposes:

1. To consider and vote upon the election of seven directors;

2. To act upon a proposal to amend the Company s 1997 Stock Incentive Plan (the 1997 Plan) to increase the maximum number of shares that may be issued under such plan from 7,540,000 shares to 11,040,000 shares; and

3. To transact such other business as may properly come before the meeting and any adjournment thereof.

The Board of Directors has fixed the close of business on February 22, 2002 as the record date for determination of shareholders entitled to receive notice of and vote at the meeting and any adjournment thereof.

By Order of the Board of Directors,

James D. Freedman
Clerk

March 20, 2002

YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE. A POSTAGE-PAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

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PROGRESS SOFTWARE CORPORATION

14 Oak Park
Bedford, Massachusetts 01730

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Progress Software Corporation (the Company) of proxies for use at the 2002 Annual Meeting of Shareholders (the 2002 Annual Meeting) to be held on April 19, 2002, at 10:00 A.M., local time, at the principal executive offices of the Company, 14 Oak Park, Bedford, Massachusetts 01730. It is anticipated that this Proxy Statement and the accompanying form of proxy will first be mailed to shareholders on or about March 20, 2002.

At the 2002 Annual Meeting, the shareholders of the Company will be asked to consider and vote upon the following matters:

1. To consider and vote upon the election of seven directors;

2. To act upon a proposal to amend the Company s 1997 Stock Incentive Plan (the 1997 Plan) to increase the maximum number of shares that may be issued under such plan from 7,540,000 shares to 11,040,000 shares; and

3. To transact such other business as may properly come before the meeting and any adjournment thereof.

The information contained in the Audit Committee Report on page 12, the Compensation Committee Report on pages 13 and 14 and the Stock Performance Graph on page 15 shall not be deemed filed with the Securities and Exchange Commission (the Commission) or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

VOTING PROCEDURES

Only holders of record of Common Stock outstanding at the close of business on February 22, 2002 are entitled to vote at the 2002 Annual Meeting and any adjournment thereof. As of that date, there were 35,593,903 shares outstanding and entitled to vote. Each outstanding share entitles the holder to one vote on any proposal presented at the meeting.

Any shareholder who has given a proxy may revoke it at any time prior to its exercise at the 2002 Annual Meeting by giving written notice of such revocation to the Clerk of the Company, by signing and duly delivering a proxy bearing a later date or by attending and voting in person at the 2002 Annual Meeting. Duly executed proxies received and not revoked prior to the meeting will be voted in accordance with the instructions indicated in the proxy. If no instructions are indicated, such proxies will be voted FOR the election of the nominees for director named in the proxy, FOR the amendment to the Company s 1997 Stock Incentive Plan and in the discretion of the proxies as to other matters that may properly come before the 2002 Annual Meeting.

Votes withheld from any nominee for election as director, abstentions and broker non-votes will be counted as present or represented at the meeting for purposes of determining the presence or absence of a quorum for the meeting. A broker non-vote occurs when a broker or other nominee who holds shares for a beneficial owner withholds its vote on a particular proposal with respect to which it does not have discretionary

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voting power or instructions from the beneficial owner. Abstentions with respect to a proposal are included in the number of shares present or represented and entitled to vote on such proposal, and therefore have the effect of voting against the proposal. Broker non-votes with respect to a proposal are not included and therefore do not have the effect of voting against the proposal. An automated system administered by the Company s transfer agent tabulates the votes.

The Board of Directors of the Company knows of no other matters to be presented at the meeting. If any other matter should be presented at the meeting upon which a vote properly may be taken, shares represented by all proxies received by the Board of Directors will be voted in accordance with the judgment of the persons named as proxies.

ELECTION OF DIRECTORS

The Company s by-laws provide for a Board of Directors, the number of which shall be fixed from time to time by the shareholders of the Company, and may be enlarged or reduced by vote of a majority of the Board of Directors. Currently the Board of Directors is comprised of seven members. The Board of Directors has recommended that the number of directors remain fixed at seven and has nominated for election as directors Joseph W. Alsop, Larry R. Harris, Roger J. Heinen, Jr., Michael L. Mark, Arthur J. Marks, Scott A. McGregor and Amram Rasiel, each of whom is currently a director of the Company. Each director elected at the 2002 Annual Meeting will hold office until the next Annual Meeting of Shareholders or special meeting in lieu thereof and until his successor has been duly elected and qualified, or until his earlier death, resignation or removal. There are no family relationships among any of the executive officers or directors of the Company.

Each of the nominees has agreed to serve as a director if elected, and the Company has no reason to believe that any nominee will be unable to serve. In the event that one or more nominees should become unwilling or unable to serve, however, the persons named in the enclosed proxy will vote shares represented by proxy for such other person or persons as may thereafter be nominated for director by the Board of Directors of the Company.

If a quorum is present at the meeting, a plurality of the votes properly cast will be required to elect a nominee to the office of director.

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The Board of Directors recommends that you vote FOR the election of the seven individuals named below as directors of the Company.

Nominee	Age	Present Principal Employer and Recent Business Experience
Joseph W. Alsop	56	Mr. Alsop, a founder of the Company, has been a director and Chief Executive Officer of the Company since its inception in 1981.
Larry R. Harris	54	Mr. Harris has been a director of the Company since January 1995. Mr. Harris is a founder of EasyAsk, Inc. (EasyAsk) and has been its Chairman since 1996.
Roger J. Heinen, Jr.	51	Mr. Heinen has been a director of the Company since March 1999. Mr. Heinen formerly served as Senior Vice President, Developer Division, Microsoft Corporation. Mr. Heinen is also a director of ANSYS Inc.
Michael L. Mark	56	Mr. Mark has been a director of the Company since July 1987. Mr. Mark is a private investor and member of Walnut Venture Associates. Mr. Mark is also a director of Netegrity, Inc.
Arthur J. Marks	57	Mr. Marks has been a director of the Company since July 1987. Mr Marks is currently a General Partner of Valhalla Partners, a venture capital firm. From 1984 to 2001, Mr. Marks served as a General Partner of New Enterprise Associates, a venture capital firm. Mr. Marks is also a director of Advanced Switching Communications, Inc., and Talk America Holdings Inc.
Scott A. McGregor	45	Mr. McGregor has been a director of the Company since March 1998. Mr. McGregor is President and CEO of Philips Semiconductors. From 1998 to 2001 he was Senior Vice President and General Manager of Philips Electronics, North America. From 1992 until 1997, Mr. McGregor was Senior Vice President, Products, of The Santa Cruz Operation, Inc.
Amram Rasiel	72	Mr. Rasiel has been a director of the Company since April 1983. Mr. Rasiel is a private investor and is also a director of PRI Automation, Inc.

THE BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

The Board of Directors of the Company held five meetings during the fiscal year ended November 30, 2001. No director attended fewer than 75% of the aggregate number of meetings of the Board of Directors and of any committee of the Board of Directors on which he served except Mr. Marks who attended 67% of such meetings. There are two standing committees of the Board of Directors. The Audit Committee, of which Messrs. Heinen, Mark and Rasiel are members, assists the Board of Directors in fulfilling its oversight responsibilities relating to the financial information which will be provided to shareholders and others, the internal control system which management and the Board of Directors have established and the audit process. The Audit Committee held five meetings during the fiscal year ended November 30, 2001. The Compensation Committee, of which Messrs. Marks and McGregor are members, held one meeting during the fiscal year ended November 30, 2001. The Compensation Committee makes recommendations concerning salaries and incentive compensation for employees of the Company and determines the salaries and incentive compensation for executive officers of the Company. The Compensation Committee also administers the Company s stock plans.

DIRECTORS COMPENSATION

Each of the Company s non-employee directors who rendered services during fiscal 2001 received an annual fee of $18,000 and has been reimbursed, upon request, for expenses incurred in attending Board of Directors meetings. In addition, each member of the Audit and Compensation Committees received an annual fee of $2,000 for each committee on which he served during fiscal 2001. Directors who are employees of the Company are not paid any separate fees for their service as a director.

In addition to the fees noted above, during fiscal 2001, Messrs. Harris, Heinen, Mark, Marks and Rasiel were each awarded a grant of options to purchase 10,000 shares of Common Stock pursuant to the Company s 1997 Stock Incentive Plan. These options are exercisable in full on the date of grant. During fiscal 1998, Mr. McGregor was granted an option to purchase 60,000 shares of Common Stock, pursuant to the Company s 1994 Stock Incentive Plan, of which 10,000 shares vested during fiscal 2001 and which continue to vest in equal monthly installments through February 2004. Each option granted expires on the tenth anniversary of the date of grant and requires that the exercise price of the option be equal to the closing price of the Common Stock, as reported by the Nasdaq Stock Market.

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SECURITY OWNERSHIP OF CERTAIN HOLDERS AND MANAGEMENT

The following table sets forth the number of shares of the Company s Common Stock beneficially owned by all persons known by the Company to be the beneficial owners of more than 5% of the Company s outstanding Common Stock, by each of the Company s current directors, by each of the executive officers named in the Summary Compensation Table appearing on pages 9 and 10, and by all executive officers and directors of the Company as a group, as of March 15, 2002.

Name and Address of Beneficial Owner(1)	Beneficially Owned Shares Number	Percent
Private Capital Management, L.P.(2) Bruce S. Sherman and Gregg J. Powers 8889 Pelican Bay Blvd., Suite 500 Naples, FL 34108	3,075,410	8.64%
T. Rowe Price Associates, Inc.(3) 100 East Pratt Street Baltimore, MD 21202	3,009,450	8.45%
Joseph W. Alsop(4) 14 Oak Park Bedford, MA 01730	2,991,512	7.90%
Berger LLC(5) 210 University Blvd., Suite 800 Denver, CO 80206	2,537,400	7.13%
Amram Rasiel(6)	490,000	1.37%
Richard D. Reidy(7)	321,921	*
David G. Ireland(8)	227,370	*
Norman R. Robertson(9)	216,093	*
Michael Mark(10)	146,000	*
Arthur J. Marks(11)	84,451	*
Larry R. Harris(12)	70,000	*
Scott A. McGregor(13)	64,500	*
Gregory J. O Connor(14)	56,225	*
Roger J. Heinen, Jr.(15)	40,000	*
All executive officers and directors as a group (13 persons)(16)	4,781,408	12.21%

* Less than 1%

(1) All persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws where applicable and subject to the other information contained in the footnotes to this table.

(2) Derived from Schedule 13G/ A filed February 19, 2002. The persons named reported beneficial ownership of the following shares: Private Capital Management, L.P. (3,075,410); Bruce S. Sherman (3,119,560); and Gregg J. Powers (3,075,410). Mr. Sherman is CEO of Private Capital Management (PCM) and Mr. Powers is President of PCM. In these capacities, Messrs. Sherman and Powers exercise shared dispositive and shared voting power with respect to shares held by PCM s clients and

managed by PCM. Messrs. Sherman and Powers disclaim beneficial ownership for the shares held by PCM s clients and disclaim the existence of a group.

(3) Derived from Schedule 13G/ A dated February 13, 2002. The Schedule 13G/ A states that these securities are owned by various individual and institutional investors which T. Rowe Price Associates, Inc. (Price Associates) serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. Price Associates exercises sole voting power for 1,038,150 shares and sole dispositive power for all shares.

(4) Includes 2,260,301 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(5) Derived from Form 13F dated February 14, 2002. Of this amount, 1,900,000 shares are held by Berger Small Cap Value Fund. Perkins, Wolf, McDonnell & Company is the sub investment advisor delegated with investment and voting authority for these shares.

(6) Includes 80,000 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(7) Includes 316,880 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(8) Includes 222,894 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(9) Includes 196,294 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(10) Includes 110,000 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(11) Includes 80,000 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(12) Represents shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(13) Includes 52,500 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(14) Includes 54,265 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(15) Represents shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

(16)

Includes 3,550,738 shares issuable upon the exercise of outstanding options that are exercisable within 60 days of March 15, 2002.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers, and persons who own more than ten percent of a registered class of the Company s equity securities, to file reports of ownership of, and transactions in, the Company s securities with the Securities and Exchange Commission. This information is also filed with the Nasdaq Stock Market. Such directors, executive officers and ten-percent shareholders are also required to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms received by it, and on written representations from certain reporting persons, the Company believes that with respect to the fiscal year ended November 30, 2001, its directors, officers and ten-percent shareholders complied with all applicable Section 16(a) filing requirements.

In the current fiscal year, Messrs. Heinen, Mark, Marks and Rasiel, directors of the Company, reported information to correct inadvertent failures to report transactions in the Company s securities that occurred during the Company s fiscal year ended November 30, 2000. The transactions consisted of stock option grants made to each director by the Company, which should have been reported on a Form 5 for the fiscal year ended November 30, 2000. The grants were reported on each director s Form 5 filed in January 2002.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has invested a total of approximately $1.3 million for an aggregate interest in EasyAsk of approximately 7%. Mr. Larry R. Harris, a director of the Company, is a founder and Chairman of EasyAsk.

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EXECUTIVE COMPENSATION

The following table sets forth a summary of the compensation earned by (i) the Company s Chief Executive Officer and (ii) the Company s four most highly compensated executive officers other than the CEO during the 2001 fiscal year (collectively, the Named Executive Officers), for services rendered in fiscal 2001, 2000 and 1999.

Summary Compensation Table

Name and Principal Position		Year	Annual Compensation Salary($)	Annual Compensation Bonus($)	Long Term Compensation Awards Securities Underlying Options/SARs(#)	Com
W. Alsop		2001	$350,000	$152,750	250,000	$
	Chief Executive Officer	2000	$350,000	$270,000	250,000	$
		1999	$350,000	$432,500	310,000	$

G. Ireland
$286,666 $101,609 150,000 $18,935
nt, the Progress Company
$258,750 $100,879 120,000 $19,826 1999 $215,000 $121,000 80,000 $15,352
J. O Connor
$205,000 $68,250 (3) $11,574
nt, Sonic Software
$183,750 $39,501 50,000 $11,818 1999 $163,749 $54,694 60,000 $15,827
D. Reidy
$236,706 $70,512 100,000 $14,551
Vice President, Products
$213,750 $76,796 50,000 $16,824 1999 $200,000 $127,624 140,000 $25,810
R. Robertson
$239,166 $67,791 100,000 $15,866
Vice President,
$230,500 $70,201 80,000 $18,541
and Administration
$220,000 $115,067 80,000 $27,899
ef Financial Officer

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(1) The Company did not make any restricted stock awards, grant any stock appreciation rights or make any long-term incentive plan payouts during fiscal 2001, 2000 or 1999.

(2) The amounts disclosed in this column include:

(a) Company contributions for fiscal 2001 of $7,650 to a defined contribution plan, the Progress Software Corporation 401(k) Plan (the 401(k) Plan) for the following individuals: Mr. Alsop, Mr. Ireland, Mr. O Connor, Mr. Reidy, and Mr. Robertson.

(b) Payments by the Company for fiscal 2001 401(k) Plan matching contributions in excess of participation limits imposed on higher-paid individuals under federal tax law, as follows: Mr. Alsop, $16,875; Mr. Ireland, $9,382; Mr. O Connor, $3,408; Mr. Reidy, $6,474; and Mr. Robertson, $6,275.

(c) Payments by the Company in fiscal 2001 of elected taxable long term disability insurance premiums for the benefit of the following executive officers: Mr. Alsop, $975; Mr. O Connor, $160; and Mr. Robertson, $975.

(d) Imputed income in fiscal 2001 of term life insurance premiums for the benefit of the following executive officers: Mr. Alsop, $1,805; Mr. Ireland, $1,903; Mr. O Connor $356; Mr. Reidy, $427; and Mr. Robertson, $966.

(e) Company contributions for fiscal 2000 to the 401(k) Plan of $8,160 for the following individuals: Mr. Alsop, Mr. Ireland, Mr. O Connor, Mr. Reidy, and Mr. Robertson.

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(f) Payments by the Company for fiscal 2000 401(k) Plan matching contributions in excess of participation limits imposed on higher-paid individuals under federal tax law, as follows: Mr. Alsop, $32,861; Mr. Ireland, $10,660; Mr. O Connor, $3,315; Mr. Reidy, $8,226; and Mr. Robertson, $8,463.

(g) Payments by the Company in fiscal 2000 of elected taxable long term disability insurance premiums for the benefit of the following executive officers: Mr. Alsop, $982; and Mr. Robertson, $952.

(h) Imputed income in fiscal 2000 of term life insurance premiums for the benefit of the following executive officers: Mr. Alsop, $1,956; Mr. Ireland, $1,006; Mr. O Connor, $343; Mr. Reidy, $438; and Mr. Robertson, $966.

(i) Company contributions for fiscal 1999 to the 401(k) Plan as follows: Mr. Alsop, $10,080; Mr. Ireland, $5,040; Mr. O Connor, $10,080; Mr. Reidy, $10,080; and Mr. Robertson, $10,080.

(j) Payments by the Company for fiscal 1999 401(k) Plan matching contributions in excess of participation limits imposed on higher-paid individuals under federal tax law, as follows: Mr. Alsop, $45,423; Mr. Ireland $8,821; Mr. O Connor, $5,419; Mr. Reidy, $15,163; and Mr. Robertson, $15,922.

(k) Payments by the Company in fiscal 1999 of elected taxable long term disability insurance premiums for the benefit of the following executive officers: Mr. Alsop, $1,149; and Mr. Robertson, $435.

(l) Imputed income in fiscal 1999 of term life insurance premiums for the benefit of the following executive officers: Mr. Alsop, $1,491; Mr. Ireland, $1,491; Mr. O Connor $328; Mr. Reidy, $567; and Mr. Robertson, $1,462.

(3) During fiscal 2001, Mr. O Connor was granted options to purchase 1,100,000 shares of common stock in Sonic Software Corporation (SSC), a subsidiary of the Company. Mr. O Connor s options were granted at fair market value as established by an independent third party.

OPTION GRANTS IN FISCAL 2001

The following table sets forth certain information with respect to the grant of incentive and non-qualified stock options in fiscal year 2001 for each of the Named Executive Officers.

	Individual Grants				
Name	Number of Securities Underlying Options/SARs Granted(#)	% of Total Options/SARs Granted to Employees in Fiscal Year(3)	Exercise Price ($/Share)(4)	Expiration Date	
	125,000(1)	3.83%	$12.81	4/2/11	$1
	125,000(2)	3.83%	$13.08	10/9/11	$1

81 4/2/11 $676,865 $1,646,989 75,000(2) 2.30% $13.08 10/9/11 $679,562 $1,663,345

81	4/2/11	$451,243	$1,097,993	50,000(2)	1.53%	$13.08	10/9/11	$453,041	$1,108,896
81	4/2/11	$451,243	$1,097,993	50,000(2)	1.53%	$13.08	10/9/11	$453,041	$1,108,896

(1) These non-qualified options vest in equal monthly installments over a 60-month period commencing on March 1, 2001.

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(2) These non-qualified options vest on the date of grant with respect to 13.33% of the total amount, thereafter in equal monthly installments over a 52 month period commencing on November 1, 2001.

(3) The Company granted options to purchase a total of 3,265,025 shares of Common Stock in fiscal 2001. The Company granted no SARs during fiscal 2001.

(4) All options were granted at fair market value, which was determined by the Compensation Committee to be the closing price of our common stock on the date of grant, as reported by The Nasdaq Stock Market, National Market System.

(5) The amounts shown represent hypothetical values that could be achieved for the respective options if exercised at the end of their option terms. These gains are based on assumed rates of stock appreciation of 5% and 10%, compounded annually from the date the respective options were granted to the date of their expiration. The gains shown are net of the option price, but do not include deductions for taxes or other expenses that may be associated with the exercise. Actual gains, if any, on stock option exercises will depend on future performance of the Common Stock, the optionholders continued employment through the option period, and the date on which the options are exercised.

AGGREGATED OPTION/ SAR EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/ SAR VALUES

The following table sets forth certain information with respect to option exercises in fiscal year 2001 and the value of unexercised options, as of November 30, 2001, for each of the Named Executive Officers.

			Number of Securities Underlying Unexercised Options/SARs at Fiscal Year-End(#)(1)	Value of Unexercised In-the-Money Options/SARs at Fiscal Year-End($)(1)(2)
Name	Shares Acquired On Exercise(#)	Value Realized($)	Exercisable/ Unexercisable	Exercisable/ Unexercisable
Joseph W. Alsop	20,300	$179,104	2,115,300/652,000	$20,969,763/$3,310,781
David G. Ireland	28,400	$262,895	174,713/291,989	$1,049,363/$1,402,280
Gregory J. O Connor	6,650	$71,261	49,316/ 14,699	$341,919/$ 135,584
Richard D. Reidy		$	254,348/254,430	$2,141,653/$1,489,831
Norman R. Robertson	10,000	$111,002	153,368/210,526	$1,053,033/$1,033,256

(1) As of November 30, 2001 the Company had issued no SARs.

(2) Calculated on the basis of an assumed value of $17.08 per share, which was the average of the high and the low sale prices of the Company s Common Stock on November 30, 2001, as reported by the Nasdaq Stock Market,

less the applicable exercise price.

EMPLOYEE RETENTION AND MOTIVATION AGREEMENTS

The Company has entered into an agreement (an Employee Retention and Motivation Agreement) with the CEO and each of the Named Executive Officers (Covered Persons). Each Employee Retention and Motivation Agreement provides for certain payments and benefits upon a Change in Control (as defined in such agreement) of the Company and upon an Involuntary Termination (as defined in such agreement) of the Covered Person s employment by the Company. Upon a Change in Control, the final twelve-month vesting portion of each outstanding unvested option grant held by the Covered Persons shall automatically accelerate and each Covered Person s annual cash bonus award shall be fixed and guaranteed at his respective target level. Payment of such bonus will immediately occur on a pro-rata basis with respect to the elapsed part

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of the relevant fiscal year and the balance of such bonus will be paid at the end of such fiscal year or immediately upon Involuntary Termination of such Covered Person if such event occurs prior to the end of the relevant fiscal year. Upon Involuntary Termination of a Covered Person, the final twelve-month vesting portion of each outstanding unvested option held by such Covered Person shall automatically accelerate. If such Involuntary Termination occurs within six months following a Change in Control then the Covered Person shall receive a lump sum payment equal to nine months of target compensation and such Covered Person s benefits shall continue for nine months. If such Involuntary Termination occurs after six months but prior to twelve months following a Change in Control then the Covered Person shall receive a lump sum payment equal to six months of target compensation and such Covered Person s benefits shall continue for six months.

AUDIT COMMITTEE REPORT

In accordance with its written charter, the Audit Committee assists the Board of Directors (the Board) in fulfilling its oversight responsibilities relating to the financial information which will be provided to the shareholders and others, the internal control system which management and the Board have established and the audit process. Each member of the Audit Committee is independent as defined by the Nasdaq Stock Market s listing standards.

Management is responsible for the internal controls, preparation, and integrity of the Company s financial statements. The Company s independent auditors, Deloitte & Touche LLP, are responsible for performing an audit of the Company s consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and issuing an opinion on the financial statements. The Audit Committee has met and held discussions with management and the independent auditors regarding the internal controls, financial reporting practices and the audit process of the Company.

The Audit Committee obtained from Deloitte & Touche LLP the disclosures and letter required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees . The Audit Committee and Deloitte & Touche LLP have also discussed the disclosures, letter and independence of Deloitte & Touche LLP.

The Audit Committee reviewed and discussed the audited consolidated financial statements of the Company for the fiscal year ended November 30, 2001 with management and the independent auditors. Management has represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

The Audit Committee reviewed and discussed with Deloitte & Touche LLP the communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, Communication with Audit Committees , as amended, and discussed the results of the independent auditors examination of the financial statements.

Based on the above-mentioned reviews and discussions with management and the independent auditors, the Audit Committee recommended to the Board that the Company s audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended November 30, 2001, filed with the Securities and Exchange Commission.

Michael L. Mark, Chairman
Roger J. Heinen, Jr.
Amram Rasiel

PRINCIPAL ACCOUNTING FIRM FEES

Aggregate fees billed to the Company for services performed for the fiscal year ended November 30, 2001 by the Company s principal accounting firm, Deloitte & Touche LLP are as follows:

Audit Fees	$492,000(1)
Financial Information Systems Design and Implementation Fees	$
All Other Fees	$351,000(2)

(1) Includes statutory audit fees related to the Company s wholly owned foreign subsidiaries as the results of these audits are utilized in the audit of the consolidated financial statements.

(2) Includes fees primarily for tax advice and tax return assistance.

The Audit Committee has considered whether Deloitte & Touche s provision of services beyond those rendered in connection with their audit and review of the Company s consolidated financial statements was compatible with maintaining their independence.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of the Compensation Committee of the Company s Board of Directors are Arthur J. Marks and Scott A. McGregor. Neither of them is or has ever been an officer or employee of the Company or of any of its subsidiaries. No member of the Compensation Committee is a party to any relationship required to be disclosed under Item 402 or Item 404 of Regulation S-K promulgated by the Securities and Exchange Commission.

COMPENSATION COMMITTEE REPORT

The Company s executive compensation program is established by the Compensation Committee. The Company s philosophy is to reward executives based upon corporate and individual performance as well as to provide long-term incentives for the achievement of future financial and strategic goals. These goals include growth of the Company, defined primarily in terms of growth in revenue and earnings per share. It is also the Company s philosophy to base a significant portion of the executive s total compensation opportunity on performance incentives consistent with the scope and level of the executive s responsibilities.

The executive compensation program for fiscal 2001 consisted of the following three elements: (1) base salary; (2) incentive compensation in the form of annual cash bonus awards earned under the Company s Fiscal 2001 Bonus Program for Executives and Key Contributors (the 2001 Bonus Program); and (3) equity-based long-term incentive compensation in the form of stock options. The Compensation Committee believes that executive compensation should be aligned with long-term shareholder value. Therefore, the elements of the executive compensation program are weighted such that the equity-based long-term element is potentially the most rewarding element. All elements of the executive compensation program are designed to be competitive with those of comparable technology companies. A further explanation of the elements of the executive compensation program as they relate to the CEO is provided below.

Total cash compensation is comprised of base salary and annual bonus. Base salary increases for fiscal 2001 were based upon individual and departmental contribution and performance. The 2001 Bonus Program was established by the Compensation Committee and approved by the Board of Directors. For each participant, the 2001 Bonus Program provided for a specified payment as a percentage of base salary depending on the attainment of targeted growth levels for revenue and earnings per share. The target growth

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levels are approved by the Board of Directors. If the Company achieves 100% of its revenue and earnings per share targets, 100% of the specified bonus is paid. More or less than 100% of the specified bonus may be paid depending on the Company s level of achievement and the Compensation Committee s assessment of the Company s strength, stability and strategic position, as well as individual contribution. Bonus awards paid in fiscal 2001 were based upon the Company s revenue achievement, earnings per share and the Compensation Committee s assessment of the Company s strength, stability and strategic position.

Total cash compensation received by Mr. Alsop decreased for fiscal year 2001 compared to fiscal year 2000 by 18.9% due to partial non-attainment of targeted revenue and earnings per share goals in fiscal 2001. Mr. Alsop s decrease in fiscal 2001 total cash compensation was entirely due to a lower payout of cash bonus. Mr. Alsop s bonus was based on fiscal 2001 Company accomplishments as compared to target objectives as described above. Base salary for Mr. Alsop remained the same during fiscal year 2001 as compared to fiscal year 2000.

Long-term incentive compensation, in the form of stock options, is intended to correlate executive compensation with the Company s long-term success as measured by the Company s stock price. Stock options are tied to the future success of the Company because options granted have an exercise price equal to the closing market value at the date of the grant and will only provide value to the extent that the price of the Company s stock increases above the exercise price. Since options granted generally vest monthly over a five-year period, option participants are encouraged to continue employment with the Company. During fiscal 2001, Mr. Alsop and the other Named Executive Officers received non-qualified stock options as disclosed in the Option Grant Table on pages 10 and 11.

The Compensation Committee approved a discretionary matching contribution to the 401(k) Plan for fiscal 2001, representing up to 4.5% of each eligible employee s calendar year compensation, including base salary, commissions and bonus, depending on the employee s length of service with the Company and the employee s contribution level. The Named Executive Officers also received such a contribution, except that, due to limitations imposed on 401(k) matching contributions to higher-paid individuals under federal tax law, a portion of the contributions that otherwise would have been received by Mr. Alsop and the other Named Executive Officers disclosed in the Summary Compensation Table, pursuant to the 401(k) Plan were instead paid directly to such individuals. All such amounts are disclosed under Other Compensation in the Summary Compensation Table on pages 9 and 10.

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) imposes an annual limit of $1,000,000 on tax deductions that an employer may claim for compensation of certain executives. Section 162(m) of the Code provides exceptions to the deduction limitation for performance-based compensation, and it is the intent of the Compensation Committee to take advantage of such exceptions to the extent feasible and in the best interests of the Company.

Arthur J. Marks
Scott A. McGregor

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STOCK PERFORMANCE GRAPH

The following line graph compares the Company s cumulative shareholder return with that of a broad market index (Nasdaq Stock Market Index for U.S. Companies) and a published industry index (Nasdaq Computer and Data Processing Services Stocks). Each of these indices is calculated assuming that $100 was invested on November 30, 1996.

Comparative 5-Year Cumulative Total Return

Among Progress Software Corporation, Nasdaq Stock Market Index and Nasdaq Computer and Data Processing Services Stocks