

CENTRA SOFTWARE INC  
Form DEF 14A  
April 30, 2003

## SCHEDULE 14A

(Rule 14a-101)

### INFORMATION REQUIRED IN PROXY STATEMENT

#### SCHEDULE 14A INFORMATION

### Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |                                     |   |                          |  |
|-------------------------------------|---|--------------------------|--|
| <input type="checkbox"/>            | Preliminary Proxy Statement                 | <input type="checkbox"/> | <b>Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))</b> |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement                  |                          |  |
| <input type="checkbox"/>            | Definitive Additional Materials             |                          |  |
| <input type="checkbox"/>            | Soliciting Material Pursuant to Rule 14a-12 |                          |  |

## CENTRA SOFTWARE, INC.

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(Name of Registrant as Specified In Its Charter)

**Not Applicable**

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Title of each class of securities to which transaction applies:

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(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):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**CENTRA SOFTWARE, INC.**

**430 Bedford Street**

**Lexington, Massachusetts 02420**

**(781) 861-7000**

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**Notice of Annual Meeting of Stockholders**

**June 12, 2003**

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Centra Software, Inc. hereby gives notice that its annual meeting of stockholders will be held at the offices of Foley Hoag LLP, 155 Seaport Boulevard, Boston, Massachusetts 02210, on Thursday, June 12, 2003, beginning at 10:00 a.m. local time, for the following purposes:

1. To elect two Class I directors.
2. To consider and act upon a proposal to amend the Company's 1999 Stock Incentive Plan to increase the number of shares of the Company's common stock available for issuance under the plan by 1,000,000, to 7,100,000 shares.
3. To transact any further business that may properly come before the annual meeting or any adjournment.

The board of directors has fixed the close of business on April 25, 2003, as the record date for the determination of Centra stockholders entitled to receive notice of, and to vote at, the annual meeting and any adjournment of the annual meeting. Only stockholders of record on such date are entitled to receive notice of, and to vote at, the annual meeting or any adjournment.

By Order of the board of directors,

Stephen A. Johnson

*Chief Financial Officer, Treasurer and Secretary*

Lexington, Massachusetts

May 15, 2003

**YOUR VOTE IS IMPORTANT**

**Please sign and return the enclosed proxy, whether or not you  
plan to attend the meeting.**

**CENTRA SOFTWARE, INC.**

**430 Bedford Street**

**Lexington, Massachusetts 02420**

**(781) 861-7000**

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**PROXY STATEMENT**

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**ANNUAL MEETING OF STOCKHOLDERS**

**June 12, 2003**

This proxy statement relates to the annual meeting of stockholders of Centra Software, Inc. We are mailing the proxy statement and the enclosed form of proxy to stockholders on or about May 15, 2003. The board of directors is soliciting proxies to be used at the annual meeting and any adjournments of the meeting. The annual meeting will be held at the offices of Foley Hoag LLP, 155 Seaport Boulevard, Boston, Massachusetts 02210 on Thursday, June 12, 2003, beginning at 10:00 a.m. local time.

When proxies are returned properly executed, the persons named in the proxies will vote the shares represented in accordance with the stockholders' directions. We encourage stockholders to vote on each matter to be considered. However, if a stockholder has specified no choice in a properly executed proxy, the persons named as proxies will vote the shares as recommended by management.

The stockholder of record may revoke his proxy at any time before it has been exercised by:

providing us with a later dated proxy;

notifying Centra's Secretary in writing at the following address: Centra Software, Inc., 430 Bedford Street, Lexington, Massachusetts 02420, Attn: Secretary; or

attending the annual meeting and voting in person.

We have fixed the close of business on April 25, 2003 as the record date for the annual meeting and any adjournment of the annual meeting. Only stockholders of record on the record date are entitled to receive notice of, and to vote at, the annual meeting or any adjournment. At the close of business on the record date, there were issued and outstanding 26,106,736 shares of common stock, each of which is entitled to cast one vote.

**QUORUM AND TABULATION OF VOTES**

Our by-laws provide that a quorum for the annual meeting will be a majority in interest of the shares of common stock issued and outstanding and entitled to vote at the annual meeting. We will treat shares of common stock represented by a properly signed and returned proxy as present at the annual meeting for the purpose of determining a quorum. In general, votes withheld from any nominee for election as a director, abstentions and broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum for the annual meeting. A broker non-vote occurs when a broker or nominee holding shares for a beneficial owner votes on one proposal, but does not vote on another proposal because, in respect of such other proposal, the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner.

A plurality of the votes properly cast at the annual meeting will elect each director. Abstentions and votes withheld from director-nominees will not be included in calculating the number of votes cast and accordingly will not affect the outcome of the vote.

The persons named in the proxies will vote the shares FOR election of each nominee as a director if no specification is made.

If a quorum is present, Proposal No. 2, to approve the amendment of the 1999 Stock Incentive Plan, requires a majority of the votes properly cast at the meeting. Nasdaq Stock Market rules require stockholder approval of the amendment to the 1999 Stock Incentive Plan. Also, the stockholders must approve the amendment in order for stock options and other awards relating to shares issuable under the plan to qualify for favorable tax treatment under the Internal Revenue Code. Abstentions with respect to either of these proposals will count as being present and represented and entitled to vote, and will be included in calculating the number of votes cast. Abstentions will therefore have the effect of a vote against the proposal. Broker non-votes will not be included in calculating the number of votes cast on these proposals.

We know of no other matter to be presented at the annual meeting. If any other matter should be presented at the annual meeting upon which a vote properly may be taken, shares represented by all proxies we receive will be voted with respect thereto in accordance with the best judgment of the persons named in the proxies.

American Stock Transfer & Trust Company, our transfer agent, will tabulate votes at the annual meeting.

#### **PROPOSAL ONE ELECTION OF DIRECTORS**

Our board of directors is divided into three classes. Each of the directors serves a three-year term with one class of directors being elected by our stockholders at each annual meeting.

At the annual meeting, two Class I directors will be elected to serve until the 2006 annual meeting and until such directors' successors are duly elected and qualified, or until their earlier death, resignation, removal or disqualification. The board of directors has nominated Leonard M. Kawell, Jr. and Douglas M. Ferguson for election as Class I Directors. Each of the nominees has agreed to serve if elected, and we have no reason to believe that they will be unable to serve. In the event that either nominee is unable or declines to serve as a director at the time of the annual meeting, proxies will be voted for another nominee as is then designated by the board of directors.

A quorum being present, the affirmative vote of a plurality of the shares present in person or represented by proxy is necessary to elect the nominee as Class I directors of Centra.

**The board of directors recommends that you vote FOR the election of Leonard M. Kawell, Jr. and Douglas M. Ferguson as Class I directors.**

**PROPOSAL TWO AMENDMENT OF OUR 1999 STOCK INCENTIVE PLAN**

On March 14, 2003, our board of directors amended our 1999 Stock Incentive Plan to increase the number of shares available for the grant of options under the plan from 6,100,000 to 7,100,000, subject to adjustment in the event of stock splits, stock dividends, recapitalizations and the like. Our board of directors is submitting this amendment to the 1999 Stock Incentive Plan to our stockholders for approval.

Options constitute a significant portion of the overall compensation of our employees, including our executive officers. Options issued under the 1999 Stock Incentive Plan also represent a significant form of compensation that we pay to employees. Our board of directors, including the members of the compensation committee, believes that we will derive substantial benefits from increasing the aggregate number of options that we can issue under the 1999 Stock Incentive Plan. Our board of directors believes that the proposed amendment, by enabling us to issue additional options under the plan, will enable us to further align the interests of our executive officers and other employees with the interests of our stockholders. The board of directors also believes that the proposed amendment will assist us to attract and retain key executives by enabling us to offer competitive compensation packages. In addition, the board of directors believes that the availability of additional shares under the 1999 Stock Incentive Plan would provide increased flexibility in structuring any acquisitions that we may pursue.

In order to pass, this proposal must receive a majority of the votes cast with respect to this matter.

**Our board of directors recommends that you vote FOR this proposal to approve the amendment of the 1999 Stock Incentive Plan.**



## DIRECTORS AND EXECUTIVE OFFICERS

Note: In January 2003, the Company announced a management succession plan whereby it initiated a search for a new President and Chief Executive Officer to succeed our current President and our current Chief Executive Officer. See Management Succession Plan, below. Also, in April 2003, two directors resigned and three new directors joined the board as noted below. Each of the new directors was appointed by a committee of the board of directors consisting of three independent directors.

The following table sets forth certain information concerning each of the current directors and executive officers of Centra:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Leon Navickas	46	Chief Executive Officer and Chairman of the Board of Directors
Anthony J. Mark	56	President and Chief Operating Officer
Stephen A. Johnson	47	Chief Financial Officer, Treasurer and Secretary
Joseph M. Gruttadauria	43	Senior Vice President, Professional Services
Paul R. Daly	52	Senior Vice President, Worldwide Sales and Marketing
Robert E. Hult (1)(2)	56	Director
Leonard M. Kawell, Jr. (2)	47	Director
Douglas M. Ferguson (1)(2)	45	Director
Ronald R. Benanto (1)	54	Director

(1) Member of the audit committee.

(2) Member of the compensation committee.

**Leon Navickas** founded Centra and has served as our Chief Executive Officer and Chairman of the Board since our incorporation in April 1995. He also served as our President from our incorporation until January 1999. From May 1983 until April 1995, Mr. Navickas served as General Manager of Research and Development, Notes Division for Lotus Development Corp.

**Anthony J. Mark** has served as our President since January 1999 and as our Chief Operating Officer since October 1997. From March 1997 until October 1997, Mr. Mark served as our Vice President, Product Development. From May 1995 until March 1997, he performed consulting services for a number of private companies. From May 1993 until May 1995, Mr. Mark served as Vice President and General Manager, Broadcast Products Division for Avid Technology, Inc., a software development company.

**Stephen A. Johnson** has served as our Chief Financial Officer since November 1998. Since June 1999, Mr. Johnson has served as our Chief Financial Officer, Treasurer and Secretary. From May 1997 until November 1998, Mr. Johnson served as our Director of Finance and Administration. From March 1997 until May 1997, he served as consultant to Centra. From October 1991 until March 1997, Mr. Johnson served in a number of positions at Avid Technology, Inc.

**Joseph M. Gruttadauria** has served as our Senior Vice President, Professional Services since October 2000 and our Vice President, Professional Services since March 1997. From March 1996 until March 1997, Mr. Gruttadauria served as the Vice President of Sales and Services and Chief Information Officer for OneWave, Inc., a consulting company. From December 1994 until March 1996, he served as Director, Customer Service for SAP Americas, a software company.

**Paul R. Daly** has served as our Senior Vice President, Worldwide Sales and Marketing since September 2002. From March 2001 to May 2002, Mr. Daly served as CEO of OuterForce Systems, Inc., a software company. From August 1998 to February 2001, Mr. Daly served first as Senior Vice President, North America,

then as President of the Americas for Baan Corporation. From August 1994 to August 1998, Mr. Daly served as Area Application Sales Director, Great Lakes for Oracle Corporation.

**Robert E. Hult** has served as a director since January 2001. Since March 1998, Mr. Hult has been the Senior Vice President Finance and Operations, Chief Financial Officer and Treasurer for NMS Communications, Inc., a provider of systems and platform building blocks for voice, video and data communication services on wireless and wireline networks. From June 1997 to October 1998, Mr. Hult served as the Vice President and General Manager for AltaVista Search Service, an internet portal. From December 1995 to June 1997, Mr. Hult served as Chief Financial Officer, and Vice President Operations & Web Business Development for AltaVista Internet Software, Inc., a wholly owned subsidiary of Digital Equipment Corp. He served Digital Equipment Corporation in a variety of financial executive positions from 1972 to 1995.

**Leonard M. Kawell, Jr.** joined the board of directors in April 2003. Since March 2002, Mr. Kawell has been the Chief Executive Officer and a director of Pepper Computer, Inc., a developer of software for mobile wi-fi devices. From September 2000 to February 2001, Mr. Kawell was the Manager of e-book development at Adobe. From March 1998 to September 2000, Mr. Kawell served as the President and Director of Glassbook, Inc., a developer of software for electronic books. Glassbook was acquired by Adobe in September 2000. Prior to March 1998, Mr. Kawell was the Chief Strategist for Iris/Lotus/IBM, and was an original founder of Iris Associates, which later became Lotus Notes.

**Douglas M. Ferguson** joined the board of directors in April 2003. For the past five years, Mr. Ferguson has been leading and directing strategic and operational management effectiveness for clients in the high-tech, healthcare and manufacturing industries. Since April 2003, Mr. Ferguson has been a partner at Innovation Management Inc., a member of the Monitor Group. From March 2000 to June 2001, Mr. Ferguson held executive positions at Cambridge Technology Partners, most recently as Vice President, Demand Generation. From February 1995 to February 2000, Mr. Ferguson held executive positions at Nextera Enterprises, most recently as Vice President eBusiness Strategic Services. He is currently a trustee of the Yale-China Association.

**Ronald R. Benanto** joined the board of directors in April 2003. From July 1999 to June 2002, Mr. Benanto served as the Vice President, Finance and Chief Financial Officer for Newsedge Corporation, a provider of global news and electronic content solutions to business users and destination Web sites that was acquired by The Thomson Corporation in September 2001. From February 1998 to July 1999, Mr. Benanto served as Vice President, Finance at Genesis Direct, Inc., a direct marketing and e-commerce company that, subsequent to Mr. Benanto's departure, filed for Chapter 11 bankruptcy in October 1999. From October 1991 to December 1997, Mr. Benanto was Senior Vice President, Finance and Chief Financial Officer at Viewlogic Systems, Inc., an electronic design automation company.

The board of directors is divided into three classes, referred to as Class I, Class II and Class III, each consisting of approximately one-third of the directors. One class is elected each year at the annual meeting of stockholders to hold office for a term of three years and until their respective successors have been duly elected and qualified. Centra currently has five directors. The current term of Messrs. Kawell and Ferguson, Centra's Class I directors, will expire at the annual meeting to be held on June 12, 2003. The current term of Mr. Benanto, Centra's Class II director, will expire at the annual meeting to be held in 2004. The current terms of Centra's two Class III directors, Messrs. Navickas and Hult, will expire at the annual meeting to be held in 2005.

Executive officers are appointed annually by the board of directors and serve at the discretion of the board of directors or until their respective successors have been duly elected and qualified. There are no family relationships among Centra's directors and executive officers.

#### **Committees and Meetings of the Board**

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During the fiscal year ended December 31, 2002, the board of directors met eight times and acted five times by unanimous written consent. No current director attended fewer than 75% of the total number of meetings held

by the board of directors or committees of the board of directors on which he served. The board of directors currently has two standing committees: the audit committee and the compensation committee. The board of directors does not presently have a standing nominating committee or a committee serving a similar function; instead the board of directors acts as a whole on such matters.

#### *Audit Committee*

The audit committee reviews Centra's internal accounting procedures and consults with and reviews the services provided by Centra's independent auditors. The audit committee also has the responsibilities and authority described in its written charter. The charter has been adopted by the board of directors and was attached as Appendix A to our proxy statement for our 2002 annual stockholder meeting. The audit committee is governed by applicable provisions of the recently enacted Sarbanes-Oxley Act of 2002. The board of directors and the audit committee are currently reviewing the audit committee's charter in light of applicable provisions of the Sarbanes-Oxley Act and pending Nasdaq Stock Market, Inc. corporate governance proposals, and anticipate amending the charter as may be necessary to conform to the Sarbanes-Oxley Act and, when adopted, the Nasdaq corporate governance guidelines. The audit committee throughout 2002 consisted of Mr. Hult and former directors Richard D. Amore and David Barrett, and met four times and acted once by unanimous written consent. The audit committee is currently composed of Mr. Hult and, since April 2003, Messrs. Ferguson and Benanto. The former and current members of the audit committee are independent, as defined in Rule 4200(a)(15) of the National Association of Securities Dealers, Inc.'s listing standards. See Report of the Audit Committee below.

#### *Compensation Committee*

The compensation committee reviews and recommends to the board of directors the compensation and benefits of our officers and directors, including administering and granting options under our stock option plans. The compensation committee also establishes and reviews general policies relating to the compensation and benefits of our employees. The compensation committee in 2002 consisted of Messrs. Barrett, D. Amore and Hult and met four times. The compensation committee currently consists of Mr. Hult and, since April 2003, Messrs. Kawell and Ferguson. See Compensation Committee Report on Executive Compensation below.

## **REMUNERATION OF EXECUTIVE OFFICERS AND DIRECTORS**

### **Director Compensation**

Effective April 1, 2003, each non-employee director will receive compensation of \$7,500 per quarter. Previously, non-employee directors served without cash compensation. In addition, we reimburse directors for out-of-pocket expenses incurred in attending board of director and committee meetings.

Each director who is not an employee of Centra is eligible to receive option grants under the 1999 Director Plan. The 1999 Director Plan provides that each non-employee director is eligible to receive an automatic option to purchase 10,000 shares of common stock upon his initial election to the board of directors, and an additional grant to purchase 5,000 shares of common stock upon each re-election. Our non-employee directors have waived the right to receive options under this provision of the 1999 Director Plan and we have not granted any options under the automatic grant provision of the plan. The 1999 Director Plan also permits discretionary grants to non-employee directors. All option grants under the 1999 Director Plan are priced at the market price of the common stock at the time of grant. In 2002, each non-employee director received an option to purchase 5,000 shares of common stock at a purchase price of \$1.80 under the 1999 Stock Incentive Plan.



**Executive Compensation**

*Summary of Cash and Other Compensation.* The following table provides certain summary information concerning the cash and other compensation earned by Centra's Chief Executive Officer and each of the four other most highly compensated executive officers during fiscal 2002 (the Named Executive Officers), for services rendered in all capacities to Centra during fiscal 2002 and during the fiscal years ended December 31, 2000 and 2001.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation (1)		Long-Term
		Salary (\$)	Bonus(\$)	Compensation
				Securities Underlying Options
Leon Navickas	2002	\$ 175,000	\$ 113,750	130,000
Chief Executive Officer	2001	\$ 175,000	\$ 131,250	200,000
	2000	\$ 150,000	\$ 175,000	500,000
Anthony J. Mark	2002	\$ 175,000	\$ 113,750	130,000
President and Chief Operating Officer	2001	\$ 175,000	\$ 116,250	200,000
	2000	\$ 175,000	\$ 155,000	250,000
Stephen A. Johnson	2002	\$ 166,250	\$ 57,250	130,000
Chief Financial Officer, Treasurer and Secretary	2001	\$ 160,000	\$ 50,000	70,000
	2000	\$ 150,000	\$ 45,000	66,000
Joseph M. Gruttadauria	2002	\$ 175,000	\$ 65,000	130,000
Senior Vice President, Professional Services	2001	\$ 175,000	\$ 75,000	50,000
	2000	\$ 175,000	\$ 100,000	150,000
Paul R. Daly (2)	2002	\$ 58,333	\$ 56,250	250,000
Senior Vice President, Worldwide Sales and Marketing				

(1) In accordance with the applicable SEC rules, other compensation in the form of perquisites and other personal benefits has been omitted because such perquisites and other personal benefits constituted less than \$50,000 and less than 10 percent of the total annual salary and bonus for each executive officer.

(2) Mr. Daly joined Centra during 2002 and, therefore, received compensation for only a portion of that year.

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*Option Grants in Last Fiscal Year.* The following table contains information concerning stock option grants made during 2002 under the 1999 Stock Incentive Plan to the Chief Executive Officer and each of the other Named Executive Officers:

**Option Grants in Last Fiscal Year**

<u>Name</u>	<b>Number of Securities Underlying Options</b> <u>Granted(#)</u>	<b>% of Total Options Granted to Employees in Last Year(5)</b> <u></u>	<b>Exercise Price</b> <u>(\$/Share)(1)</u>	<b>Expiration Date</b> <u></u>	<b>Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)</b>	
					<u>5%(\$)</u>	<u>10%(\$)</u>
Leon Navickas	130,000(3)	6.2%	\$ 1.80	6/11/12	\$ 147,161	\$ 372,936
Anthony J. Mark	130,000(3)	6.2%	1.80	6/11/12	147,161	372,936
Stephen A. Johnson	130,000(3)	6.2%	1.80	6/11/12	147,161	372,936
Joseph M. Gruttadauria	130,000(3)	6.2%	1.80	6/11/12	147,161	372,936
Paul R. Daly	250,000(4)	11.8%	1.28	9/06/12	201,246	509,998

- (1) All options were granted at exercise prices that were not less than fair market value at the time of grant, which was determined by the board of directors to be the last sale price of the common stock on the date of grant as reported by the Nasdaq Stock Market.



- (2) Amounts reported in this column represent hypothetical values that may be realized upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded rates of appreciation of the common stock over the term of the options. These numbers are calculated based on rules promulgated by the SEC and do not represent Centra's estimate of future stock price growth. Actual gains, if any, on stock option exercises and common stock holdings are dependent on the timing of such exercises and the future performance of the common stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the Named Executive Officers. This table does not take into account any appreciation in price of the common stock from the date of grant to the current date. The values shown are net of the option price, but do not include deductions for taxes or other expenses associated with the exercise.
- (3) Option vests in equal installments of 6.25%, on 7/1/02 and on the first day of each calendar quarter thereafter until 4/1/06.
- (4) Option vests as to 25% of the shares on the first anniversary of the date of grant and as to an additional 6.25% on each three-month anniversary thereof beginning 12/6/03.
- (5) In 2002, Centra granted options to purchase an aggregate of 2,110,125 shares of common stock to its employees under its 1999 Stock Incentive Plan.

*Fiscal Year-End Option Values.* No Named Executive Officer exercised any options in fiscal 2002. The following table sets forth information regarding exercisable and unexercisable options held as of December 31, 2002 by each of the Named Executive Officers.

#### Year-End Option Values

Name	Common Stock Underlying		Value of Unexercised	
	Unexercised Options at		In-the-Money Options at	
	Year-End (#)		Year-End \$(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Leon Navickas	453,750	376,250	\$	\$
Anthony J. Mark	353,750	226,250		
Stephen A. Johnson	109,375	179,125	18,675	
Joseph M. Gruttadauria	122,500	207,500		
Paul R. Daly		250,000		

- (1) Calculated on the basis of the last sale price of the common stock on December 31, 2002 as reported by the Nasdaq Stock Market (\$1.00 per share), less the applicable option exercise price. Amounts disclosed in this column do not necessarily reflect amounts received by the Named Executive Officers but are calculated based on the difference between the fair market value of the common stock on the date of exercise and the exercise price of the options. Named Executive Officers will receive cash only if and when they sell the common stock issued upon exercise of the options, and the amount of cash received by such individuals is dependent on the price of the common stock at the time of such sale.

#### Severance and Other Agreements

##### Severance Agreements

The Company has entered into severance agreements with each of Leon Navickas, our Chief Executive Officer; Anthony J. Mark, our President and Chief Operating Officer; Stephen A. Johnson, our Chief Financial Officer, Treasurer and Secretary; Paul R. Daly, our Senior Vice President, Worldwide Sales; and Joseph M. Gruttadauria, our Senior Vice President, Professional Services. Under these agreements, if the executive officer is terminated without cause, he will be entitled to continue to receive base salary and benefits for a period ending on the earliest of (a) 181 days

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from the date of termination, (b) the date on which he begins new employment or (c) the date on which he materially breaches any written agreement with Centra. None of our executive officers has any other employment agreement with Centra. Our executive officers may resign and we may terminate their employment at any time, subject to the provisions of their severance agreements.

### **Change of Control Arrangements**

We have entered into change of control agreements with each of Messrs. Navickas, Mark, Johnson and Gruttadauria. Each agreement provides that upon a change of control, 50% of the executive's unvested options will vest and become immediately exercisable and 50% of our right to repurchase the executive's unvested restricted stock will terminate. A change of control means:

any merger or consolidation which results in the voting shares outstanding immediately prior to the merger or consolidation, representing immediately after the merger or consolidation, less than 50% of the voting power of the surviving entity;

a sale of all or substantially all of our assets; or

the sale of our shares in a single transaction or a series of related transactions, representing at least 80% of the voting power of our voting shares.

These change of control provisions apply to previous grants of restricted stock and options and to any future grants of restricted stock and options.

The board of directors has adopted by resolution a policy under which any vice president or other employee designated by the chief executive as an executive manager, including Mr. Daly, would be entitled upon a change of control to exercise 50% of the unvested portion of the executive manager's options. The compensation committee of the board of directors, in administering the 1995 Stock Option Plan, the 1999 Stock Incentive Plan and the 1999 Director Plan, can also provide for accelerated vesting of options held by any of our executive officers or directors in connection with a change of control of Centra as defined in such plans. The accelerated vesting may be conditioned on the termination of the individual's employment following the change of control.

### **Management Succession Plan**

In January 2003, the Company announced a management succession plan, whereby it initiated a search for a new President and Chief Executive Officer to succeed Mr. Mark, our current President and Mr. Navickas, our current Chief Executive Officer. In February 2003, the Company retained an executive recruiter to facilitate the search. The Company is negotiating new severance agreements with Messrs. Mark and Navickas to retain them during the search process and to effect an orderly transition. These new agreements would supersede the existing severance and change of control arrangements between the Company and each of Messrs. Mark and Navickas. Under the arrangements being negotiated, if either officer were terminated without cause, or resigned after the date on which a new chief executive officer was appointed (or, in Mr. Mark's case, 60 days after the date of appointment of a new chief executive officer), then he would be entitled to receive his base salary, target annual bonus and certain benefits for a period of one year. In addition, each outstanding option held by the officer would vest forward an additional 12 months from the date of termination and would be exercisable until the second anniversary of the termination date. Each agreement is also expected to provide that if a change in control occurs while the executive officer is employed by the Company, 50% of the executive officer's unvested options will vest and become immediately exercisable.

## Equity Compensation Plan Disclosure

The following table sets forth certain information as of December 31, 2002 regarding securities authorized for issuance under our equity compensation plans.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans</u>
Equity Compensation Plans Approved by Security Holders(1)	6,074,020	\$ 4.29	1,722,942
Equity Compensation Plans Not Approved by Security Holders	0	N/A	N/A
<b>Total</b>	<b>6,074,020</b>	<b>\$ 4.29</b>	<b>1,722,942</b>

(1) Includes the 1995 Stock Option Plan, the 1999 Stock Incentive Plan and the 1999 Director Plan.

## Compensation Committee Interlocks and Insider Participation

No member of the compensation committee is a former or current employee of Centra or a party to any other relationship of a character required to be disclosed pursuant to Item 402(j) of Regulation S-K.

## Compensation Committee Report on Executive Compensation

This report has been furnished by the compensation committee. Messrs. Barrett, D'Amore and Hult, three non-employee members of the board of directors, were the members of the compensation committee in 2002. The current members of the compensation committee are Mr. Hult and, since April 2003, non-employee directors Leonard M. Kawell, Jr. and Douglas M. Ferguson. The compensation committee meets at least annually or more frequently if requested by the board of directors. The compensation committee is primarily responsible for the review of executive compensation, which includes base salary, cash bonus, profit sharing, and stock option awards.

*Compensation Policies.* Centra believes that it is critical to its continued success to attract and retain highly qualified executive officers who will play a vital role in future achievements. To this end, Centra has established its compensation policy to reward executives based upon corporate, departmental and individual performance which is measured against the internal goals set for each area. Centra also understands the need to provide long-term incentives to its executive officers to achieve future financial and strategic goals, which include Centra's growth, enhancement of Centra's profitability and thus shareholder value. Centra believes that its total compensation is sufficiently competitive to retain and, if necessary, attract executive officers capable of leading Centra in accomplishing its business goals.

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Executive compensation for fiscal 2002 consisted of a base salary, performance bonus and equity-based long-term incentive compensation in the form of incentive and/or nonstatutory stock options. Since options granted under the 1995 Stock Option Plan and the 1999 Stock Incentive Plan generally vest over a two to four-year period, option awards encourage the holders to improve the profitability and shareholder value of Centra.

*Base Salaries of Executive Officers and Chief Executive Officer Compensation.* The salary of each executive officer is established annually by evaluating the requirements of the position, the contribution of the individual executive with respect to Centra's performance and the executive's responsibility, technical experience and future potential. Base salaries of the executive officers are generally adjusted annually in January to reflect comparable executive salaries for comparably sized companies and to maintain the objectives of the compensation policies noted above. In determining base salaries, the compensation committee relies upon independent surveys of companies in the industry to determine whether Centra's executive compensation is in a

competitive range for executives within Centra's industry. The total base salary paid to Leon Navickas, Centra's Chief Executive Officer, was \$175,000 for fiscal 2002, the same as for 2001. The bonus paid to Mr. Navickas for fiscal 2002 was \$113,750. This represented a decrease of approximately 13.3% from fiscal 2001. Mr. Navickas also received 130,000 options to purchase Common Stock at the then fair market value of \$1.80. Mr. Navickas's fiscal 2002 compensation was based on the financial performance of Centra in 2002, as well as execution against Centra's 2002 business plan.

*Long-Term Incentive Compensation.* One of Centra's goals is the enhancement of shareholder value. The principal incentive tool used to achieve this goal is the periodic award to key employees of options to purchase common stock. Centra's stock option plans are long-term plans designed to link executive rewards to shareholder value over time. Stock options granted typically have a term of 10 years and vest in 16 quarterly installments over a period of four years from the date of grant. In fiscal 2002, Centra granted long-term incentive compensation in the form of incentive and nonstatutory stock options under the 1999 Stock Incentive Plan to Centra's executive officers. These grants included options granted to Messrs. Navickas, Mark, Johnson, and Gruttadauria to purchase up to 130,000 shares each of common stock at the then current market price of \$1.80 per share. Mr. Daly, in connection with his joining the Company in September 2002, received an option to purchase up to 250,000 shares of common stock at the then current market price of \$1.28 per share. See "Option Grants in Last Fiscal Year" at page 8.

Robert E. Hult

Leonard M. Kawell, Jr. (member since April 2003)

Douglas M. Ferguson (member since April 2003)

### AUDIT COMMITTEE REPORT

The audit committee consisted of Messrs. Barrett, D'Amore and Hult, three non-employee directors during 2002. All of the members of the audit committee were independent of Centra and its management, as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers, Inc.'s listing standards. The audit committee currently consists of Robert H. Hult and, since April 2003, two other independent non-employee directors, Douglas M. Ferguson and Ronald R. Benanto.

The primary purposes of the audit committee are (i) to make such examinations as are necessary to monitor Centra's financial reporting and its internal and external audits and Centra's process for compliance with laws and regulations, (ii) to provide to the board of directors the results of its examinations and recommendations derived therefrom, (iii) to propose to the board of directors improvements in internal accounting controls, (iv) to propose independent auditors to the board of directors and (v) to provide to the board of directors such additional information and materials as it may deem necessary to make the board of directors aware of significant financial matters that require the attention of the board of directors. Management has the primary responsibility for Centra's financial statements and the reporting process, including the systems of internal controls. Centra's independent auditors are responsible for auditing the financial statements and expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles.

In fulfilling its oversight responsibilities, the audit committee discussed with KPMG LLP (KPMG), Centra's independent auditors for fiscal 2002, the overall scope and plans for KPMG's audit of Centra's financial statements for fiscal 2002. The audit committee met with KPMG, with and without management present, to discuss the results of KPMG's examinations, KPMG's evaluations of Centra, its internal controls, and the overall quality of Centra's financial reporting. The audit committee held four meetings and acted once by unanimous written consent during fiscal 2002.

The audit committee reviewed Centra's audited financial statements with management and KPMG. The audit committee discussed with KPMG the matters required to be discussed by Statement of Auditing Standards No. 61, including a discussion of KPMG's judgments as to the quality, not just the acceptability, of Centra's accounting principles and such other matters as are required to be discussed with the audit committee under auditing standards generally accepted in the United States. In addition, the audit committee received from KPMG the written disclosures and the letter required by Independence Standards Board Standard No. 1 and discussed these documents with KPMG, as well as other matters related to KPMG's independence from Centra and its management.

Based on the reviews and discussions referred to above and subject to the limitations on its role and responsibilities referred to above and in the audit committee charter, the audit committee recommended to the board of directors, and the board of directors approved, that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2002 for filing with the SEC.

Robert E. Hult

Douglas M. Ferguson (member since April 2003)

Ronald R. Benanto (member since April 2003)

**PERFORMANCE GRAPH**

Set forth below is a line graph comparing the quarterly percentage change in the cumulative total shareholder return on Centra's common stock, based on the market price of Centra's common stock with the total shareholder return of companies included within the Nasdaq Stock Market Index and the Business Software and Services Index published by Media General Financial Services, Inc., for the period commencing February 3, 2000 and ending December 31, 2002. The calculation of total cumulative shareholder return assumes a \$100 investment in Centra's common stock, the Nasdaq Stock Market Index and the Business Software and Services Index published by Media General Financial Services, Inc. on February 3, 2000, the date of our initial public offering, and further assumes the reinvestment of any dividends. We paid no cash dividends in the periods shown.

**Cumulative Total Return**

**Compared Among Centra, Nasdaq Stock Market Index**

**and Business Software and Services Index**



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

At the close of business on April 25, 2003, there were issued and outstanding 26,106,736 shares of common stock. The closing price of Centra's common stock on April 25, 2003, as reported by the Nasdaq Stock Market, was \$1.33 per share.

### Principal Stockholders

The following table sets forth information about the beneficial ownership of our outstanding common stock on April 15, 2003 by: (i) each person or entity who is known by us to own beneficially more than five percent of our common stock; (ii) each of the executive officers; (iii) each of our directors; and (iv) all of our executive officers and directors as a group.

Name and Address(1)	Number of Shares			Percentage of Outstanding Shares Beneficially Owned
	Beneficially Owned(2)			
	Outstanding Shares	Right to Acquire(3)	Total Number	
Leon Navickas(4) Kern Capital Management LLC and persons filing jointly(5) 825 Third Avenue New York, NY 10022	1,785,000	554,999	2,339,999	8.8
William Leland Edwards and persons filing jointly(6) 470 University Ave Palo Alto, CA 94301	1,931,752		1,931,752	7.4
Putnam, LLC and persons filing jointly(7) One Post Office Square Boston, MA 02109	1,314,590		1,314,590	5.0
Anthony J. Mark(8)	563,623	405,000	968,623	3.7
Joseph M. Gruttadauria(9)	247,155	167,500	414,655	1.6
Stephen A. Johnson(10)	112,829	123,875	236,704	*
Paul R. Daly				*
Robert E. Hult(11)		24,062	24,062	*
Leonard M. Kawell, Jr.				*
Douglas M. Ferguson	1,000		1,000	*
Ronald R. Benanto				*
All executive officers and directors as a group (nine persons)(12)	2,709,607	1,275,436	3,985,043	14.6

\* Less than one percent.

(1) The address of each officer and director listed is in care of Centra Software, Inc., 430 Bedford Street, Lexington, Massachusetts 02420.

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- (2) In accordance with SEC rules, beneficial ownership includes any shares as to which a person or entity has sole or shared voting power or investment power and any shares as to which the person or entity has the right to acquire beneficial ownership within 60 days after April 15, 2003 through the exercise of any stock option. Except as noted, we believe that the persons named in the table have sole voting and investment power with respect to the shares of common stock set forth opposite their names. Percentage of beneficial ownership is based on 26,100,766 shares of common stock outstanding as of April 15, 2003.
- (3) All shares included under Right to Acquire represent shares subject to outstanding stock options that are exercisable within 60 days of the date of this table.
- (4) Includes 53,000 shares held of record by Trustees of the Navickas Education Trust 1997 and 554,999 shares subject to outstanding stock options that are exercisable within 60 days of the date of this table.
- (5) The information is based on an amendment to Schedule 13G filed jointly by Kern Capital Management LLC ( Kern ), Robert E. Kern, Jr., and David G. Kern with the Securities and Exchange Commission on

- February 14, 2003. The report states that Messrs. Kern are the controlling members of Kern and may be deemed to be the beneficial owners of, or to share the power to direct the voting or disposition of, the securities identified. Messrs. Kern expressly disclaim beneficial ownership of the securities identified.
- (6) The information is based on a Schedule 13D filed jointly by William Leland Edwards, Palo Alto Investors, LLC ( PAI LLC ), Palo Alto Investors ( PAI Corp. ), and Micro Cap Partners, L.P. The Schedule 13D states that PAI LLC is a registered investment adviser and the general partner and investment adviser of Micro Cap Partners, L.P.; that PAI Corp. is the sole manager of PAI LLC; and that Mr. Edwards is the president and controlling stockholder of PAI Corp. and the president and principal member of PAI LLC. The shares reported on the Schedule 13D include 1,862,181 shares acquired by PAI LLC for the account by Micro Cap Partners, L.P. and other clients of PAI LLC as well as 69,571 shares held individually by Mr. Edwards.
  - (7) The information is based on a Schedule 13G filed jointly by Marsh McLennan Companies, Inc., Putnam, LLC d/b/a Putnam Investments, Putnam Investment Management, LLC and The Putnam Advisory Company, LLC with the Securities and Exchange Commission on February 5, 2003. The Schedule 13G states that Putnam, LLC d/b/a Putnam Investments is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. and in turn owns Putnam Investment Management, LLC and The Putnam Advisory Company, LLC, which are registered investment advisers, and that the shares reported on the Schedule 13G represent shares owned by the investment advisers, which in turn include shares beneficially owned by clients of the investment advisers which may include investment companies, employee benefit plans, pension funds, endowment funds or other institutional clients. Both Putnam, LLC and Marsh & McClellan Companies, Inc. disclaim beneficial ownership of the shares and each states that neither company has any power to vote or dispose of any of the shares.
  - (8) Includes 405,000 shares subject to outstanding stock options that are exercisable within 60 days of the date of this table.
  - (9) Includes 167,500 shares subject to outstanding stock options that are exercisable within 60 days of the date of this table.
  - (10) Includes 123,875 shares subject to outstanding stock options that are exercisable within 60 days of the date of this table and 468 restricted shares that were acquired upon early exercise of stock options that remain subject to repurchase by the Company at the original option price and subject to the same vesting rates as provided in the original option agreement.
  - (11) Consists of 24,062 shares subject to outstanding stock options that are exercisable within 60 days of the date of this table.
  - (12) Includes 1,275,436 shares subject to outstanding stock options that are exercisable within 60 days of the date of this table and 468 restricted shares that were acquired upon early exercise of stock options that remain subject to repurchase by the Company at the original option price and subject to the same vesting rates as provided in the original option agreement. See Notes 4, 8-11.

#### 1999 Stock Incentive Plan

The 1999 Stock Incentive Plan (the 1999 Plan ) was adopted by the board of directors in October 1999 and approved by our stockholders in November 1999. We have reserved a total of 6,100,000 shares of common stock for issuance under the 1999 Plan. As of December 31, 2002, options to purchase a total of 5,594,872 shares of common stock were outstanding under the 1999 Plan. In March 2003, the board of directors adopted an amendment to the 1999 Plan to increase the total number of shares of common stock that may be issued pursuant to awards under the plan by 1,000,000, to 7,100,000. Set forth below is a summary description of the 1999 Stock Incentive Plan, as proposed to be amended and restated.

*General Information; Number of Shares Issuable.* The 1999 Plan authorizes the grant of (i) options to purchase common stock intended to qualify as incentive stock options ( Incentive Options ), as defined in Section 422 of the Code, (ii) options that do not so qualify ( Nonstatutory Stock Options, and together with Incentive Options, Options ), (iii) rights to purchase restricted stock, the terms and conditions of which are determined by the Committee ( Restricted Stock Awards ) as well as rights to purchase stock without restrictions ( Unrestricted Stock Awards, and together with Restricted Stock Awards, Stock Awards ), (iv) rights to receive cash payments based on or measured by appreciation in the market price of the common stock

( Stock Appreciation Rights ) and (v) awards entitling the recipient to acquire shares of common stock upon the attainment of specified performance goals ( Performance Share Awards, and together with Incentive Options, Nonstatutory Stock Options, Stock Awards, and Stock Appreciation Rights, Awards ). If the proposed amendment is approved by the stockholders, then up to 7,100,000 shares of common stock (subject to adjustment upon certain changes in the capitalization of the Company) may be issued in total pursuant to Awards granted under the 1999 Plan.

*Eligibility.* Awards may be granted under the 1999 Plan to officers, directors, employees and consultants. As of April 30, 2003, four non-employee directors, five officers and approximately 264 non-officer employees were eligible to participate in the 1999 Plan.

*Administration of the 1999 Plan.* The 1999 Plan is administered by a committee (the Committee ) of the board of directors consisting of at least two (2) members who qualify as outside directors under Section 162(m) of the Internal Revenue Code. Currently, our compensation committee is acting as the Committee to administer the 1999 Plan. The Committee approves grants of Awards to individuals and determines the terms of each Award, subject to the provisions of the 1999 Plan.

*Incentive Options and Nonstatutory Stock Options.* Awards of Options under the 1999 Plan may be made to any eligible person. No Option may extend for more than 10 years from the date of grant (five years in the case of an Incentive Option granted to an optionee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary ( greater-than-ten-percent-stockholders ). The exercise price of Incentive Options granted under the 1999 Plan must be at least equal to the fair market value of the common stock on the date of grant (110% of fair market value in the case of a greater-than-ten-percent-stockholder). The last sales price of the common stock on April 25, 2003, as reported by the Nasdaq Stock Market, Inc., was \$1.33. The aggregate fair market value (determined at the time of grant) of shares issuable pursuant to Incentive Options that first become exercisable by an employee or officer in any calendar year may not exceed one hundred thousand dollars (\$100,000). Incentive Options are non-transferable except by will or by the laws of descent or distribution and are exercisable, during the optionee's lifetime, only by the optionee.

The Committee will set the exercise price for Nonstatutory Stock Options at the time of grant. A Nonstatutory Stock Option will be transferable to the extent permitted under the option agreement governing such Nonstatutory Stock Option. No Nonstatutory Stock Options may extend for more than 10 years from the date of grant.

Incentive Options generally expire (i) 90 days after termination of the optionee's employment with the Company for any reason other than death or disability, (ii) two years following the optionee's termination of employment with the Company by reason of death, or (iii) one year following the optionee's termination of employment with the Company by reason of disability. In all other cases, the Committee has the discretion to establish the expiration date. Payment of the exercise price of the shares subject to the Option may be made (i) in cash at the time the Option is exercised or (ii) at the discretion of the Committee, either at the time of grant or exercise of the Option (i) by delivery to the Company of shares of common stock of the Company, (ii) according to a deferred payment or other arrangement (which may include, without limiting the generality of the foregoing, the use of other common stock of the Company) with the person to whom the Option is granted or to whom the Option is transferred or (iii) in any other form of legal consideration that may be acceptable to the Committee on terms determined by the Committee.

*Stock Awards.* The Committee may grant Restricted Stock Awards to any eligible person, entitling the recipient to acquire, for a purchase price determined by the Committee, shares of stock subject to such restrictions and conditions as the Committee may determine at the time of grant, including continued employment and/or achievement of pre-established performance goals and objectives. The purchase price of stock acquired pursuant to a restricted stock purchase agreement shall be paid either: (i) in cash at the time of purchase; (ii) at the discretion of the Committee, according to a deferred payment or other arrangement with the

person to whom the stock is sold; or (iii) in any other form of legal consideration that may be acceptable to the Committee in its discretion on terms determined by the Committee. Shares of common stock sold or awarded under a Restricted Stock Award may, but need not, be subject to a repurchase option in favor of the Company in accordance with a vesting schedule to be determined by the Committee. The Committee may also grant or sell to any eligible person shares of common stock free of any restrictions under the 1999 Plan in an Unrestricted Stock Award at a purchase price determined by the Committee.

*Performance Share Awards.* The Committee may award Performance Share Awards to any eligible person. Each Performance Share Award shall be in such form and shall contain such terms and conditions as the Committee shall deem appropriate, and shall entitle the recipient to acquire shares of common stock upon the attainment of specified performance goals.

*Stock Appreciation Rights.* Each stock appreciation right shall entitle the holder upon exercise to an appreciation distribution equal in amount to the product of (i) the excess fair market value, on the date of exercise, over the exercise price per share specified in such stock appreciation right agreement, multiplied by (ii) the number of shares of stock for which such stock appreciation right shall be exercised. Stock appreciation rights may be exercised for common stock, cash or a combination thereof as determined by the Committee and as set forth in the stock appreciation right agreement.

*Other Terms.* Except as otherwise provided in the 1999 Plan, no rights under an Award shall be assignable by any participant under the 1999 Plan, either voluntarily or by operation of law, except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the person to whom the rights are granted only by such person. The 1999 Plan provides that upon a change in control of the Company (as defined in the plan), the Committee may (i) accelerate the vesting schedule of any Awards, (ii) cancel Awards, provided that notice and an opportunity to exercise vested Awards is provided to holders, or (iii) allow Awards to remain outstanding, provided that upon exercise of Awards, holder receive consideration in the form of stock, securities, cash or other property as the holders of shares of stock of the Company received in connection with the change of control. The board of directors may amend the 1999 Plan at any time, provided that no amendment shall be effective unless approved by the stockholders of the Company to the extent stockholder approval is necessary for the 1999 Plan to satisfy the requirements of Section 422 of the Code, Section 16b-3 of the Securities Act of 1933, as amended, and the listing or eligibility for quotation requirements of the Nasdaq Stock Market or any similar organization or of any national securities exchange upon which shares of the Company's common stock are listed or eligible for trading. The board of directors may terminate or suspend the 1999 Plan at any time. Unless sooner terminated, the 1999 Plan will terminate on October 13, 2009.

#### **New Plan Benefits**

The Committee may grant Awards under the 1999 Plan on a discretionary basis. Therefore, the Company is unable to determine the dollar value and number of options which will be received by or allocated to (i) any of the executive officers, (ii) the current executive officers, as a group, (iii) the current directors who are not executive officers, as a group, (iv) each nominee for election as a director and (v) the employees who are not executive officers, as a group, as a result of the adoption of the amendment to the 1999 Plan. If the proposed amendment had been in effect during 2002, it would not have affected the determination of the number of options received by or allocated to participants in 2002.

*Federal Income Tax Information with Respect to Options Granted Under the 1999 Plan.* The grantee of a Nonstatutory Stock Option ordinarily recognizes no income for federal income tax purposes on the grant thereof. On the exercise of a Nonstatutory Stock Option, the difference between the fair market value of the underlying shares of common stock on the exercise date and the option exercise price is treated as compensation to the holder of the option taxable as ordinary income in the year of exercise, and such fair market value becomes the basis for the underlying shares which will be used in computing any capital gain or loss upon disposition of such shares. Subject to certain limitations, the Company may deduct for the year of exercise an amount equal to the amount recognized by the option holder as ordinary income upon exercise of a Nonstatutory Stock Option.



The grantee of an Incentive Stock Option recognizes no income for federal income tax purposes on the grant thereof. Except as described below with respect to the alternative minimum tax, there is no tax upon exercise of an Incentive Option. If no disposition of shares acquired upon exercise of the Incentive Stock Option is made by the option holder within two years from the date of the grant of the Incentive Stock Option or within one year after exercise of the Incentive Option, any gain realized by the option holder on the subsequent sale of such shares is treated as a long-term capital gain for federal income tax purposes. If the shares are sold prior to the expiration of such periods, the difference between the lesser of the value of the shares at the date of exercise or at the date of sale and the exercise price of the Incentive Stock Option is treated as compensation to the employee taxable as ordinary income and the excess gain, if any, is treated as a capital gain (which will be a long-term capital gain if the shares are held for more than one year). The excess of the fair market value of the underlying shares over the option price at the time of exercise of an Incentive Stock Option will constitute an item of tax preference for purposes of the alternative minimum tax. Taxpayers who incur the alternative minimum tax are allowed a credit, which may be carried forward indefinitely to be used as a credit against the regular tax liability in a later year; however, the alternative minimum tax credit can not reduce the regular tax below the alternative minimum tax for that carryover year. In connection with the sale of the shares covered by Incentive Options, the Company is allowed a deduction for tax purposes only to the extent, and at the time, the option holder receives ordinary income (for example, by reason of the sale of shares by the holder of an Incentive Stock Option within two years after the date of the granting of the Incentive Stock Option or one year after the exercise of the Incentive Option), subject to certain limitations on the deductibility of compensation paid to executives.

*Full Text of 1999 Plan.* The above summary description of the 1999 Stock Incentive Plan is qualified by and subject to the plan itself, the full text of which, as proposed to be amended and restated, is set forth as Appendix A to this proxy statement.

We intend to file, as soon as practicable, a Registration Statement on Form S-8 covering the additional shares of common stock issuable under the 1999 Plan.

#### **INDEPENDENT ACCOUNTANTS**

The board of directors has selected the firm of KPMG LLP, independent certified public accountants, to serve as Centra's independent auditors for the fiscal year ending December 31, 2003. We have been advised that a representative of KPMG LLP will be present at the 2003 annual meeting. This representative will have the opportunity to make a statement if he desires and will be available to respond to appropriate questions presented at the meeting.

On July 11, 2002, the Board of Directors, upon recommendation of the Audit Committee, dismissed Arthur Andersen LLP as the Company's independent auditors. The dismissal of Arthur Andersen occurred simultaneously with the Company's initial engagement of KPMG LLP. During the period from January 1, 2000 through the date of this current report, there was no disagreement between Arthur Andersen LLP and us on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of Arthur Andersen LLP, would have caused it to make reference to the subject matter of the disagreement in connection with its reports on our financial statements. The reports of Arthur Andersen LLP on our financial statements for the period from January 1, 2000 through December 31, 2001 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the period from January 1, 2000 through July 11, 2002, there were no reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K promulgated under the Securities Act of 1933, as amended. During the period from January 1, 2000 through July 11, 2002, we did not consult with KPMG LLP regarding either the application of accounting principles to a specified transaction, the type of audit opinion that might be rendered on our financial statements, or any matter that was the subject of a disagreement or reportable event with Arthur Andersen LLP.

#### **Audit Fees**

Audit fees include fees paid by Centra to its auditors in connection with the annual audit of Centra's consolidated financial statements and the auditor's review of Centra's interim financial statements. The aggregate fees billed to Centra by KPMG for audit services totaled approximately \$190,000 for 2002. The aggregate fees billed to Centra by Arthur Andersen for audit services totaled approximately \$159,000 for 2001 and approximately \$18,000 for 2002.

#### **Audit Related Fees**

Audit related fees include fees paid by Centra to its auditors for services related to accounting consultations and internal control reviews. KPMG did not bill Centra for any audit related fees in 2002. Arthur Andersen did not bill Centra for any audit related fees in 2002 and 2001.

#### **Tax Fees**

Tax fees include fees paid by Centra to its auditors for corporate tax compliance and tax advisory services. KPMG did not bill Centra for any tax related services in 2002, and aggregate fees billed to Centra by Andersen for tax related services totaled approximately \$37,000 for 2002 and approximately \$11,000 for 2001.

#### **All Other Fees**

All other fees include fees paid by Centra to its auditors for all other services rendered by the auditor to Centra. There were no other fees billed to Centra by KPMG in 2002 for any other services rendered. The aggregate fees billed to Centra by Arthur Andersen for all other services totaled approximately \$87,000 for 2001 and approximately \$92,000 for 2002.

### **SOLICITATION**

We will pay all expenses incurred in connection with this solicitation of proxies for the annual meeting. We will reimburse brokers, banks and other nominees for their out-of-pocket expenses and other reasonable clerical expenses incurred in obtaining instructions from beneficial owners of common stock. In addition to the solicitation by mail, the board of directors, officers and certain employees may make special solicitation of proxies in certain instances, personally or by telephone. We expect that the expense of any such special solicitation will be nominal. At present, we do not expect to pay any compensation to any other person or firm in connection with the solicitation of proxies for the annual meeting.

### **STOCKHOLDER PROPOSALS**



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Stockholder proposals for inclusion in the proxy materials related to our 2004 annual meeting of stockholders, or special meeting in lieu thereof, must be received by Centra at our executive offices no later than January 13, 2004. Stockholder proposals must also comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934.

In addition, our by-laws provide generally that a stockholder must give us written notice not less than sixty days prior to the scheduled annual meeting describing any proposal to be brought before such meeting, even if such item is not to be included in Centra's proxy statement relating to such meeting. Such procedural requirements are fully set forth in Section 3 of our by-laws.

**MISCELLANEOUS**

The board of directors does not intend to present to the annual meeting any business other than the proposals listed herein, and the board of directors was not aware, a reasonable time before mailing this proxy statement to stockholders, of any other business that may be properly presented for action at the annual meeting. If any other business should properly come before the annual meeting, the persons present will have discretionary authority to vote the shares they own or represent by proxy in accordance with their judgment.

**AVAILABLE INFORMATION**

Stockholders of record on April 25, 2003 will receive a copy of this proxy statement and our annual report to stockholders, which contains detailed financial information about us. The annual report to stockholders is not incorporated herein and is not deemed a part of this proxy statement. We will mail, without charge, a copy of our Annual Report on Form 10-K (excluding exhibits) to any stockholder solicited hereby who requests it in writing. Please submit any such written request to: Investor Relations, Centra Software, Inc., 430 Bedford Street, Lexington, MA 02420.

**CENTRA SOFTWARE, INC.**  
**AMENDED AND RESTATED**  
**1999 STOCK INCENTIVE PLAN**

SECTION 1. *General Purpose of the Plan; Definitions*

The name of the plan is the Centra Software, Inc. 1999 Stock Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable officers, directors and employees of Centra Software, Inc. (the "Company") and its Subsidiaries and other persons to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

Award or Awards, except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Statutory Stock Options, Restricted Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Stock Appreciation Rights.

Board means the Board of Directors of the Company.

Cause means (i) any material breach by the participant of any agreement to which the participant and the Company are both parties, and (ii) any act or omission justifying termination of the participant's employment for cause, as determined by the Committee.

Change of Control shall have the meaning set forth in Section 15.

Code means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

Conditioned Stock Award means an Award granted pursuant to Section 6.

Committee shall have the meaning set forth in Section 2.

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**Disability** means disability as set forth in Section 22(e)(3) of the Code.

**Effective Date** means the date on which the Plan is approved by stockholders as set forth in Section 17.

**Eligible Person** shall have the meaning set forth in Section 4.

**Fair Market Value** on any given date means the closing price per share of the Stock on such date as reported by a nationally recognized stock exchange, or, if the Stock is not listed on such an exchange, as reported by Nasdaq, or, if the Stock is not quoted on Nasdaq, the fair market value of the Stock as determined by the Committee.

**Incentive Stock Option** means any Stock Option designated and qualified as an incentive stock option as defined in Section 422 of the Code.

**Non-Statutory Stock Option** means any Stock Option that is not an Incentive Stock Option.

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**Normal Retirement** means retirement from active employment with the Company and its Subsidiaries in accordance with the retirement policies of the Company and its Subsidiaries then in effect.

**Outside Director** means any director who (i) is not an employee of the Company or of any affiliated group, as such term is defined in Section 1504(a) of the Code, which includes the Company (an Affiliate), (ii) is not a former employee of the Company or any Affiliate who is receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during the Company's or any Affiliate's taxable year, (iii) has not been an officer of the Company or any Affiliate and (iv) does not receive remuneration from the Company or any Affiliate, either directly or indirectly, in any capacity other than as a director. Outside Director shall be determined in accordance with Section 162(m) of the Code and the Treasury regulations issued thereunder.

**Option** or **Stock Option** means any option to purchase shares of Stock granted pursuant to Section 5.

**Performance Share Award** means an Award granted pursuant to Section 8.

**Stock** means the Common Stock, \$.001 par value per share, of the Company, subject to adjustments pursuant to Section 3.

**Stock Appreciation Right** means an Award granted pursuant to Section 9.

**Subsidiary** means a subsidiary as defined in Section 424 of the Code.

**Unrestricted Stock Award** means an award granted pursuant to Section 7.

**SECTION 2. Administration of Plan; Committee Authority to Select Participants and Determine Awards**

(a) **Committee.** The Plan shall be administered by a committee of the Board (the **Committee**) consisting of not less than two (2) Outside Directors, but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not an Outside Director. Except as specifically reserved to the Board under the terms of the Plan, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the Company. Action by the Committee shall require the affirmative vote of a majority of all members thereof.

(b) **Powers of Committee.** The Committee shall have the power and authority to grant and modify Awards consistent with the terms of the Plan, including the power and authority:

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- (i) to select the persons to whom Awards may from time to time be granted;
  
- (ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Statutory Stock Options, Restricted Stock, Unrestricted Stock, Performance Shares and Stock Appreciation Rights, or any combination of the foregoing, granted to any one or more participants;
  
- (iii) to determine the number of shares to be covered by any Award;
  
- (iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards; provided, however, that no such action shall adversely affect rights under any outstanding Award without the participant's consent;
  
- (v) to accelerate the exercisability or vesting of all or any portion of any Award;
  
- (vi) subject to the provisions of Section 5(a)(ii), to extend the period in which any outstanding Stock Option or Stock Appreciation Right may be exercised;
  
- (vii) to determine whether, to what extent, and under what circumstances Stock and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the participant and whether and to what extent the Company shall pay or credit amounts equal to interest (at rates determined by the Committee) or dividends or deemed dividends on such deferrals; and

(viii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants.

SECTION 3. *Shares Issuable under the Plan; Mergers; Substitution*

(a) *Shares Issuable.* The maximum number of shares of Stock with respect to which Awards (including Stock Appreciation Rights) may be granted under the Plan shall be seven million one hundred thousand (7,100,000). For purposes of this limitation, the shares of Stock underlying any Awards which are forfeited, cancelled, reacquired by the Company or otherwise terminated (other than by exercise) shall be added back to the shares of Stock with respect to which Awards may be granted under the Plan so long as the participants to whom such Awards had been previously granted received no benefits of ownership of the underlying shares of Stock to which the Awards related. Subject to such overall limitation, any type or types of Award may be granted with respect to shares, including Incentive Stock Options. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

(b) *Limitation on Awards.* In no event may any Plan participant be granted Awards (including Stock Appreciation Rights) with respect to more than five hundred thousand (500,000) shares of Stock in any calendar year. The number of shares of Stock relating to an Award granted to a Plan participant in a calendar year that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in such calendar year. In addition, if the exercise price of an Award is subsequently reduced, the transaction shall be deemed a cancellation of the original Award and the grant of a new one so that both transactions shall count toward the maximum shares issuable in the calendar year of each respective transaction.

(c) *Stock Dividends, Mergers, etc.* In the event that after approval of the Plan by the stockholders of the Company in accordance with Section 17, the Company effects a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities with respect to which Awards may thereafter be granted (including without limitation the limitations set forth in Sections 3(a) and (b) above), (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or accelerate, amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances), subject, however, to the provisions of Section 15.

(d) *Substitute Awards.* The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances. Shares which may be delivered under such substitute awards may be in addition to the maximum number of shares provided for in Section 3(a).





SECTION 4. *Eligibility*

Awards may be granted to officers, directors and employees of the Company or its Subsidiaries ( *Eligible Persons* ).

SECTION 5. *Stock Options*

The Committee may grant to *Eligible Persons* options to purchase stock.

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Statutory Stock Options. Unless otherwise so designated, an Option shall be a Non-Statutory Stock Option. To the extent that any option does not qualify as an Incentive Stock Option, it shall constitute a Non-Statutory Stock Option.

No Incentive Stock Option shall be granted under the Plan after the tenth anniversary of the earlier of (i) the date of adoption of the Plan by the Board or (ii) the date on which the Plan is approved by the stockholders as set forth in Section 17.

The Committee in its discretion may determine the effective date of Stock Options, provided, however, that grants of Incentive Stock Options shall be made only to persons who are, on the effective date of the grant, employees of the Company or any Subsidiary. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and the terms and conditions of Section 13 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(a) *Exercise Price.* The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Committee at the time of grant but shall be, in the case of Incentive Stock Options, not less than one hundred percent (100%) of Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the option price shall be not less than one hundred ten percent (110%) of Fair Market Value on the grant date.

(b) *Option Term.* The term of each Stock Option shall be fixed by the Committee, but no Incentive Stock Option shall be exercisable more than ten (10) years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five (5) years from the date of grant.

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(c) *Exercisability; Rights of a Stockholder.* Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee at or after the grant date. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(d) *Method of Exercise.* Stock Options may be exercised in whole or in part, by delivering written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods:

(i) in cash, by certified or bank check or other instrument acceptable to the Committee;

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(ii) in the form of shares of Stock that are not then subject to restrictions, if permitted by the Committee, in its discretion. Such surrendered shares shall be valued at Fair Market Value on the exercise date;

(iii) by the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure. The Company need not act upon such exercise notice until the Company receives full payment of the exercise price; or

(iv) by any other means (including, without limitation, by delivery of a promissory note of the optionee payable on such terms as are specified by the Committee) which the Committee determines are consistent with the purpose of the Plan and with applicable laws and regulations.

The delivery of certificates representing shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the Optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or imposed by applicable law.

(e) *Non-transferability of Options.* Except as the Committee may provide with respect to a Non-Statutory Stock Option, no Stock Option shall be transferable other than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(f) *Annual Limit on Incentive Stock Options.* To the extent required for incentive stock option treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which incentive stock options granted under this Plan and any other plan of the Company or its Subsidiaries become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000.

(g) *Form of Settlement.* Shares of Stock issued upon exercise of a Stock Option shall be free of all restrictions under the Plan, except as otherwise provided in this Plan.

#### SECTION 6. *Restricted Stock Awards*

(a) *Nature of Restricted Stock Award.* The Committee in its discretion may grant Restricted Stock Awards to any Eligible Person, entitling the recipient to acquire, for a purchase price determined by the Committee, shares of Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ( Restricted Stock ), including continued employment and/or achievement of pre-established performance goals and objectives.

(b) *Acceptance of Award.* A participant who is granted a Restricted Stock Award shall have no rights with respect to such Award unless the participant shall have accepted the Award within sixty (60) days (or such shorter date as the Committee may specify) following the award date by making payment to the Company of the specified purchase price of the shares covered by the Award and by executing and delivering to the

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Company a written instrument that sets forth the terms and conditions applicable to the Restricted Stock in such form as the Committee shall determine.

(c) *Rights as a Stockholder.* Upon complying with Section 6(b) above, a participant shall have all the rights of a stockholder with respect to the Restricted Stock, including voting and dividend rights, subject to non-transferability restrictions and Company repurchase or forfeiture rights described in this Section 6 and subject to such other conditions contained in the written instrument evidencing the Restricted Award. Unless the

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Committee shall otherwise determine, certificates evidencing shares of Restricted Stock shall remain in the possession of the Company until such shares are vested as provided in Section 6(e) below.

(d) *Restrictions.* Shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein. In the event of termination of employment by the Company and its Subsidiaries for any reason (including death, Disability, Normal Retirement and for Cause), the Company shall have the right, at the discretion of the Committee, to repurchase shares of Restricted Stock with respect to which conditions have not lapsed at their purchase price, or to require forfeiture of such shares to the Company if acquired at no cost, from the participant or the participant's legal representative. The Company must exercise such right of repurchase or forfeiture within ninety (90) days following such termination of employment (unless otherwise specified in the written instrument evidencing the Restricted Stock Award).

(e) *Vesting of Restricted Stock.* The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed vested. The Committee at any time may accelerate such date or dates and otherwise waive or, subject to Section 13, amend any conditions of the Award.

(f) *Waiver, Deferral and Reinvestment of Dividends.* The written instrument evidencing the Restricted Stock Award may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

#### SECTION 7. *Unrestricted Stock Awards*

(a) *Grant or Sale of Unrestricted Stock.* The Committee in its discretion may grant or sell to any Eligible Person shares of Stock free of any restrictions under the Plan ( Unrestricted Stock ) at a purchase price determined by the Committee. Shares of Unrestricted Stock may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration.

(b) *Restrictions on Transfers.* The right to receive unrestricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

#### SECTION 8. *Performance Share Awards*

*Nature of Performance Shares.* A Performance Share Award is an award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals. The Committee may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. Performance Share Awards may be granted under the Plan to any Eligible Person. The Committee in its discretion shall determine whether and to whom Performance Share Awards shall be made, the performance goals applicable under each such Award, the periods during which performance is to be measured, and all other limitations and conditions applicable to the awarded Performance Shares.

#### SECTION 9. *Stock Appreciation Rights*

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The Committee in its discretion may grant Stock Appreciation Rights to any Eligible Person (i) alone or (ii) simultaneously with the grant of a Stock Option and in conjunction therewith or in the alternative thereto. A Stock Appreciation Right shall entitle the participant upon exercise thereof to receive from the Company, upon written request to the Company at its principal offices (the Request ), a number of shares of Stock (with or without restrictions as to substantial risk of forfeiture and transferability, as determined by the Committee in its sole discretion), an amount of cash, or any combination of Stock and cash, as specified in the Request (but

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subject to the approval of the Committee in its sole discretion, at any time up to and including the time of payment, as to the making of any cash payment), having an aggregate Fair Market Value equal to the product of (i) the excess of Fair Market Value, on the date of such Request, over the exercise price per share of Stock specified in such Stock Appreciation Right or its related Option, multiplied by (ii) the number of shares of Stock for which such Stock Appreciation Right shall be exercised. Notwithstanding the foregoing, the Committee may specify at the time of grant of any Stock Appreciation Right that such Stock Appreciation Right may be exercisable solely for cash and not for Stock.

SECTION 10. *Termination of Stock Options and Stock Appreciation Rights*

(a) *Incentive Stock Options:*

(i) *Termination by Death.* If any participant's employment by the Company and its Subsidiaries terminates by reason of death, any Incentive Stock Option owned by such participant may thereafter be exercised to the extent exercisable at the date of death, by the legal representative or legatee of the participant, for a period of two (2) years (or such longer period as the Committee shall specify at any time) from the date of death, or until the expiration of the stated term of the Incentive Stock Option, if earlier.

(ii) *Termination by Reason of Disability or Normal Retirement.*

(A) Any Incentive Stock Option held by a participant whose employment by the Company and its Subsidiaries has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of one (1) year (or such longer period as the Committee shall specify at any time) from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(B) Any Incentive Stock Option held by a participant whose employment by the Company and its Subsidiaries has terminated by reason of Normal Retirement may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of ninety (90) days (or such longer period as the Committee shall specify at any time) from the date of such termination of employment, or until the expiration of the stated term of the Option, if earlier.

(C) The Committee shall have sole authority and discretion to determine whether a participant's employment has been terminated by reason of Disability or Normal Retirement.

(D) Except as otherwise provided by the Committee at the time of grant, the death of a participant during a period provided in this Section 10(b) for the exercise of an Incentive Stock Option shall extend such period for two (2) years from the date of death, subject to termination on the expiration of the stated term of the Option, if earlier.

(iii) *Termination for Cause.* If any participant's employment by the Company and its Subsidiaries has been terminated for Cause, any Incentive Stock Option held by such participant shall immediately terminate and be of no further force and effect; provided, however, that the Committee may, in its sole discretion, provide that such Option can be exercised for a period of up to thirty (30) days from the date of termination of employment, or until the expiration of the stated term of the Option, if earlier.

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(iv) *Other Termination.* Unless otherwise determined by the Committee, if a participant's employment by the Company and its Subsidiaries terminates for any reason other than death, Disability, Normal Retirement or for Cause, any Incentive Stock Option held by such participant may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for ninety (90) days (or such longer period as the Committee shall specify at any time) from the date of termination of employment, or until the expiration of the stated term of the Option, if earlier.

(b) *Non-Statutory Stock Options and Stock Appreciation Rights.* Any Non-Statutory Stock Option or Stock Appreciation Right granted under the Plan shall contain such terms and conditions with respect to its termination as the Committee, in its discretion, may from time to time determine.

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SECTION 11. *Tax Withholding*

(a) *Payment by Participant.* Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any Federal, state or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) *Payment in Shares.* A Participant may elect, with the consent of the Committee, to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to an Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due with respect to such Award, or (ii) transferring to the Company shares of Stock owned by the participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

SECTION 12. *Transfer, Leave of Absence, Etc.*

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; and

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

SECTION 13. *Amendments and Termination*

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award (or provide substitute Awards at the same or reduced exercise or purchase price or with no exercise or purchase price, but such price, if any, must satisfy the requirements which would apply to the substitute or amended Award if it were then initially granted under this Plan) for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. However, no such amendment, unless approved by the stockholders of the Company, shall be effective if it would cause the Plan to fail to satisfy the incentive stock option requirements of the Code

SECTION 14. *Status of Plan*

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With respect to the portion of any Award which has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the provision of the foregoing sentence.

### SECTION 15. *Change of Control Provisions*

(a) Upon the occurrence of a Change of Control as defined in this Section 15:

(i) subject to the provisions of clause (iii) below, after the effective date of such Change of Control, each holder of an outstanding Stock Option, Restricted Stock Award, Performance Share Award or Stock

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Appreciation Right shall be entitled, upon exercise of such Award, to receive, in lieu of shares of Stock (or consideration based upon the Fair Market Value of Stock), shares of such stock or other securities, cash or property (or consideration based upon shares of such stock or other securities, cash or property) as the holders of shares of Stock received in connection with the Change of Control;

(ii) the Committee may accelerate the time for exercise of, and waive all conditions and restrictions on, each unexercised and unexpired Stock Option, Restricted Stock Award, Performance Share Award and Stock Appreciation Right, effective upon a date prior or subsequent to the effective date of such Change of Control, specified by the Committee; or

(iii) each outstanding Stock Option, Restricted Stock Award, Performance Share Award and Stock Appreciation Right may be cancelled by the Committee as of the effective date of any such Change of Control provided that (x) notice of such cancellation shall be given to each holder of such an Award and (y) each holder of such an Award shall have the right to exercise such Award to the extent that the same is then exercisable or, in full, if the Committee shall have accelerated the time for exercise of all such unexercised and unexpired Awards, during the thirty (30) day period preceding the effective date of such Change of Control.

(b) Change of Control shall mean the occurrence of any one of the following events:

(i) any person becomes a beneficial owner (as such terms are defined in Rule 13d-3 promulgated under the Securities and Exchange Act of 1934, as amended) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or

(ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than sixty-five percent (65%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

#### SECTION 16. *General Provisions*

(a) *No Distribution; Compliance with Legal Requirements.* The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities laws and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) *Delivery of Stock Certificates.* Delivery of stock certificates to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) *Other Compensation Arrangements; No Employment Rights.* Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to

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stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan or any Award under the Plan does not confer upon any employee any right to continued employment with the Company or any Subsidiary.

SECTION 17. *Effective Date of Plan*

The Plan shall become effective upon approval by the holders of a majority of the shares of capital stock of the Company present or represented and entitled to vote at a meeting of stockholders.

SECTION 18. *Governing Law*

This Plan shall be governed by, and construed and enforced in accordance with, the substantive laws of the State of Delaware without regard to its principles of conflicts of laws.

\* \* \*

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**CENTRA SOFTWARE, INC.**

**430 Bedford Street**

**Lexington, Massachusetts 02420**

**PROXY FOR ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON JUNE 12, 2002**

**THIS PROXY IS BEING SOLICITED ON BEHALF OF**

**THE BOARD OF DIRECTORS OF THE COMPANY**

The undersigned hereby constitute(s) and appoint(s) Leon Navickas and Stephen A. Johnson, and each of them acting singly, as proxies of the undersigned, each with full power to appoint his substitute, and authorizes each of them, and each substitute so appointed, to represent and vote all shares of Common Stock of Centra Software, Inc. (the Company) held of record by the undersigned at the close of business on April 25, 2003 at the Annual Meeting of Stockholders of the Company to be held on Thursday, June 12, 2003, at the offices of Foley Hoag LLP, World Trade Center West, 155 Seaport Boulevard, Boston, Massachusetts 02210, beginning at 10:00 a.m. local time, and at any and all adjournments thereof. A stockholder wishing to vote in accordance with the recommendation of the Board of Directors need only sign and date this proxy and return it in the enclosed envelope.

WHEN PROPERLY EXECUTED THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR ITEMS 1 THROUGH 3 AND IN THE DISCRETION OF THE PERSONS NAMED AS PROXIES AS TO SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING.

PLEASE VOTE AND SIGN ON OTHER SIDE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

**Centra Software, Inc.**

Dear Shareholder:

Please take note of the important information enclosed with this proxy ballot. The proposals which are discussed in detail in the enclosed proxy materials require your immediate attention and approval.

Your vote counts, and you are strongly encouraged to exercise your right to vote your shares.

Please mark the box on the proxy card to indicate how your shares shall be voted. Then sign the card, detach it and return your proxy vote in the enclosed postage paid envelope.

Your vote must be received prior to the Annual Meeting of Stockholders to be held on June 12, 2003.

Thank you in advance for your prompt consideration of this matter.

Sincerely,

Centra Software, Inc.

Please Detach and Mail in the Envelope Provided

A x Please mark your votes as in this example.

**UNLESS OTHERWISE SPECIFIED THIS PROXY WILL  
BE VOTED FOR THE FOLLOWING ITEMS:**

1.	Election of Class I Directors.	Nominees:	FOR	WITHHELD
		Leonard M. Kawell, Jr.	..	..
		Douglas M. Ferguson	..	..

FOR ALL NOMINEES EXCEPT AS NOTED BELOW:	FOR	AGAINST	ABSTAIN
	..	..	..

2.	Amendment to the 1999 Stock Incentive Plan to increase the number of shares of common stock available for issuance by 1,000,000 to 7,100,000 shares.	FOR	AGAINST	ABSTAIN
		..	..	..

3. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

RECORD DATE SHARES \_\_\_\_\_

The undersigned hereby acknowledge(s) receipt of a copy of the accompanying Notice of Annual Meeting of Stockholders and of the Proxy Statement relating thereto, and hereby revoke(s) any proxy or proxies heretofore given. This proxy may be revoked at any time before it is exercised.

HAS YOUR ADDRESS CHANGED?

DO YOU HAVE ANY COMMENTS?



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Shareholder sign here \_\_\_\_\_ Co-owner sign here \_\_\_\_\_

Dated: \_\_\_\_\_, 2003

Please be sure to sign and date this proxy. Please sign this proxy exactly as your name appears on the books of the Company. Joint owners should each sign personally. Trustees, custodians, and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, each person must sign. If the shareholder is a corporation, the signature should be that of an authorized officer who should state his or her title.