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[LOGO] [Logo of Pegasystems]

Dear Stockholder:

We cordially invite you to attend our 2002 Annual Meeting of Stockholders on Tuesday, June 4, 2002 at One Main Street, Cambridge, Massachusetts. The Meeting will commence at 3:00 P.M.

The following Notice of Annual Meeting of Stockholders and Proxy Statement describe the items to be considered by the stockholders and contain certain information about the Company and its officers and directors.

Please sign and return the enclosed proxy card as soon as possible in the envelope provided so that your shares can be voted at the Meeting in accordance with your instructions. Even if you plan to attend the Meeting, we urge you to sign and promptly return the proxy card. You can revoke it at any time before it is exercised at the Meeting, or vote your shares personally if you attend the Meeting.

We look forward to seeing you on June 4, 2002.

Sincerely,

/s/ Alan Trefler
Alan Trefler
Chairman and Chief Executive Officer

May 1, 2002

PEGASYSTEMS INC.

101 Main Street
Cambridge, MA 02142

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To be held on June 4, 2002

To the Stockholders of Pegasystems Inc.:

Notice is hereby given that the Annual Meeting of Stockholders (the "Meeting") of Pegasystems Inc. (the "Company") will be held at One Main Street, Cambridge, Massachusetts, on Tuesday, June 4, 2002 at 3:00 P.M., local time, for the following purposes:

1. To re-elect three members of the Board of Directors to hold office until the 2005 Annual Meeting of Stockholders and until their successors are duly elected and qualified.

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2. To ratify the Board of Directors' selection of Deloitte & Touche LLP as the independent public accountants for the Company for the year ending December 31, 2002.
3. To transact such other business as may properly come before the Meeting or any adjournment(s) thereof.

Only stockholders of record at the close of business on the record date, April 15, 2002, will receive notice of the Meeting and be entitled to vote at the Meeting or any adjournment(s) thereof. The transfer books will not be closed.

You are cordially invited to attend the Meeting in person if possible. Whether you plan to attend the Meeting or not, please fill out, sign and date the enclosed proxy and return it in the envelope enclosed for this purpose. The proxy is revocable by the person giving it at any time prior to the exercise thereof by written notice received by the Company, by delivery of a duly executed proxy bearing a later date, or by attending the Meeting and voting in person.

By Order of the Board of Directors

June M. Morris
Clerk

May 1, 2002

PEGASYSTEMS INC.

101 Main Street
Cambridge, MA 02142

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS

To Be Held On June 4, 2002

This Proxy Statement is furnished to the holders of the Common Stock, \$.01 par value (the "Common Stock"), of Pegasystems Inc. (the "Company") in connection with the solicitation by and on behalf of the Board of Directors of the Company of proxies for use at the Annual Meeting of Stockholders of the Company to be held at One Main Street, Cambridge, Massachusetts, on Tuesday, June 4, 2002 at 3:00 P.M. local time, and at any adjournment(s) thereof. Each properly signed proxy will be voted in accordance with the instructions contained therein, and, if no choice is specified, the proxy will be voted in favor of the proposals set forth in the Notice of Annual Meeting.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Company a written notice of revocation or a duly executed proxy bearing a later date, or by attending the Meeting and voting in person.

This Proxy Statement, the enclosed proxy and Annual Report to Stockholders for the year ended December 31, 2001, are being mailed to the stockholders on or about May 1, 2002. The Annual Report does not constitute any part of this Proxy Statement.

The entire cost of this solicitation will be paid by the Company. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding

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solicitation material to such beneficial owners.

Only stockholders of record of the Company's 33,465,521 shares of Common Stock outstanding as of the close of business on the record date, April 15, 2002, will be entitled to vote. Each share of Common Stock is entitled to one vote at the Meeting or any adjournment(s) thereof. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock entitled to vote is necessary to constitute a quorum at the Meeting. Shares voted to abstain or to withhold as to a particular matter as to which a nominee (such as a broker holding shares in street name for a beneficial owner) has no voting authority in respect of such matter will be deemed represented for quorum purposes. Under the Company's by-laws, such shares will not be deemed to be voting on such matter, and therefore will not be the equivalent of negative votes as to such matter. Votes will be tabulated by the Company's transfer agent subject to supervision of persons designated by the Board of Directors as inspectors.

The affirmative vote of the holders of a plurality of the shares represented at the Meeting, at which a quorum is present, is required for the election of Directors. Approval of other matters before the Meeting will require the affirmative vote at the Meeting, at which a quorum is present, of the holders of a majority of votes cast with respect to such matters.

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PRINCIPAL AND MANAGEMENT STOCKHOLDERS

The following table sets forth certain information as of January 10, 2002, with respect to the beneficial ownership of the Company's common stock by (i) each person known by the Company to be the beneficial owner of more than 5% of the outstanding Common Stock of the Company, (ii) each Director of the Company, (iii) each of the Named Executive Officers and (iv) all executive officers and Directors of the Company as a group. To the knowledge of the Company, based on information provided by such owners, all persons listed below have sole voting and investment power with respect to their shares of Common Stock, except to the extent authority is shared by spouses under applicable law. The information provided below regarding persons beneficially owning more than 5% of the Company's Common Stock is based solely on public filings made by such persons with the SEC through February 14, 2002.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENTAGE OF SHARES BENEFICIALLY OWNED
Alan Trefler (2)	22,237,100	64.6%
Richard H. Jones (3)	1,298,500	3.8%
Joseph J. Friscia (4)	605,000	1.8%
James P. O'Halloran (5)	204,500	*
Steven F. Kaplan (4)	50,000	*
Edward A. Maybury (4)	68,500	*
Kenneth Olson (6)	338,625	1.0%
Michael R. Pyle (4)	294,912	*
Christopher J. Sullivan (4)	9,375	*
Edward B. Roberts (7)	171,500	*
William H. Keough (8)	30,000	*
Alexander V. d'Arbeloff (8)	1,020,000	3.0%
William W. Wyman (4)	20,000	*
Wellington Management Company, LLP	1,796,900	5.5%

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All executive officers and directors as a group
(14 persons) (9)..... 28,144,912 81.8%

* Represents beneficial ownership of less than 1% of the outstanding Common Stock.

- (1) The number of shares of Common Stock deemed outstanding includes (i) 32,755,336 shares of Common Stock outstanding as of January 10, 2002 and (ii) shares issuable pursuant to outstanding options held by the respective person or group which are exercisable within 60 days of January 10, 2002, as set forth below.
- (2) Includes 375,000 shares held in trust with respect to which Mr. Trefler has voting and dispositive power. Mr. Trefler disclaims beneficial interest.
- (3) Includes 247,500 shares of Common Stock subject to stock options exercisable within 60 days of January 10, 2002.
- (4) Consists solely of shares of Common Stock subject to stock options exercisable within 60 days of January 10, 2002.
- (5) Includes 170,000 shares of Common Stock subject to stock options exercisable within 60 days of January 10, 2002.
- (6) Includes 98,625 shares of Common Stock subject to stock options exercisable within 60 days of January 10, 2002.
- (7) Includes 66,500 shares of Common Stock subject to stock options exercisable within 60 days of January 10, 2002.
- (8) Includes 20,000 shares of Common Stock subject to stock options exercisable within 60 days of January 10, 2002.
- (9) Includes 1,670,412 shares of Common Stock subject to stock options exercisable within 60 days of January 10, 2002 and the 375,000 shares of Common Stock described in footnote (2) above.

ELECTION OF DIRECTORS
(Item 1 of Notice)

There are currently nine members of the Board of Directors, divided into three classes with terms expiring respectively at the 2002, 2003 and 2004 annual meetings of stockholders. The Board has nominated Edward B. Roberts, James P. O'Halloran and Richard H. Jones, whose terms are expiring, for re-election to the class of directors whose term expires in 2005. Messrs. Roberts, O'Halloran and Jones have consented to serve, if elected at the Meeting, for a three-year term expiring at the time of the 2005 annual meeting of stockholders and when their respective successors are elected and qualified. The shares represented by the enclosed proxy will be voted to elect Messrs. Roberts, O'Halloran and Jones unless such authority is withheld by marking the proxy to that effect. Each of Messrs. Roberts, O'Halloran and Jones has agreed to serve, but in the event any of them shall unexpectedly become unavailable for election, the proxy, unless authority has been withheld as to such nominee, may be voted for election of a substitute. Proxies may not be voted for more than three persons.

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THE BOARD OF DIRECTORS RECOMMENDS ELECTION OF THE NOMINEES AS DIRECTORS.

The following information is furnished with respect to the nominees for election as Directors and each other Director.

NOMINEES FOR ELECTION FOR TERM OF THREE YEARS EXPIRING IN 2005

Edward B. Roberts, 66, has been a Director of Pegasystems since June 1996. In December 2000, he was also elected a member of our Compensation Committee. Since the early 1960s, he has been the David Sarnoff Professor of Management of Technology at the Massachusetts Institute of Technology, where he founded and chairs the MIT Entrepreneurship Center. Dr. Roberts co-founded and is a Director of Medical Information Technology, Inc., a leading provider of healthcare information systems. He is also a Director of Advanced Magnetics, Inc., a specialty pharmaceutical company; NETsilicon, Inc., a semiconductor producer that links equipment to the Internet; Inverness Medical Technology, Inc., a manufacturer of medical diagnostics products; SOHU.com, Inc., an internet portal, and several early-stage high-technology firms. Dr. Roberts co-founded and served for 20 years as a general partner of the Zero Stage and First Stage Capital group of venture capital funds.

James P. O'Halloran, 69, has been a Director of Pegasystems since 1999. From April 1999 to August 2001, he was the Senior Vice President, Chief Financial Officer, Treasurer, and Clerk of Pegasystems Inc. From 1991 to 1999 he served as President of G & J Associates, Ltd., a financial consulting firm. From 1956 to 1990, he was with the international accounting firm of Arthur Andersen LLP serving as an audit partner from 1967 to his retirement in 1990. Mr. O'Halloran also currently serves as a director of ASA International Ltd., a software firm focusing on business applications for small and medium sized companies.

Richard H. Jones, 50, joined Pegasystems in October 1999 as President and C.O.O. and was elected a Director of Pegasystems in November 2000. Prior to joining Pegasystems, he served as a Chief Asset Management Executive and member of the Operating Committee at Barnett Banks, Inc., which at the time was among the nation's 25 largest banks, from 1995 to 1997. He served as CEO of Fleet Investment Services, a brokerage and wealth management organization from 1991 to 1995. His prior experience also includes serving as Executive Vice President with Fidelity Investments, an internal provider of financial services and investment resources and as a principal with the consulting firm of Booz, Allen & Hamilton. Mr. Jones holds an undergraduate degree from Duke University, with majors in both economics and management science. He also holds an M.B.A. degree from the Wharton School of the University of Pennsylvania.

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DIRECTORS WHOSE TERM EXPIRES IN 2003

Steven F. Kaplan, 46, has served as a Director of Pegasystems since August 1999. As of December 2000 he was also elected a member of our Audit Committee. He currently is a Managing Director of The Audax Group, a private equity and venture capital firm. From 1998 to 2000, Mr. Kaplan was affiliated with Texas Pacific Group, a private equity firm, and he served as President, Chief Operating Officer and Chief Financial Officer of Favorite Brands International Holding Corp., a confectionery company controlled by Texas Pacific Group. From 1996 to 1997, Mr. Kaplan was Executive Vice President and Chief Financial Officer of the Coleman Company, an international manufacturer of camping, outdoor recreation and hardware equipment. From 1993 to 1996, Mr. Kaplan was a financial and strategy consultant to venture capital and buy-out firms. During 1994, Mr. Kaplan served as Chief Financial Officer of Marcam Corporation, a software developer. Prior to that, Mr. Kaplan served as Executive Vice

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President and Chief Financial Officer of AM International, President of Harris Graphics and Partner of Boston Consulting Group. Mr. Kaplan holds an MS in Management, a BS in Electrical Engineering and Computer Science and a BS in Management Science from the Massachusetts Institute of Technology.

Alan Trefler, 45, a founder of Pegasystems, served as President until October 1999 and Clerk until June 1999 and has been Chief Executive Officer and a Director since we organized in 1983. Prior to that, he managed an electronic funds transfer product for TMI Systems Corporation, a software and services company. Mr. Trefler holds a degree in economics and computer science from Dartmouth College.

William W. Wyman, 64, has been a director of Pegasystems since June 2000. In December 2000, he was also elected a member of our Audit Committee. From 1984 through 1995, Mr. Wyman was a partner at Oliver, Wyman & Company, a management consulting company which he co-founded. Mr. Wyman is also currently a director of US Timberlands, a limited partnership consisting of the growing of trees and the sale of logs and standing timber; and Predictive Systems, a network consulting company focused on the design, performance, management and security of complex computing networks.

DIRECTORS WHOSE TERM EXPIRES IN 2004

Edward A. Maybury, 62, has been a Director of Pegasystems since our organization in 1983. In December 2000, he was also elected a member of our Compensation Committee. Since July 1992, he has served as a Director, and from April 1992 through May 1993 was the President and Chief Executive Officer, of Creative Systems, Inc., a software and services company. Prior thereto, Mr. Maybury was the Chief Executive Officer of Data Architect Systems, Inc., a software and services company.

William H. Keough, 64, has been a Director of Pegasystems and a member of our Audit Committee since June 2000. He served as a director of Thermo Ecoteck Corporation, an environmentally sound power plants and fuels public company, from November 1999 until September 2000, when the company was spun back into its parent, Thermo Electron. He also serves as chairman of the Board of Trustees of the National Multiple Sclerosis Society's Central New England chapter. He served as Senior Vice President and Chief Financial Officer of two public companies from 1968 to 1999, most recently at the Pioneer Group, a financial services business with \$20 billion in assets, from 1986 to his retirement in 1999. Mr. Keough holds a B.S./B.A. in Finance from Boston College and an M.B.A. from Northeastern University.

Alexander V. d'Arbeloff, 74, has been a Director of Pegasystems since August 2000. As of December 2000, he was also elected a member of our Compensation Committee. In 1960, Mr. d'Arbeloff co-founded Teradyne, Inc., a leading manufacturer of automatic test equipment and interconnection systems for the electronics and telecommunications industries. Mr. d'Arbeloff served as President and Chief Executive Officer of Teradyne until May 1997, and remained Chairman of the Board until June 2000. Since 1989, Mr. d'Arbeloff has been a member of the MIT Corporation, and was named its Chairman in July 1997. Mr. d'Arbeloff also serves on the board of PRI Automation Inc. and on the boards of several private companies.

BOARD OF DIRECTORS AND COMMITTEE MEETINGS

The Company's Board of Directors has established an Audit Committee and a Compensation Committee. The Audit Committee is responsible for nominating the

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Company's independent public accountants for approval by the Board of Directors, reviewing the scope, results and costs of the audit with the Company's independent public accountants and reviewing the financial statements of the Company. Messrs. Kaplan, Keough and Wyman are currently the members of the Audit Committee. The Audit Committee met five times during 2001. The Compensation Committee is responsible for recommending compensation and benefits for the executive officers of the Company to the Board of Directors and for administering the Company's stock plans. Messrs. d'Arbeloff, Maybury and Roberts are currently the members of the Compensation Committee. The Compensation Committee met twice during 2001.

During 2001, the Board of Directors of the Company held six meetings. Each incumbent Director attended at least 75% of the aggregate number of meetings of the Board and the meetings of the committees of the Board on which he served.

DIRECTOR COMPENSATION

Each non-employee Director of the Company receives \$1,000 for every Board or committee meeting attended. The Company also reimburses non-employee Directors for expenses incurred in attending board meetings. In addition, non-employee Directors of the Company are eligible to receive stock options under the company's 1996 Non-Employee Director Stock Option Plan and all Directors are eligible to receive stock options and stock grants under the Company's 1994 Long-Term Incentive Plan. Each non-employee director is granted on an annual basis a fully vested option to purchase 10,000 shares of Common Stock at a price equal to the fair market value of the common stock on the date of grant under the 1996 Non-Employee Director Stock Option Plan. No other compensation is paid to Directors for attending Board or committee meetings. Messrs. d'Arbeloff, Maybury, Roberts, Keough, Kaplan, O'Halloran and Wyman are currently the non-employee Directors of the Company.

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EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by or paid for services rendered to the Company in all capacities during the years ended December 31, 2001, 2000, and 1999 by (i) the Company's Chief Executive Officer and (ii) the four most highly compensated other executive officers (collectively, the "Named Executive Officers"):

Summary Compensation Table

NAME AND PRINCIPAL POSITIONS	ANNUAL COMPENSATION (1)		LONG TERM COMPENSATION		
	-----		-----		
	YEAR	SALARY (\$)	BONUS (\$)	AWARDS	SECURITIES UNDERLYING OPTIONS (#)
-----	-----	-----	-----	-----	-----
Alan Trefler	2001	\$200,000	\$ 70,000 (7)	--	--
Chairman and Chief	2000	200,000	--	--	--
Executive Officer	1999	200,000	--	--	--
Richard H. Jones	2001	250,000	125,000 (7)	100,000	\$75,000

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President and Chief Operations Officer	2000	250,000	--	--	74,475
	1999	46,556	--	410,000	--
Joseph J. Friscia	2001	255,000	80,000 (7)	30,000	--
Executive Vice President of Sales and Service	2000	200,000	--	50,000	60,554
	1999	200,000	60,000 (2)	100,000	86,869
Michael R. Pyle	2001	177,500	70,000 (7)	40,000	--
Senior Vice President of Product Development	2000	155,000	3,079 (3)	50,000	1,644
	1999	155,000	60,000 (2)	35,000	30,734
James P. O'Halloran	2001	160,000	--	10,000	1,438 (4)
Retired Senior Vice President and Chief Financial Officer (6)	2000	240,000	50,000 (5)	10,000	--
	1999	150,728	--	150,000	4,406
Kenneth Olson	2001	155,000	50,000 (7)	30,000	--
Senior Vice President of Advanced Technology	2000	145,000	3,000 (3)	40,000	11,457
	1999	145,000	40,000 (2)	30,000	53,385

- (1) In accordance with the rules of the Securities and Exchange Commission, other compensation in the form of perquisites and other personal benefits has been omitted because the aggregate amount of such perquisites and other personal benefits constituted less than the lesser of \$50,000 or 10% of the total of annual salary and bonuses for each of the Named Executive Officers for 2001, 2000, and 1999.
- (2) Represents bonuses earned in 1999 and paid in 2000.
- (3) Represents payment for Y2K on-call coverage.
- (4) Represents travel allowance.
- (5) Represents bonus earned and paid in 2000.
- (6) Mr. O'Halloran retired on August 31, 2001.
- (7) Represents bonuses earned in 2001 and paid in 2002.

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Option Grants

The following table provides certain information concerning grants of options to purchase the Company's Common Stock made during the fiscal year ending December 31, 2001, to each of the Named Executive Officers:

Option Grants in Fiscal 2001

INDIVIDUAL GRANTS	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (1)

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NAME	NUMBER OF	PERCENT OF	EXERCISE OR	EXPIRATION	5% (\$)	10% (\$)
	SHARES	TOTAL OPTIONS				
	UNDERLYING	GRANTED TO	BASE PRICE			
	OPTIONS	EMPLOYEES IN	(\$/SHARE)	DATE		
	GRANTED (#)	FISCAL YEAR				
Alan Trefler.....	--	--	--	--	--	--
Richard H. Jones...	50,000 (2)	2.2%	\$3.3450	6/5/11	105,183	266,553
	50,000 (2)	2.2%	\$2.3310	10/5/11	73,298	185,751
Joseph J. Friscia..	30,000 (2)	1.3%	\$4.3830	3/8/11	82,694	209,561
Michael R. Pyle....	40,000 (2)	1.8%	\$4.3830	3/8/11	110,258	279,415
James P. O'Halloran	10,000 (3)	0.4%	\$3.3450	6/5/11	21,037	53,311
Kenneth Olson.....	30,000 (2)	1.3%	\$4.3830	3/8/11	82,694	209,561

- (1) As required by the rules of the Securities and Exchange Commission, potential values stated are based on the prescribed assumption that the Company's common stock will appreciate in value from the date of grant to the end of the option term at rates (compounded annually) of 5% and 10%, respectively, and therefore are not intended to forecast possible future appreciation, if any, in the price of the Company's common stock.
- (2) These options vest in equal quarterly installments over four-years from the date of grant, which was June 5, 2001 and October 5, 2001, respectively for Richard H. Jones, and March 8, 2001 for Joseph J. Friscia, Michael R. Pyle, and Kenneth Olson.
- (3) These options were fully vested at the time of grant.

Year-End Option Table

The following table sets forth certain information concerning the number and value of unexercised stock options held by each of the Named Executive Officers as of December 31, 2001. None of the named Executive Officers exercised options during 2001.

Year-End Options Value

NAME	NUMBER OF SHARES		VALUE OF UNEXERCISED	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
	UNDERLYING	UNEXERCISED	IN-THE-MONEY	OPTIONS
	OPTIONS	AT YEAR-END	AT YEAR-END (\$)	
Alan Trefler.....	--	--	--	--
Richard H. Jones...	216,250	293,750	\$ 7,581	\$144,919
Joseph J. Friscia..	590,500	94,500	\$1,179,757	--
Michael R. Pyle....	282,350	111,750	\$ 683,184	\$ 1,706
James P. O'Halloran	170,000	--	\$ 20,450	--
Kenneth Olson.....	88,875	86,125	\$ 2,438	\$ 1,463

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CERTAIN TRANSACTIONS

Except as described below, during 2001 there were no transactions involving more than \$60,000, nor are any proposed, between the Company and any executive officer, Director, beneficial owner of 5% or more of the Company's Common Stock or equivalents, or any immediate family member of any of the foregoing, in which any such persons or entities had or will have a direct or indirect material interest.

On May 10, 2001, the Company entered into an employment agreement with Joseph Friscia setting forth his responsibilities and compensation. The agreement requires the Company to pay Mr. Friscia an annual base salary of \$250,000 and all legal defense expenses arising out of Mr. Friscia's employment. In addition, subject to Mr. Friscia executing a general release of claims against the Company, in the event the Company terminates Mr. Friscia's employment without cause or Mr. Friscia terminates his employment for any reason, the agreement provides for one year of base salary continuation, one year of continued coverage under the Company's group health insurance plan and up to \$10,000 of outplacement support services. Under the agreement, Mr. Friscia confirmed his earlier agreement not to compete with the Company's business during the term of his employment and for eighteen months thereafter and also agreed not to solicit any of the Company's employees for a period of eighteen months after the termination of his employment.

The Company has adopted a policy whereby transactions between the Company and its officers, Directors, principal stockholders and their affiliates must be on terms no less favorable to the Company than could be obtained from unrelated third parties and must be approved by a majority of the disinterested members of the Company's Board of Directors.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

General

The Compensation Committee of the Board of Directors (the "Committee") is composed entirely of Directors who are not employees of or consultants to the Company. The Committee, which as of May 1, 2002 consisted of Alexander V. d'Arbeloff, Edward A. Maybury and Edward Roberts, is responsible for recommending compensation and benefits for the executive officers of the Company to the Board of Directors and for administering the Company's stock plans. The Committee determines the compensation for the President. The Committee and the President together determine the compensation for the other executive officers of the Company.

Compensation Philosophy

The objective of the Committee is to provide an executive compensation program that aligns executive compensation with the achievement of specific company goals. The Committee believes that executive compensation should also reflect the value that an individual adds to the Company and that executive compensation should enable the Company to attract and retain key employees in an increasingly competitive industry environment.

Compensation Components

There are two compensation components for executive officers: cash compensation in the form of salary and merit pay, and non-cash compensation in the form of stock options.

Salary. Cash compensation in the form of salary is intended to reflect an executive's knowledge, skills, and level of responsibility as well as the economic and business conditions affecting the Company. The salary of each

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executive was determined by the Committee in part by analyzing published compensation surveys (the

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"Surveys") such as the annually-published Culpepper Surveys on Software Industry Executive and Administrative Pay, published surveys by The Survey Group and Executive Alliance. In addition, the Committee considered its assessment of an executive's individual personal performance with respect to his or her attainment of specific company goals.

Merit Pay. Merit pay reflects the financial valuation of each executive's individual contribution to the Company over the review period. An executive's ability to achieve closure on critical projects, to attain required results, and to contribute positively to Company tone in the process are critical to ensuring the strong financial performance of the Company as a whole, and thus helps define the executive's financial value. Awards of merit payments are made at the discretion of the Board of Directors, based upon its opinions of each executive's contributions to the Company. No pre-set amount is allocated and available in a "merit pay pool" for executive officers.

Stock Options. The Committee uses stock options as a long-term, non-cash incentive and as a means of aligning the long-term interests of executives and stockholders. Stock options are awarded based upon the market price of the Common Stock on the date of grant and are linked to future performance of the Company's stock because they do not become valuable to the holder unless the price of the Company's stock increases above the price on the date of grant. The number of stock options granted to an executive as a form of non-cash compensation is determined by taking into consideration factors such as number of stock options previously granted to an executive, the executive's remaining options exercisable and the value of those stock options, as compared to the anticipated value that an executive will add to the Company in the future. Stock options are not necessarily granted to executives on an annual basis. Stock options were granted to certain executive officers during 2001.

Compensation of the Chief Executive Officer and All Other Executive Officers

The Committee, in its consideration of the salary, merit pay and stock option components of compensation for 2001 for the Chief Executive Officer and all other executive officers, made reference to the Surveys, which it believes represent compensation data from companies that are similar in nature to the Company. The salary, merit pay and stock option components of compensation that was determined for the Chief Executive Officer and all other executive officers was comparable with companies found in the Surveys.

The Surveys and the Pegasystems Inc. Performance Graph

The companies included in the Surveys differ from the companies included in the Goldman Sachs Technology Software Index, which is included in the Performance Graph following this report, in that the Goldman Sachs Technology Software Index includes only a select number of public companies which sell software, while the Surveys include public as well as private companies which sell software and integrated turnkey systems, and is therefore broader in scope. The Committee made reference to the Surveys and to the Executive Alliance in establishing executive compensation because the Surveys include companies that are in the software industry, as is the Company, and contain a broader range of companies that are likely to compete for the services of the Company's executive officers. For these reasons the Committee believes that the Goldman Sachs Technology Software Index may be an appropriate basis for comparing stock performance and the Surveys are an appropriate basis for

determining compensation.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code, enacted in 1993, generally disallows a tax deduction to public companies for compensation over \$1 million paid to its chief executive and its four other most highly compensated executives. Performance-based compensation is excluded from the compensation taken into account for purposes of the limit if certain requirements are met. The Company currently intends to structure its stock options granted to executives in a manner that complies with the performance-based requirements of the

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statute. The Committee believes that, given the general range of salaries and bonuses for executive officers of the Company, the \$1 million threshold of Section 162(m) will not be reached by any executive officer of the Company in the foreseeable future. Accordingly, the Committee has not considered what its policy regarding compensation not qualifying for federal tax deduction might be at such time, if ever, as that threshold is within range of any executive officer.

Compensation Committee

Alexander V. d'Arbeloff
Edward A. Maybury
Edward Roberts

Compensation Committee Interlocks and Insider Participation

No executive officer of the Company has served as a Director or member of the Company's Compensation Committee (or other committee serving an equivalent function) of any other entity, whose executive officers served on the Company's Board of Directors or Compensation Committee.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee (the "Audit Committee") oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. The primary duties and responsibilities of the Audit Committee are to: (1) serve as an independent and objective party to monitor the Company's financial reporting process and internal control systems; (2) review and appraise the audit efforts of the Company's independent auditors and internal audit department; (3) evaluate the Company's quarterly financial performance, as well as its compliance with laws and regulations; (4) oversee management's establishment and enforcement of financial policies; and, to (5) provide an open avenue of communication among the independent auditors, financial and senior management, the internal audit department, and the Board of Directors.

The Audit Committee consists of three members, each of whom is independent (as defined by listing standards that govern companies the shares of which are listed on Nasdaq). The Audit Committee operates under a written charter, approved by the Board of Directors.

In fulfilling its oversight responsibilities regarding the 2001 financial statements, the Audit Committee reviewed with management the audited financial statements in the Annual Report, including a discussion of the quality, not

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just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee's review included discussion with the outside auditors of matters required to be discussed pursuant to Statement of Auditing Standards No. 61 (Communication with Audit Committees), including the process used by management in formulating particularly sensitive accounting estimates and the basis for the conclusions of the independent auditors regarding the reasonableness of those estimates.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgment as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards. In addition, the Audit Committee has discussed with the independent auditors the auditors' independence from management and the Company, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and received by the Committee.

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The Audit Committee discussed with the Company's independent auditors the overall scope and plans for their audits in 2002. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Audit Committee held five meetings during 2001.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2001, for filing with the Securities and Exchange Commission. The Audit Committee and the Board have also recommended, subject to shareholder approval, the selection of the Company's independent auditors for 2002.

THE AUDIT COMMITTEE

Steven F. Kaplan
William H. Keough
William W. Wyman

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COMPARISON OF CUMULATIVE TOTAL STOCKHOLDER RETURN

The following performance graph represents a comparison of the cumulative total return (assuming the reinvestment of dividends) for a \$100 investment on December 31, 1996 in each of the Common Stock of Pegasystems Inc., the Nasdaq Stock Market Index (a broad market index) and the Goldman Sachs Technology Software Index ("GSTI(TM) *Software") (a published industry index). The Company paid no dividends during the period shown. The graph lines merely connect measurement dates and do not reflect fluctuations between those dates.

[CHART]

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	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01
Pegasystems Inc.	\$100	\$ 67	\$ 14	\$ 37	\$ 8	\$
Nasdaq Stock Market Index - US companies	\$100	\$122	\$170	\$315	\$191	\$
GSTI Software	\$100	\$126	\$202	\$455	\$248	\$

The Report of the Compensation Committee on Executive Compensation, the Report of the Audit Committee and the Comparison of Cumulative Total Stockholder Return information above shall not be deemed "soliciting material" or incorporated by reference into any of the Company's filings with the Securities and Exchange Commission by implication or by any reference in any such filing to this Proxy Statement irrespective of any general incorporation language therein.

*GSTI is a registered trademark of Goldman, Sachs & Co.

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RATIFICATION OF THE SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS
(Item 2 of Notice)

The Board of Directors has selected Deloitte & Touche LLP, independent public accountants, to audit the financial statements of the Company for the fiscal year ending December 31, 2002. The Board proposes that the stockholders ratify this selection. Deloitte & Touche LLP audited the Company's financial statements for the fiscal year ended December 31, 2001. The Company expects that representatives of Deloitte & Touche LLP will be present at the Meeting, with the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

Audit Fee. Fees of Deloitte & Touche LLP for the audit of the Company's financial statements, 401(k) plan and statutory audits for the fiscal year ended December 31, 2001 and the reviews of quarterly reports on Form 10-Q were \$357,692 of which an aggregate amount of \$342,692 had been billed through December 31, 2001.

Financial Information Systems Design and Implementations Fees. Deloitte & Touche assessed the Company no fees for any financial information systems design or implementation during the fiscal year ended December 31, 2001.

All Other Fees. Aggregate fees billed for all other services rendered by Deloitte & Touche LLP during the fiscal year ended December 31, 2001 were \$254,750. These services included:

- . reviews of certain financial information in connection with the lMind Corporation acquisition; and
- . income tax consulting relating to transfer pricing.

All audit and non-audit services provided by Deloitte & Touche LLP are approved by the Audit Committee, which considers whether the provision of non-audit services is compatible with maintaining the auditor's independence.

In the event that ratification of the appointment of Deloitte & Touche LLP as the independent public accountants for the Company is not obtained at the

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upcoming Annual Meeting of Stockholders, the Board of Directors will reconsider its selection.

The affirmative vote of a majority of the shares present or represented and entitled to vote and voting at the Meeting is required to ratify the selection of the independent public accountants.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE TO APPROVE THE RATIFICATION OF THE SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS AND PROXIES SOLICITED BY THE BOARD WILL BE VOTED IN FAVOR THEREOF UNLESS A STOCKHOLDER HAS INDICATED OTHERWISE ON THE PROXY.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 (the "1934 Act") requires the Company's Directors and executive officers, and persons who own more than ten percent of the Company's Common Stock, to file reports with the Securities and Exchange Commission disclosing their ownership of stock in the Company and changes in such ownership. Copies of such reports are also required to be furnished to the Company.

To the Company's knowledge, based solely on review of the copies of the above-mentioned reports furnished to the Company and written representations that no other reports were required, during 2001, and all other such filing requirements were complied with in a timely fashion.

STOCKHOLDER PROPOSALS FOR 2003 MEETING

Proposals of stockholders intended to be presented at the 2003 Annual Meeting of Stockholders must be presented on or before January 1, 2003 for inclusion in the proxy materials relating to that meeting and on or before March 17, 2003 for matters to be considered timely such that, pursuant to Rule 14a-4 under the 1934 Act, the Company may not exercise its discretionary authority to vote on such matters at that meeting. Any such proposals should be sent to the Company at its principal offices addressed to the Clerk. Other requirements for inclusion are set forth in Rule 14a-8 under the 1934 Act.

OTHER MATTERS

The Company does not know of any other matters which will be brought before the Meeting. If other business is properly presented for consideration at the Meeting, it is intended that the shares represented by the enclosed proxy will be voted by the persons voting the proxies in accordance with their judgment on such matters.

In order that your shares may be represented if you do not plan to attend the Meeting, and in order to assure the required quorum, please fill out, sign, date and return your proxy promptly.

A prompt response will greatly facilitate arrangements for the Meeting, and your cooperation will be appreciated.

By Order of the Board of Directors

June M. Morris, Esq.
Clerk

May 1, 2002

DETACH HERE

PROXY

PEGASYSTEMS INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

2002 Annual Meeting of Stockholders

The undersigned stockholder of Pegasystems Inc., a Massachusetts corporation ("Pegasystems"), hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement dated May 1, 2002 and hereby appoints Alan Trebler, June Morris and Robert Jahrling, or any one or more of them, proxies and attorneys-in-fact with full power of substitution to each other for and in the name of the undersigned, with all powers the undersigned would possess if personally present to vote the common stock of the undersigned in Pegasystems at the Annual Meeting of its Stockholders to be held June 4, 2002 at One Main Street, Cambridge, Massachusetts at 3:00 p.m., local time, or any adjournment or postponement thereof. Any of such attorneys or substitutes shall have and may exercise all of the powers of said attorneys-in-fact hereunder.

SEE REVERSE
SIDE

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

SEE REVERSE
SIDE

PEGASYSTEMS INC.

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C/O EQUISERVE
P.O. BOX 43068
PROVIDENCE, RI 02940

DETACH HERE

[X] Please mark
votes as in
this example.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSAL NOS. 1 AND 2 AND SAID PROXIES DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY COME BEFORE THE MEETING.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU INSTRUCT THE PROXIES TO VOTE FOR THE NOMINEES LISTED BELOW AND FOR PROPOSAL NOS. 1 AND 2.

- 1. Election of Directors
Nominees: (1) Edward Roberts,
(2) James O'Halloran
(3) Richard Jones
FOR WITHHELD
[] []

- 2. To ratify the selection of Deloitte & T
accountants of Pegasystems for the fisc
FOR AGAINST
[] []
- 3. In their discretion, the proxies are au
business as may properly come before th
postponement thereof.

[] _____
(INSTRUCTION: To withhold authority to vote
for any individual nominee, write that
nominee's name in the space provided above.)

MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT []

PLEASE SIGN, DATE AND RETURN THIS PROXY PROMPTLY
USING THE ENCLOSED ENVELOPE.

Please sign exactly as name appears at left. When
shares are held in more than one name, including
joint tenants, each party should sign. When
signing as attorney, executor, administrator,
trustee or guardian, please give full title

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as such.

Signature: _____

Date: _____

Signature: _____