

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2024

OR

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-11859

PEGASYSTEMS INC.

(Exact name of Registrant as specified in its charter)

Massachusetts

04-2787865

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

One Main Street, Cambridge, MA 02142

(Address of principal executive offices, including zip code)

(617) 374-9600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Trading symbol(s)

Name of each exchange on which registered

Common Stock, \$0.01 par value per share

PEGA

NASDAQ Global Select Market

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes x No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

There were 85,409,645 shares of the Registrant's common stock, \$0.01 par value per share, outstanding on July 17, 2024.

PEGASYSTEMS INC.
QUARTERLY REPORT ON FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 258,257	\$ 229,902
Marketable securities	406,819	193,436
Total cash, cash equivalents, and marketable securities	665,076	423,338
Accounts receivable, net	165,723	300,173
Unbilled receivables, net	164,533	237,379
Other current assets	76,323	68,137
Total current assets	1,071,655	1,029,027
Long-term unbilled receivables, net	81,218	85,402
Goodwill	81,410	81,611
Other long-term assets	302,249	314,696
Total assets	\$ 1,536,532	\$ 1,510,736
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 16,682	\$ 11,290
Accrued expenses	44,875	39,941
Accrued compensation and related expenses	81,110	126,640
Deferred revenue	352,618	377,845
Convertible senior notes, net	500,604	—
Other current liabilities	20,677	21,343
Total current liabilities	1,016,566	577,059
Long-term convertible senior notes, net	—	499,368
Long-term operating lease liabilities	70,202	66,901
Other long-term liabilities	14,362	13,570
Total liabilities	1,101,130	1,156,898
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, 1,000 shares authorized; none issued	—	—
Common stock, 200,000 shares authorized; 85,369 and 83,840 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	854	838
Additional paid-in capital	473,030	379,584
(Accumulated deficit)	(14,216)	(8,705)
Accumulated other comprehensive (loss)	(24,266)	(17,879)
Total stockholders' equity	435,402	353,838
Total liabilities and stockholders' equity	\$ 1,536,532	\$ 1,510,736

See notes to unaudited condensed consolidated financial statements.

PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Revenue				
Subscription services	\$ 214,430	\$ 197,105	\$ 426,333	\$ 384,614
Subscription license	84,647	41,197	147,985	125,724
Consulting	52,040	58,387	106,087	111,420
Perpetual license	36	1,579	895	1,982
Total revenue	351,153	298,268	681,300	623,740
Cost of revenue				
Subscription services	36,238	36,783	72,062	73,647
Subscription license	477	623	1,120	1,342
Consulting	60,231	58,710	118,413	119,058
Perpetual license	—	24	9	27
Total cost of revenue	96,946	96,140	191,604	194,074
Gross profit	254,207	202,128	489,696	429,666
Operating expenses				
Selling and marketing	139,761	143,858	267,456	293,655
Research and development	75,425	73,931	147,538	149,307
General and administrative	25,420	23,462	48,947	46,572
Litigation settlement, net of recoveries	—	—	32,403	—
Restructuring	635	2,167	798	3,628
Total operating expenses	241,241	243,418	497,142	493,162
Income (loss) from operations	12,966	(41,290)	(7,446)	(63,496)
Foreign currency transaction gain (loss)	437	(3,290)	(2,825)	(5,965)
Interest income	6,785	1,814	12,066	3,299
Interest expense	(1,656)	(1,778)	(3,408)	(3,696)
(Loss) income on capped call transactions	(3,277)	(1,361)	22	1,845
Other income, net	—	5,702	1,684	12,285
Income (loss) before provision for income taxes	15,255	(40,203)	93	(55,728)
Provision for income taxes	8,642	6,601	5,604	11,850
Net income (loss)	<u>\$ 6,613</u>	<u>\$ (46,804)</u>	<u>\$ (5,511)</u>	<u>\$ (67,578)</u>
Earnings (loss) per share				
Basic	\$ 0.08	\$ (0.56)	\$ (0.07)	\$ (0.82)
Diluted	\$ 0.07	\$ (0.56)	\$ (0.07)	\$ (0.82)
Weighted-average number of common shares outstanding				
Basic	85,157	83,039	84,712	82,823
Diluted	88,500	83,039	84,712	82,823

See notes to unaudited condensed consolidated financial statements.

PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 6,613	\$ (46,804)	\$ (5,511)	\$ (67,578)
Other comprehensive (loss) income, net of tax				
Unrealized (loss) on available-for-sale securities	(72)	(195)	(818)	(241)
Foreign currency translation adjustments	(2,142)	361	(5,569)	1,950
Total other comprehensive (loss) income, net of tax	(2,214)	166	(6,387)	1,709
Comprehensive income (loss)	<u><u>\$ 4,399</u></u>	<u><u>\$ (46,638)</u></u>	<u><u>\$ (11,898)</u></u>	<u><u>\$ (65,869)</u></u>

See notes to unaudited condensed consolidated financial statements.

PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)

	Common Stock					Accumulated other comprehensive (loss)	Total stockholders' equity
	Number of shares	Amount	Additional paid-in capital	(Accumulated deficit)			
December 31, 2022	82,436	\$ 824	\$ 229,602	\$ (76,513)	\$ (23,070)	\$ 130,843	
Issuance of common stock for stock compensation plans	452	4	668	—	—	—	672
Issuance of common stock under the employee stock purchase plan	52	1	2,142	—	—	—	2,143
Stock-based compensation	—	—	42,557	—	—	—	42,557
Cash dividends declared (\$ 0.03 per share)	—	—	(2,488)	—	—	—	(2,488)
Other comprehensive income	—	—	—	—	1,543	1,543	
Net (loss)	—	—	—	(20,774)	—	—	(20,774)
March 31, 2023	82,940	\$ 829	\$ 272,481	\$ (97,287)	\$ (21,527)	\$ 154,496	
Issuance of common stock for stock compensation plans	225	2	1,824	—	—	—	1,826
Issuance of common stock under the employee stock purchase plan	47	1	1,980	—	—	—	1,981
Stock-based compensation	—	—	36,227	—	—	—	36,227
Cash dividends declared (\$ 0.03 per share)	—	—	(2,496)	—	—	—	(2,496)
Other comprehensive income	—	—	—	—	166	166	
Net (loss)	—	—	—	(46,804)	—	—	(46,804)
June 30, 2023	83,212	\$ 832	\$ 310,016	\$ (144,091)	\$ (21,361)	\$ 145,396	
December 31, 2023	83,840	\$ 838	\$ 379,584	\$ (8,705)	\$ (17,879)	\$ 353,838	
Issuance of common stock for stock compensation plans	1,139	12	18,644	—	—	—	18,656
Issuance of common stock under the employee stock purchase plan	32	—	1,758	—	—	—	1,758
Stock-based compensation	—	—	34,781	—	—	—	34,781
Cash dividends declared (\$ 0.03 per share)	—	—	(2,550)	—	—	—	(2,550)
Other comprehensive (loss)	—	—	—	—	(4,173)	(4,173)	
Net (loss)	—	—	—	(12,124)	—	—	(12,124)
March 31, 2024	85,011	\$ 850	\$ 432,217	\$ (20,829)	\$ (22,052)	\$ 390,186	
Issuance of common stock for stock compensation plans	326	4	5,481	—	—	—	5,485
Issuance of common stock under the employee stock purchase plan	32	—	1,669	—	—	—	1,669
Stock-based compensation	—	—	36,224	—	—	—	36,224
Cash dividends declared (\$ 0.03 per share)	—	—	(2,561)	—	—	—	(2,561)
Other comprehensive (loss)	—	—	—	—	(2,214)	(2,214)	
Net income	—	—	—	6,613	—	—	6,613
June 30, 2024	85,369	\$ 854	\$ 473,030	\$ (14,216)	\$ (24,266)	\$ 435,402	

See notes to unaudited condensed consolidated financial statements.

PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2024	2023
Operating activities		
Net (loss)	\$ (5,511)	\$ (67,578)
Adjustments to reconcile net (loss) to cash provided by operating activities		
Stock-based compensation	71,005	78,784
Amortization of deferred commissions	32,276	29,027
Amortization of intangible assets and depreciation	8,812	9,553
Lease expense	7,844	8,186
Foreign currency transaction loss	2,825	5,965
(Gain) on capped call transactions	(22)	(1,845)
Deferred income taxes	232	(136)
(Gain) on investments	(1,628)	(4,430)
(Gain) on repurchases of convertible senior notes	—	(7,855)
Other non-cash	(5,056)	2,122
Change in operating assets and liabilities, net	109,466	61,959
Cash provided by operating activities	<u>220,243</u>	<u>113,752</u>
Investing activities		
Purchases of investments	(291,810)	(69,662)
Proceeds from maturities and called investments	83,967	88,849
Sales of investments	—	10,725
Investment in property and equipment	(1,857)	(13,933)
Cash (used in) provided by investing activities	<u>(209,700)</u>	<u>15,979</u>
Financing activities		
Repurchases of convertible senior notes	—	(88,989)
Dividend payments to stockholders	(5,065)	(4,962)
Proceeds from employee stock plans	29,928	8,044
Common stock repurchases for tax withholdings for net settlement of equity awards	(2,360)	(1,422)
Other	—	341
Cash provided by (used in) financing activities	<u>22,503</u>	<u>(86,988)</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	<u>(2,842)</u>	<u>1,010</u>
Net increase in cash, cash equivalents, and restricted cash	<u>30,204</u>	<u>43,753</u>
Cash, cash equivalents, and restricted cash, beginning of period	<u>232,827</u>	<u>145,054</u>
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 263,031</u>	<u>\$ 188,807</u>
Cash and cash equivalents	<u>\$ 258,257</u>	<u>\$ 186,874</u>
Restricted cash included in other current assets	<u>768</u>	<u>—</u>
Restricted cash included in other long-term assets	<u>4,006</u>	<u>1,933</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 263,031</u>	<u>\$ 188,807</u>

See notes to unaudited condensed consolidated financial statements.

PEGASYSTEMS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Pegasystems Inc. (together with its subsidiaries, "the Company") has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all the information required by accounting principles generally accepted in the United States of America ("U.S.") for complete financial statements and should be read in conjunction with the Company's audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2023.

In the opinion of management, the Company has prepared the accompanying unaudited condensed consolidated financial statements on the same basis as its audited financial statements, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented.

All intercompany transactions and balances were eliminated in consolidation. The operating results for the interim periods presented do not necessarily indicate the expected results for 2024.

NOTE 2. MARKETABLE SECURITIES

(in thousands)	June 30, 2024				December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Government debt	\$ 12,942	\$ —	\$ (17)	\$ 12,925	\$ 11,471	\$ 33	\$ (1)	\$ 11,503
Corporate debt	394,521	1	(628)	393,894	181,960	200	(227)	181,933
	<u>\$ 407,463</u>	<u>\$ 1</u>	<u>\$ (645)</u>	<u>\$ 406,819</u>	<u>\$ 193,431</u>	<u>\$ 233</u>	<u>\$ (228)</u>	<u>\$ 193,436</u>

As of June 30, 2024, marketable securities' maturities ranged from July 2024 to January 2026, with a weighted-average remaining maturity of 0.4 years.

NOTE 3. RECEIVABLES, CONTRACT ASSETS, AND DEFERRED REVENUE

Receivables

(in thousands)	June 30, 2024		December 31, 2023	
	\$	\$	\$	\$
Accounts receivable, net	\$ 165,723	\$ 300,173		
Unbilled receivables, net	164,533	237,379		
Long-term unbilled receivables, net	81,218	85,402		
	<u>\$ 411,474</u>	<u>\$ 622,954</u>		

Unbilled receivables

Unbilled receivables are client-committed amounts for which revenue recognition precedes billing. Billing is solely subject to the passage of time.

Unbilled receivables by expected collection date:

(Dollars in thousands)	June 30, 2024	
	\$	%
1 year or less	\$ 164,533	67 %
1-2 years	58,353	24 %
2-5 years	22,865	9 %
	<u>\$ 245,751</u>	<u>100 %</u>

Unbilled receivables by contract effective date:

(Dollars in thousands)	June 30, 2024	
	\$	%
2024	\$ 58,562	24 %
2023	130,140	53 %
2022	29,241	12 %
2021	22,830	9 %
2020 and prior	4,978	2 %
	<u>\$ 245,751</u>	<u>100 %</u>

PEGASYSTEMS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Contract assets

Contract assets are client-committed amounts for which revenue recognized exceeds the amount billed to the client, and billing is subject to conditions other than the passage of time, such as the completion of a related performance obligation.

(in thousands)	June 30, 2024	December 31, 2023
Contract assets	\$ 15,374	\$ 16,238
Long-term contract assets	19,997	20,635
	<u>\$ 35,371</u>	<u>\$ 36,873</u>

Deferred revenue

Deferred revenue consists of billings made and payments received in advance of revenue recognition.

(in thousands)	June 30, 2024	December 31, 2023
Deferred revenue	\$ 352,618	\$ 377,845
Long-term deferred revenue	2,443	2,478
	<u>\$ 355,061</u>	<u>\$ 380,323</u>

The decrease in deferred revenue in the six months ended June 30, 2024, was primarily due to \$ 272.7 million of revenue recognized that was in deferred revenue as of December 31, 2023.

NOTE 4. DEFERRED COMMISSIONS

(in thousands)	June 30, 2024	December 31, 2023		
Deferred commissions	\$ 100,490	\$ 114,119		
(in thousands)	Three Months Ended June 30,	Six Months Ended June 30,		
(in thousands)	2024	2023	2024	2023
Amortization of deferred commissions ⁽¹⁾	\$ 14,994	\$ 14,750	\$ 32,276	\$ 29,027

(1) Included in selling and marketing.

NOTE 5. GOODWILL AND OTHER INTANGIBLES

Goodwill

(in thousands)	Six Months Ended June 30,	
(in thousands)	2024	2023
January 1,	\$ 81,611	\$ 81,399
Currency translation adjustments	(201)	194
June 30,	<u>\$ 81,410</u>	<u>\$ 81,593</u>

Intangibles

Intangible assets are recorded at cost and amortized using the straight-line method over their estimated useful lives.

(in thousands)	Useful Lives	Cost	Accumulated Amortization	Net Book Value
Client-related	4 - 10 years	\$ 63,112	\$ (60,714)	\$ 2,398
Technology	2 - 10 years	68,005	(65,198)	2,807
Other	1 - 5 years	5,361	(5,361)	—
		<u>\$ 136,478</u>	<u>\$ (131,273)</u>	<u>\$ 5,205</u>

December 31, 2023

(in thousands)	Useful Lives	Cost	Accumulated Amortization	Net Book Value
Client-related	4 - 10 years	\$ 63,117	\$ (60,035)	\$ 3,082
Technology	2 - 10 years	68,138	(64,218)	3,920
Other	1 - 5 years	5,361	(5,361)	—
		<u>\$ 136,616</u>	<u>\$ (129,614)</u>	<u>\$ 7,002</u>

PEGASYSTEMS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Future estimated amortization of intangible assets:

(in thousands)	June 30, 2024
Remainder of 2024	\$ 1,399
2025	2,605
2026	874
2027	327
	<u><u>\$ 5,205</u></u>

Amortization of intangible assets:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,	2023	2024	June 30,
Cost of revenue	\$ 447	\$ 621	\$ 1,068	\$ 1,327
Selling and marketing	342	342	685	685
	<u><u>\$ 789</u></u>	<u><u>\$ 963</u></u>	<u><u>\$ 1,753</u></u>	<u><u>\$ 2,012</u></u>

NOTE 6. OTHER ASSETS AND LIABILITIES

Other current assets

(in thousands)	June 30, 2024	December 31, 2023
Income tax receivables	\$ 16,060	\$ 4,804
Contract assets	15,374	16,238
Insurance receivable	—	1,954
Indirect tax receivable	2,702	1,924
Capped call transactions	915	—
Restricted cash	768	—
Other	40,504	43,217
	<u><u>\$ 76,323</u></u>	<u><u>\$ 68,137</u></u>

Other long-term assets

(in thousands)	June 30, 2024	December 31, 2023
Deferred commissions	\$ 100,490	\$ 114,119
Right of use assets	68,293	64,198
Property and equipment	42,190	47,279
Venture investments	21,047	19,450
Contract assets	19,997	20,635
Intangible assets	5,205	7,002
Capped call transactions	—	893
Deferred income taxes	3,666	3,678
Restricted cash	4,006	2,925
Other	37,355	34,517
	<u><u>\$ 302,249</u></u>	<u><u>\$ 314,696</u></u>

PEGASYSTEMS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Accrued expenses

(in thousands)	June 30, 2024	December 31, 2023
Cloud hosting	\$ 15,152	\$ 1,358
Outside professional services	9,539	10,419
Marketing and sales program	7,081	2,557
Income and other taxes	3,422	15,428
Employee related	4,966	4,486
Other	4,715	5,693
	<u><u>\$ 44,875</u></u>	<u><u>\$ 39,941</u></u>

Other current liabilities

(in thousands)	June 30, 2024	December 31, 2023
Operating lease liabilities	\$ 15,254	\$ 15,000
Dividends payable	2,561	2,515
Other	2,862	3,828
	<u><u>\$ 20,677</u></u>	<u><u>\$ 21,343</u></u>

Other long-term liabilities

(in thousands)	June 30, 2024	December 31, 2023
Deferred revenue	\$ 2,443	\$ 2,478
Income taxes payable	858	859
Other	11,061	10,233
	<u><u>\$ 14,362</u></u>	<u><u>\$ 13,570</u></u>

NOTE 7. LEASES

Expense

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,	2024	2024	June 30,
Fixed lease costs	\$ 5,271	\$ 4,495	\$ 9,533	\$ 10,261
Short-term lease costs	410	696	953	1,477
Variable lease costs	1,763	2,186	3,372	4,160
	<u><u>\$ 7,444</u></u>	<u><u>\$ 7,377</u></u>	<u><u>\$ 13,858</u></u>	<u><u>\$ 15,898</u></u>

Right of use assets and lease liabilities

(in thousands)	June 30, 2024	December 31, 2023
Right of use assets	\$ 68,293	\$ 64,198
Operating lease liabilities	\$ 15,254	\$ 15,000
Long-term operating lease liabilities	\$ 70,202	\$ 66,901

Weighted-average remaining lease term and discount rate for the Company's leases were:

	June 30, 2024	December 31, 2023
Weighted-average remaining lease term	6.4 years	6.8 years
Weighted-average discount rate ⁽¹⁾	4.6 %	4.0 %

(1) The rates implicit in the Company's leases are not readily determinable. Therefore, the Company uses its incremental borrowing rate as the discount rate when measuring operating lease liabilities. The incremental borrowing rate represents an estimate of the interest rate the Company would incur to borrow an amount equal to the lease payments on a collateralized basis over the lease term in a similar economic environment.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Maturities of lease liabilities:

(in thousands)	June 30, 2024
Remainder of 2024	\$ 7,954
2025	18,784
2026	14,384
2027	13,387
2028	12,813
2029	10,099
Thereafter	21,650
Total lease payments	99,071
Less: imputed interest ⁽¹⁾	(13,615)
	<u><u>\$ 85,456</u></u>

(1) Lease liabilities are measured at the present value of the remaining lease payments using a discount rate determined at lease commencement unless the discount rate is updated due to a lease reassessment event.

Cash flow information

(in thousands)	Six Months Ended		June 30,
	2024	2023	
Cash paid for operating leases, net of tenant improvement allowances	\$ 9,493	\$ 10,540	
Right of use assets recognized for new leases and amendments (non-cash)	\$ 12,290	\$ 1,465	

NOTE 8. DEBT

Convertible senior notes and capped calls

Convertible senior notes

In February 2020, the Company issued Convertible Senior Notes (the "Notes") with an aggregate principal of \$ 600 million, due March 1, 2025, in a private placement. No principal payments are due before maturity. The Notes accrue interest at an annual rate of 0.75 %, payable semi-annually in arrears on March 1 and September 1, beginning September 1, 2020. In the three and six months ended June 30, 2023, the Company recognized gains of \$ 5.1 million and \$ 7.9 million, respectively, in other income, net from repurchases of Notes representing \$ 64.7 million and \$ 97.7 million, respectively, in aggregate principal amount.

Conversion rights

The conversion rate is 7.4045 shares of common stock per \$1,000 principal amount of the Notes, representing an initial conversion price of \$ 135.05 per share of common stock. The conversion rate will be adjusted upon certain events, including spin-offs, tender offers, exchange offers, and certain stockholder distributions. The Company will settle conversions by paying or delivering cash, shares of its common stock, or a combination of cash and shares of its common stock, at the Company's election, based on the applicable conversion rate.

Beginning on September 1, 2024, noteholders may convert their Notes at any time at their election.

Before September 1, 2024, noteholders may convert their Notes in the following circumstances:

- During any calendar quarter beginning after June 30, 2020 (and only during such calendar quarter), if the last reported sale price per share of the Company's common stock exceeds 130 % of the conversion price for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter.
- During the five consecutive business days immediately after any five consecutive trading day period (the "Measurement Period"), if the trading price per \$1,000 principal amount of Notes for each trading day of the Measurement Period was less than 98 % of the product of the last reported sale price per share of common stock on such trading day and the conversion rate on such trading day.
- Upon certain corporate events or distributions or if the Company calls any Notes for redemption, noteholders may convert before the close of business on the business day immediately before the related redemption date (or, if the Company fails to pay the redemption price in full on the redemption date until the Company pays the redemption price).

As of June 30, 2024, the Notes were not eligible for conversion.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Repurchase rights

On or after March 1, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, the Company may redeem for cash all or part of the Notes at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest, if the last reported sale price of the Company's common stock exceeded 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides a redemption notice.

If certain corporate events that constitute a "Fundamental Change" occur, each noteholder will have the right to require the Company to repurchase for cash all of such noteholder's Notes, or any portion of the principal thereof that is equal to \$1,000 or a multiple of \$1,000, at a repurchase price equal to 100% of the principal amount thereof, plus accrued and unpaid interest. A Fundamental Change relates to mergers, changes in control of the Company, liquidation/dissolution of the Company, or the delisting of the Company's common stock.

Carrying value of the Notes:

(in thousands)	June 30, 2024	December 31, 2023
Principal	\$ 502,270	\$ 502,270
Unamortized issuance costs	(1,666)	(2,902)
Convertible senior notes, net	\$ 500,604	\$ 499,368

Interest expense related to the Notes:

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,	2023	June 30,	2023
Contractual interest expense (0.75 % coupon)	\$ 942	\$ 997	\$ 1,884	\$ 2,122
Amortization of issuance costs	619	647	1,236	1,375
	\$ 1,561	\$ 1,644	\$ 3,120	\$ 3,497

The average interest rate on the Notes in the six months ended June 30, 2024 and 2023 was 1.2%.

Future payments:

(in thousands)	June 30, 2024		
	Principal	Interest	Total
Remainder of 2024	\$ —	\$ 1,883	\$ 1,883
2025	502,270	1,884	504,154
	\$ 502,270	\$ 3,767	\$ 506,037

Capped call transactions

In February 2020, the Company entered into privately negotiated capped call transactions (the "Capped Call Transactions") with certain financial institutions. The Capped Call Transactions initially covered approximately 4.4 million shares (representing the number of shares for which the Notes were initially convertible) of the Company's common stock. In the three and six months ended June 30, 2023, Capped Call Transactions covering approximately 0.5 million and 0.7 million shares, respectively, were settled for proceeds of \$ 0.1 million and \$ 0.3 million, respectively. As of June 30, 2024, Capped Call Transactions covering approximately 3.7 million shares were outstanding.

The Capped Call Transactions are expected to reduce common stock dilution and/or offset any potential cash payments the Company must make, other than for principal and interest, upon conversion of the Notes, with such reduction and/or offset subject to a cap of \$ 196.44. The cap price of the Capped Call Transactions is subject to adjustment upon specified extraordinary events affecting the Company, including mergers and tender offers.

The Capped Call Transactions are accounted for as derivative instruments and do not qualify for the Company's own equity scope exception in ASC 815 since, in some cases of early settlement, the settlement value calculated following the governing documents may not represent a fair value measurement. The Capped Call Transactions are remeasured to fair value each reporting period, resulting in a non-operating gain or loss.

PEGASYSTEMS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Change in capped call transactions:

(in thousands)	Six Months Ended	
	June 30,	2023
January 1,	\$ 893	\$ 2,582
Settlements	—	(341)
Fair value adjustment	22	1,845
June 30,	\$ 915	\$ 4,086

Credit facility

In November 2019, and as since amended, the Company entered into a five-year \$ 100 million senior secured revolving credit agreement (the "Credit Facility") with PNC Bank, National Association. The Company may use borrowings for general corporate purposes and to finance working capital needs. Subject to specific conditions and the agreement of the financial institutions lending the additional amount, the aggregate commitment may be increased to \$ 200 million. The commitments expire on November 4, 2024, and any outstanding loans will be payable on such date. On April 23, 2024, the Credit Facility was amended to extend the expiration date to February 4, 2025. The Credit Facility, as amended, contains customary covenants, including, but not limited to, those relating to additional indebtedness, liens, asset divestitures, and affiliate transactions. Beginning with the fiscal quarter ended March 31, 2024, the Company must maintain a maximum net consolidated leverage ratio of 3.5 to 1.0 (with a step-up for certain acquisitions) and a minimum consolidated interest coverage ratio of 3.5 to 1.

As of June 30, 2024 and December 31, 2023, the Company had \$ 27.3 million in outstanding letters of credit under the Credit Facility, reducing available borrowing capacity, but no outstanding cash borrowings.

NOTE 9. RESTRUCTURING

The Company has undertaken the following restructuring activities as it optimizes its go-to-market strategy and reassesses its office space needs:

(in thousands)	Three months ended		Expense
	March 31, 2023	June 30, 2023	
Office space reduction	\$ 1,241	\$ 1,241	
Employee severance and related benefits	\$ 1,581	\$ 1,581	
Employee severance and related benefits and office space reduction	\$ 17,236	\$ 17,236	
Office space reduction	\$ 1,497	\$ 1,497	
Office space reduction	\$ 1,257	\$ 1,257	

Accrued employee severance and related benefits:

Change for all restructuring actions:

(in thousands)	Six Months Ended	
	June 30,	2023
January 1,	\$ 8,095	\$ 18,573
Costs incurred	(238)	2,387
Cash disbursements	(3,852)	(17,521)
Currency translation adjustments	(169)	185
June 30,	\$ 3,836	\$ 3,624

Note: Accrued employee severance and related benefits is included in accrued compensation and related expenses.

NOTE 10. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value on a recurring basis

The Company records its cash equivalents, marketable securities, Capped Call Transactions, and venture investments at fair value on a recurring basis. Fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants based on assumptions that market participants would use in pricing an asset or liability.

As a basis for classifying the fair value measurements, a three-tier fair value hierarchy, which classifies the fair value measurements based on the inputs used in measuring fair value, was established as follows:

- Level 1 - observable inputs, such as quoted prices in active markets for identical assets or liabilities;
- Level 2 - significant other inputs that are observable either directly or indirectly; and

PEGASYSTEMS INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Level 3 - significant unobservable inputs with little or no market data, which require the Company to develop its own assumptions.

This hierarchy requires the Company to use observable market data when available and minimize unobservable inputs when determining fair value.

The fair value of the Capped Call Transactions at the end of each reporting period is determined using a Black-Scholes option-pricing model. The valuation model uses various market-based inputs, including stock price, remaining contractual term, expected volatility, risk-free interest rate, and expected dividend yield. The Company applies judgment when determining expected volatility. The Company considers the underlying equity security's historical and implied volatility levels. The Company's venture investments are recorded at fair value based on multiple valuation methods, including observable public companies and transaction prices and unobservable inputs, including the volatility, rights, and obligations of the securities the Company holds.

Assets and liabilities measured at fair value on a recurring basis:

(in thousands)	June 30, 2024				December 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 18,345	\$ —	\$ —	\$ 18,345	\$ 54,357	\$ —	\$ —	\$ 54,357
Marketable securities	\$ —	\$ 406,819	\$ —	\$ 406,819	\$ —	\$ 193,436	\$ —	\$ 193,436
Capped Call Transactions	\$ —	\$ 915	\$ —	\$ 915	\$ —	\$ 893	\$ —	\$ 893
Venture investments ⁽¹⁾	\$ —	\$ —	\$ 21,047	\$ 21,047	\$ —	\$ —	\$ 19,450	\$ 19,450

(1) Investments in privately-held companies

Changes in venture investments:

(in thousands)	Six Months Ended June 30,	
	2024	2023
January 1,	\$ 19,450	\$ 13,069
New investments	350	400
Sales of investments	—	(2,773)
Changes in foreign exchange rates	(19)	119
Changes in fair value:		
included in other income, net	1,628	4,475
included in other comprehensive income (loss)	(362)	(1,908)
June 30,	<u>\$ 21,047</u>	<u>\$ 13,382</u>

The carrying value of certain financial instruments, including receivables and accounts payable, approximates fair value due to their short maturities.

Fair value of the Convertible Senior Notes

The fair value of the Notes outstanding (including the embedded conversion feature) was \$ 485.3 million as of June 30, 2024, and \$ 466.5 million as of December 31, 2023.

The fair value was determined based on the Notes' quoted price in an over-the-counter market on the last trading day of the reporting period and classified within Level 2 in the fair value hierarchy.

NOTE 11. REVENUE

Geographic revenue

(Dollars in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2024	2023	2024	2023	2024	2023	2024	2023
U.S.	\$ 189,214	54 %	\$ 150,385	50 %	\$ 370,197	55 %	\$ 334,904	54 %
Other Americas	21,314	6 %	19,505	7 %	43,100	6 %	34,516	6 %
United Kingdom ("U.K.")	38,628	11 %	28,892	10 %	70,745	10 %	71,129	11 %
Europe (excluding U.K.), Middle East, and Africa	53,360	15 %	54,353	18 %	115,207	17 %	105,671	17 %
Asia-Pacific	48,637	14 %	45,133	15 %	82,051	12 %	77,520	12 %
	<u>\$ 351,153</u>	<u>100 %</u>	<u>\$ 298,268</u>	<u>100 %</u>	<u>\$ 681,300</u>	<u>100 %</u>	<u>\$ 623,740</u>	<u>100 %</u>

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Revenue streams

(in thousands)	Three Months Ended		Six Months Ended			
	June 30,	2024	2023	June 30,	2024	2023
Subscription license	\$ 84,647	\$ 41,197	\$ 147,985	\$ 125,724		
Perpetual license	36	1,579	895	1,982		
Revenue recognized at a point in time	84,683	42,776	148,880	127,706		
Maintenance	80,344	82,042	161,345	161,672		
Pega Cloud	134,086	115,063	264,988	222,942		
Consulting	52,040	58,387	106,087	111,420		
Revenue recognized over time	266,470	255,492	532,420	496,034		
Total revenue	\$ 351,153	\$ 298,268	\$ 681,300	\$ 623,740		

(in thousands)	Three Months Ended		Six Months Ended			
	June 30,	2024	2023	June 30,	2024	2023
Pega Cloud	\$ 134,086	\$ 115,063	\$ 264,988	\$ 222,942		
Maintenance	80,344	82,042	161,345	161,672		
Subscription services	214,430	197,105	426,333	384,614		
Subscription license	84,647	41,197	147,985	125,724		
Subscription	299,077	238,302	574,318	510,338		
Consulting	52,040	58,387	106,087	111,420		
Perpetual license	36	1,579	895	1,982		
Total revenue	\$ 351,153	\$ 298,268	\$ 681,300	\$ 623,740		

Remaining performance obligations ("Backlog")

Expected future revenue from existing non-cancellable contracts:

As of June 30, 2024:

(Dollars in thousands)	Subscription services		Subscription			Total
	Pega Cloud	Maintenance	license	Perpetual license	Consulting	
1 year or less	\$ 470,379	\$ 209,655	\$ 23,931	\$ 2,696	\$ 25,953	\$ 732,614 52 %
1-2 years	301,070	63,266	10,078	—	2,469	376,883 27 %
2-3 years	152,839	30,032	2,884	—	2,473	188,228 13 %
Greater than 3 years	90,474	17,953	97	—	—	108,524 8 %
	\$ 1,014,762	\$ 320,906	\$ 36,990	\$ 2,696	\$ 30,895	\$ 1,406,249 100 %

As of June 30, 2023:

(Dollars in thousands)	Subscription services		Subscription			Total
	Pega Cloud	Maintenance	license	Perpetual license	Consulting	
1 year or less	\$ 397,183	\$ 214,579	\$ 35,616	\$ 4,979	\$ 37,355	\$ 689,712 55 %
1-2 years	238,691	58,551	3,026	2,252	6,772	309,292 24 %
2-3 years	124,616	25,103	6,764	—	1,523	158,006 12 %
Greater than 3 years	101,494	7,592	—	—	—	109,086 9 %
	\$ 861,984	\$ 305,825	\$ 45,406	\$ 7,231	\$ 45,650	\$ 1,266,096 100 %

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 12. STOCK-BASED COMPENSATION

Expense

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Cost of revenue	\$ 7,092	\$ 7,174	\$ 13,664	\$ 16,087
Selling and marketing	13,564	15,349	27,452	33,009
Research and development	7,825	7,851	15,471	16,911
General and administrative	7,743	5,853	14,418	12,777
	\$ 36,224	\$ 36,227	\$ 71,005	\$ 78,784
Income tax benefit	\$ (554)	\$ (581)	\$ (865)	\$ (1,253)

As of June 30, 2024, the Company had \$ 149.7 million of unrecognized stock-based compensation expense, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 1.7 years.

Grants

(in thousands)	Six Months Ended	
	June 30, 2024	Total Fair Value
Restricted stock units ⁽¹⁾	1,266	\$ 78,071
Non-qualified stock options	1,738	\$ 44,874
Performance stock options ⁽²⁾	566	\$ 13,921

(1) Includes units issued when employees elect to receive 50 % of the employee's target incentive compensation under the Company's Corporate Incentive Compensation Plan (the "CICP") in the form of RSUs instead of cash.

(2) Performance stock options allow the holder to purchase a specified number of common stock shares at an exercise price equal to or greater than the shares' fair market value at the grant date. For the performance stock options granted in the six months ended June 30, 2024, 25 % can vest on the first anniversary of the grant date, and 75 % can vest on the second anniversary of the grant date, based on the achievement of specific performance conditions. The options expire ten years from the grant date.

NOTE 13. INCOME TAXES

Effective income tax rate

(Dollars in thousands)	Six Months Ended	
	June 30,	2023
Provision for income taxes	\$ 5,604	\$ 11,850
Effective income tax rate	*	(21)%

* not meaningful

The Company's effective income tax rate for the six months ended June 30, 2024, is impacted by the jurisdictional mix and timing of the actual compared to projected earnings (losses). It is also impacted by the valuation allowance on its deferred tax assets in the U.S. and U.K. and a near break-even pretax income resulting in a not meaningful high effective income tax rate.

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. A deferred tax valuation allowance requires significant judgment and uncertainties, including assumptions about future taxable income. Quarterly, the Company reassesses the need for a valuation allowance on its net deferred tax assets by weighting all available and objectively verifiable negative and positive evidence, including projected future reversals of existing taxable temporary differences, committed contractual backlog ("Backlog"), projected future taxable income, including the impact of enacted legislation, tax-planning strategies, and recent operating results.

The Company intends to maintain a valuation allowance on its U.S. and U.K. net deferred tax assets until sufficient evidence exists to support their realization.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 14. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated using the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options, RSUs, and convertible senior notes.

Calculation of earnings (loss) per share:

(in thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2024	2023	June 30, 2024	2023
Net income (loss)	\$ 6,613	\$ (46,804)	\$ (5,511)	\$ (67,578)
Weighted-average common shares outstanding	85,157	83,039	84,712	82,823
Earnings (loss) per share, basic	\$ 0.08	\$ (0.56)	\$ (0.07)	\$ (0.82)
Net income (loss)	\$ 6,613	\$ (46,804)	\$ (5,511)	\$ (67,578)
Numerator for diluted EPS	\$ 6,613	\$ (46,804)	\$ (5,511)	\$ (67,578)
Weighted-average effect of dilutive securities:				
Stock options	2,164	—	—	—
RSUs	1,179	—	—	—
Effect of dilutive securities	3,343	—	—	—
Weighted-average common shares outstanding, assuming dilution ^{(1) (2) (3)}	88,500	83,039	84,712	82,823
Earnings (loss) per share, diluted	\$ 0.07	\$ (0.56)	\$ (0.07)	\$ (0.82)
Outstanding anti-dilutive stock options and RSUs ⁽⁴⁾	5	1,354	3,259	1,351

(1) All dilutive securities are excluded when their inclusion would be anti-dilutive.

(2) The shares underlying the conversion options in the Company's Notes are included using the if-converted method, if dilutive in the period. If the outstanding conversion options were fully exercised, the Company would issue approximately 3.7 million shares as of June 30, 2024.

(3) The Company's Capped Call Transactions represent the equivalent of approximately 3.7 million shares of the Company's common stock (representing the number of shares for which the Notes are convertible) as of June 30, 2024. The Capped Call Transactions are expected to reduce common stock dilution and/or offset any potential cash payments the Company must make, other than for principal and interest, upon conversion of the Notes, with such reduction and/or offset subject to a cap of \$ 196.44. The Capped Call Transactions are excluded from weighted-average common shares outstanding, assuming dilution, in all periods as their effect would be anti-dilutive.

(4) Outstanding stock options and RSUs that were anti-dilutive under the treasury stock method in the period were excluded from the computation of diluted earnings (loss) per share. These awards may be dilutive in the future.

NOTE 15. COMMITMENTS AND CONTINGENCIES

Commitments

See "Note 7. Leases" for additional information.

Legal proceedings

In addition to the matters below, the Company is or may become involved in a variety of claims, demands, suits, investigations, and proceedings that arise from time to time relating to matters incidental to the ordinary course of the Company's business, including actions concerning contracts, intellectual property, employment, benefits, and securities matters. Regardless of the outcome, legal disputes can have a material effect on the Company because of defense and settlement costs, diversion of management resources, and other factors.

In addition, as the Company is a party to ongoing litigation, it is at least reasonably possible that the Company's estimates will change in the near term, and the effect may be material. The Company had no accrued losses for litigation for the below matters as of June 30, 2024 and December 31, 2023.

Appian Corp. v. Pegasystems Inc. & Youyong Zou

The Company is a defendant in litigation brought by Appian in the Circuit Court of Fairfax County, Virginia (the "Court") titled Appian Corp. v. Pegasystems Inc. & Youyong Zou, No. 2020-07216 (Fairfax Cty. Ct.). On May 9, 2022, the jury rendered its verdict finding that the Company had misappropriated one or more of Appian's trade secrets, that the Company had violated the Virginia Computer Crimes Act, and that the trade secret misappropriation was willful and malicious. The jury awarded damages of \$ 2,036,860,045 for trade secret misappropriation and \$ 1.00 for violating the Virginia Computer Crimes Act. On September 15, 2022, the circuit court of Fairfax County entered judgment of \$ 2,060,479,287 , consisting of the damages previously awarded by the jury plus attorneys' fees and costs, and stating that the judgment is subject to post-judgment interest at a rate of 6.0 % per annum, from the date of the jury verdict (May 9, 2022) as to the amount of the jury verdict and from September 15, 2022 as to the amount of the award of attorneys' fees and costs. On September 15, 2022, the Company filed a notice of appeal from the judgment. On September 29, 2022, the circuit court of Fairfax County approved a \$ 25,000,000 letter of credit obtained by the Company to secure the judgment and entered an order suspending the judgment during the pendency of the Company's appeal. A panel of the Court of Appeals of Virginia heard oral arguments on November 15, 2023, and will issue a written opinion in the future. Although it is not possible to predict timing, the entirety of the appeals process could potentially take years to complete. The Company continues to believe that it did not misappropriate any alleged trade secrets and that its sales of the Company's products at issue were not caused by, or the result of, any alleged misappropriation of trade secrets. The Company is unable to reasonably estimate possible damages because of, among other things, uncertainty as to the outcome of appellate proceedings and/or any potential new trial resulting from the appellate proceedings.

City of Fort Lauderdale Police and Firefighters' Retirement System, Individually and on Behalf of All Others Similarly Situated v. Pegasystems Inc., Alan Trefler, and Kenneth Stillwell

On May 19, 2022, a lawsuit was filed against the Company, the Company's chief executive officer, and the Company's chief operating and financial officer in the United States District Court for the Eastern District of Virginia Alexandria Division, captioned City of Fort Lauderdale Police and Firefighters' Retirement System, Individually and on Behalf of All Others Similarly Situated v. Pegasystems Inc., Alan Trefler, and Kenneth Stillwell (Case 1:22-cv-00578-LMB-IDD). The complaint generally alleges, among other things, that the defendants violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 promulgated thereunder and that the individual defendants violated Section 20(a) of the Exchange Act, in each case by allegedly making materially false and/or misleading statements, as well as allegedly failing to disclose material adverse facts about the Company's business, operations, and prospects, which caused the Company's securities to trade at artificially inflated prices. The complaint seeks unspecified damages on behalf of a class of purchasers of the Company's securities between May 29, 2020 and May 9, 2022. The litigation has since been transferred to the United States District Court for the District of Massachusetts (Case 1:22-cv-11220-WGY), and lead plaintiff class representatives - Central Pennsylvania Teamsters Pension Fund - Defined Benefit Plan, Central Pennsylvania Teamsters Pension Fund - Retirement Income Plan 1987, and Construction Industry Laborers Pension Fund - have been appointed. On October 18, 2022, a consolidated amended complaint was filed that does not add any new parties or legal claims, is based upon the same general factual allegations as the original complaint, and now seeks unspecified damages on behalf of a class of purchasers of the Company's securities between June 16, 2020 and May 9, 2022. The Company moved to dismiss the consolidated amended complaint on December 19, 2022. The hearing on the Company's motion to dismiss took place on May 17, 2023. After hearing argument from both sides, the Court denied the Company's motion from the bench and stated that a written opinion would follow. On June 30, 2023, the Company filed its Answer to the complaint. On July 24, 2023, the Court issued its written opinion denying the motion to dismiss as to the Company and Defendant Trefler but granting the motion without prejudice as to Mr. Stillwell.

On March 4, 2024, the parties agreed in principle to a proposed settlement of the litigation for an aggregate sum of \$ 35 million. On April 23, 2024, the parties executed a stipulation of settlement. On April 23, 2024, the plaintiffs filed a motion seeking preliminary approval of the settlement. On May 15, 2024, the Court granted plaintiffs' motion for preliminary approval of the settlement and scheduled a settlement hearing for September 19, 2024. The deadline for the proposed class of shareholders to object to the proposed settlement is August 29, 2024. In May 2024, the Company paid \$ 32.4 million and the Company's insurance carriers paid \$ 2.6 million pending final approval of the settlement. It is possible that actual future losses related to the litigation could exceed the settlement amount if and to the extent that the court does not approve the proposed settlement.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

In re Pegasystems Inc., Derivative Litigation

On November 21, 2022, a lawsuit was filed against the members of the Company's board of directors, the Company's chief operating and financial officer and the Company in the United States District Court for the District of Massachusetts, captioned Mary Larkin, derivatively on behalf of nominal defendant Pegasystems Inc. v. Peter Gyenes, Richard Jones, Christopher Lafond, Dianne Ledingham, Sharon Rowlands, Alan Trefler, Larry Weber, and Kenneth Stillwell, defendants, and Pegasystems Inc., nominal defendant (Case 1:22-cv-11985). The complaint generally alleges the defendants sold shares of the Company while in possession of material nonpublic information relating to (i) the litigation brought by Appian in the Circuit Court of Fairfax County, Virginia, described above, and (ii) alleged misconduct by Company employees alleged in that litigation. On April 28, 2023, a lawsuit was filed in the United States District Court for the District of Massachusetts by Dag Sagfors, derivatively on behalf of nominal defendant Pegasystems Inc., asserting breach of fiduciary duty and related claims relating to the Virginia Appian litigation against the same defendants as the Larkin lawsuit. On May 17, 2023, the *Larkin* and *Sagfors* cases were consolidated and a joint motion to stay the consolidated case is pending before the Court. The Company also has received confidential demand letters raising substantially the same allegations set forth in the foregoing derivative complaints. On April 12, 2023, the Company's board of directors (other than Mr. Trefler, who recused himself), formed a committee consisting solely of independent directors, to review, analyze, and investigate the matters raised in the demands and to determine in good faith what actions (if any) are reasonably believed to be appropriate under similar circumstances and reasonably believed to be in the best interests of the Company in response to the demand letters. On June 28, 2024, a lawsuit was filed against members of the Company's board of directors, certain employees of the Company and the Company in the Business Litigation Section of the Superior Court in Suffolk County, Massachusetts, captioned John Dwyer and Ray Gerber, Plaintiffs, v. Alan Trefler, Peter Gyenes, Richard Jones, Christopher Lafond, Dianne Ledingham, Sharon Rowlands, Larry Weber, Leon Trefler, Don Schuerman, Kerim Akgonul, and Benjamin Baril, Defendants, Pegasystems Inc., Nominal Defendant (Case 2484CV01734). The complaint generally alleges the defendants breached their fiduciary duties in connection with alleged misconduct by Company employees alleged in the litigation brought by Appian in the Circuit Court of Fairfax County, Virginia, described above, and alleges damages from the approximately \$ 2 billion verdict in the litigation brought by Appian in the Circuit Court of Fairfax County, Virginia, described above, the recent class action settlement, and litigation costs from various proceedings. On July 17, 2024, the parties filed a stipulation with the court in which they agreed to extend defendants' time to respond to the operative complaint to 45 days following a decision from the Virginia Court of Appeals. The Company is unable to reasonably estimate possible damages or a range of possible damages in these matters given the stage of the lawsuits and there being no specified quantum of damages sought in the complaints.

SEC Inquiry

Beginning in March 2023, the U.S. Securities and Exchange Commission ("SEC") has requested certain information relating to, among other things, the accounting treatment of the Company's above-described litigation with Appian Corporation. The Company is fully cooperating with the SEC's requests.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q ("Quarterly Report") contains or incorporates forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Words such as expects, anticipates, intends, plans, believes, will, could, should, estimates, may, targets, strategies, intends to, projects, forecasts, guidance, likely, and usually or variations of such words and other similar expressions identify forward-looking statements. These statements represent our views only as of the date the statement was made and are based on current expectations and assumptions.

Forward-looking statements deal with future events and are subject to risks and uncertainties that are difficult to predict, including, but not limited to:

- our future financial performance and business plans;
- the adequacy of our liquidity and capital resources;
- the continued payment of our quarterly dividends;
- the timing of revenue recognition;
- variation in demand for our products and services, including among clients in the public sector;
- reliance on key personnel;
- reliance on third-party service providers, including hosting providers;
- compliance with our debt obligations and covenants;
- the potential impact of our convertible senior notes and Capped Call Transactions;
- foreign currency exchange rates;
- potential legal and financial liabilities, as well as damage to our reputation, due to cyber-attacks;
- security breaches and security flaws;
- our ability to protect our intellectual property rights, costs associated with defending such rights, intellectual property rights claims, and other related claims by third parties against us, including related costs, damages, and other relief that may be granted against us;
- our ongoing litigation with Appian Corp.;
- our client retention rate; and
- management of our growth.

These risks and others that may cause actual results to differ materially from those expressed in such forward-looking statements are described further in Part I of our Annual Report on Form 10-K for the year ended December 31, 2023, Part II of this Quarterly Report on Form 10-Q, and other filings we make with the U.S. Securities and Exchange Commission ("SEC").

Investors are cautioned not to place undue reliance on such forward-looking statements, and there are no assurances that the results included in such statements will be achieved. Although subsequent events may cause our view to change, except as required by applicable law, we do not undertake and expressly disclaim any obligation to publicly update or revise these forward-looking statements, whether as the result of new information, future events, or otherwise.

The forward-looking statements in this Quarterly Report represent our views as of July 24, 2024.

NON-GAAP MEASURES

Our non-GAAP financial measures should only be read in conjunction with our consolidated financial statements prepared in accordance with GAAP. We believe that these measures help investors understand our core operating results and prospects, which is consistent with how management measures and forecasts our performance without the effect of often one-time charges and other items outside our normal operations. Management uses these measures to assess the performance of the company's operations and establish operational goals and incentives. They are not a substitute for financial measures prepared under U.S. GAAP. A reconciliation of GAAP and non-GAAP measures is located with each non-GAAP measure.

BUSINESS OVERVIEW

We develop, market, license, host, and support enterprise software that helps organizations build agility into their business so they can adapt to change. Our powerful, low-code platform for workflow automation and artificial intelligence-powered decisioning enables the world's leading brands and government agencies to hyper-personalize customer experiences, streamline customer service, and automate mission-critical business processes and workflows. With Pega, our clients can leverage our artificial intelligence ("AI") technology and scalable architecture to accelerate their digital transformation. In addition, our client success teams, world-class partners, and clients leverage our Pega Express™ methodology to design and deploy mission-critical applications quickly and collaboratively.

Our target clients are Global 2000 organizations and government agencies that require solutions to distinguish themselves in the markets they serve. Our solutions achieve and facilitate differentiation by increasing business agility, driving growth, improving productivity, attracting and retaining customers, and reducing risk. Along with our partners, we deliver solutions tailored to our clients' specific industry.

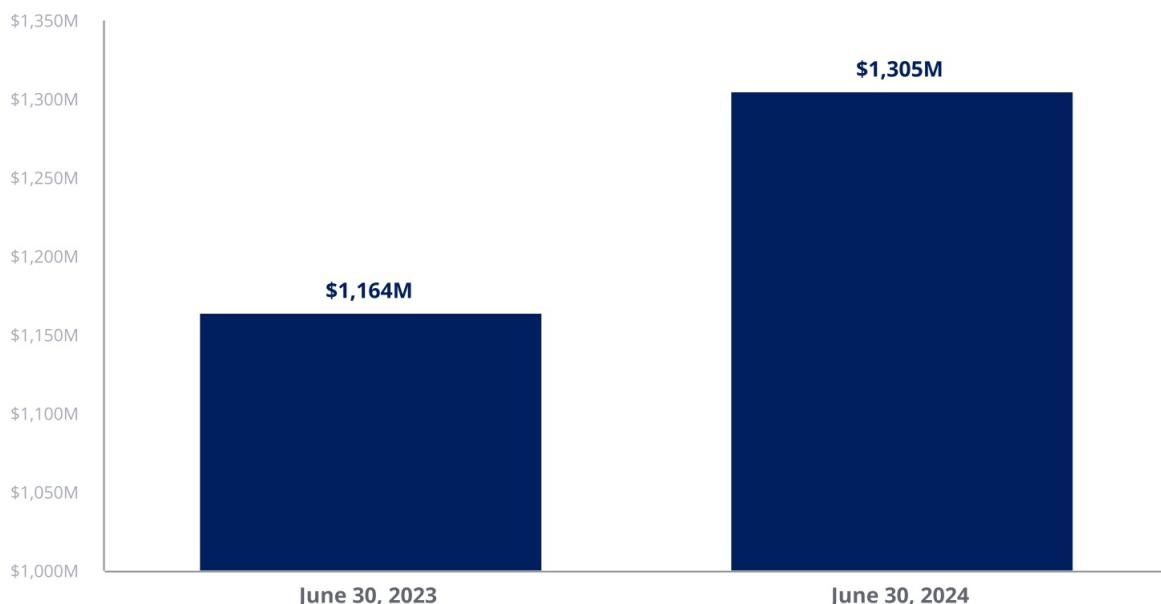
Performance metrics

We use performance metrics to analyze and assess our overall performance, make operating decisions, and forecast and plan for future periods, including:

Annual contract value ("ACV")

ACV represents the annualized value of our active contracts as of the measurement date. The contract's total value is divided by its duration in years to calculate ACV. ACV is a performance measure that we believe provides useful information to our management and investors.

ACV Growth
12% (13% Constant Currency)

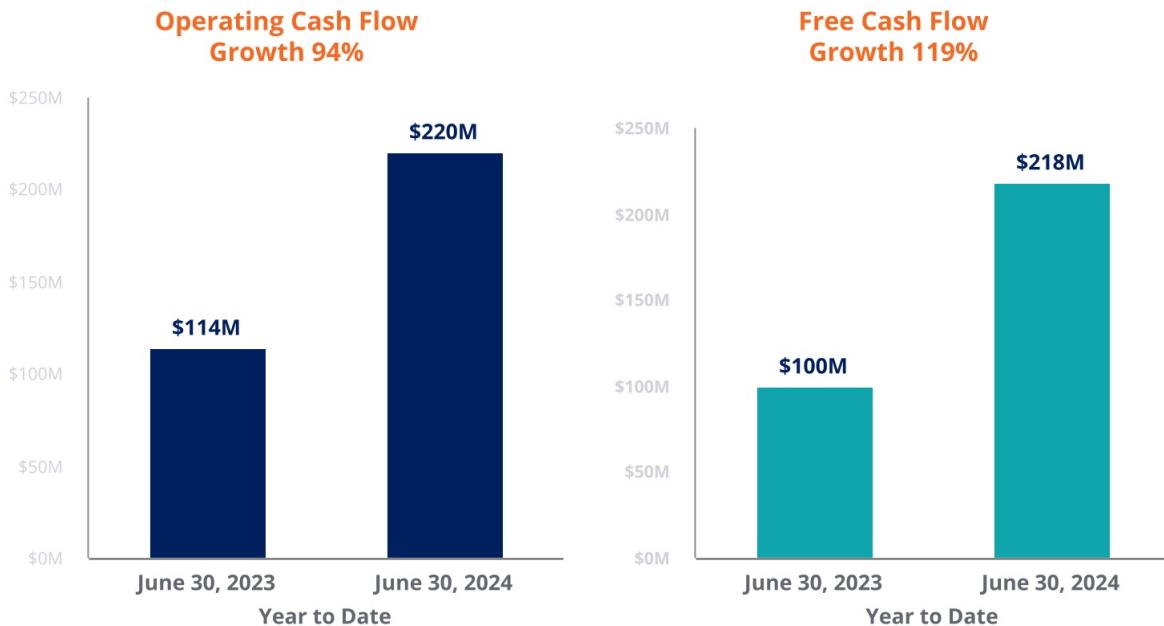


Reconciliation of ACV and constant currency ACV

(in millions, except percentages)	June 30, 2023	June 30, 2024	1-Year Change
ACV	\$ 1,164	\$ 1,305	12 %
Impact of changes in foreign exchange rates	—	5	
Constant currency ACV	\$ 1,164	\$ 1,310	13 %

Note: Constant currency ACV is calculated by applying the June 30, 2023 foreign exchange rates to all periods shown.

Cash flow ⁽¹⁾



(Dollars in thousands)

	Six Months Ended June 30,		Change
	2024	2023	
Cash provided by operating activities	\$ 220,243	113,752	94%
Investment in property and equipment	(1,857)	(13,933)	
Free cash flow ⁽¹⁾	\$ 218,386	99,819	119%

Supplemental information⁽²⁾

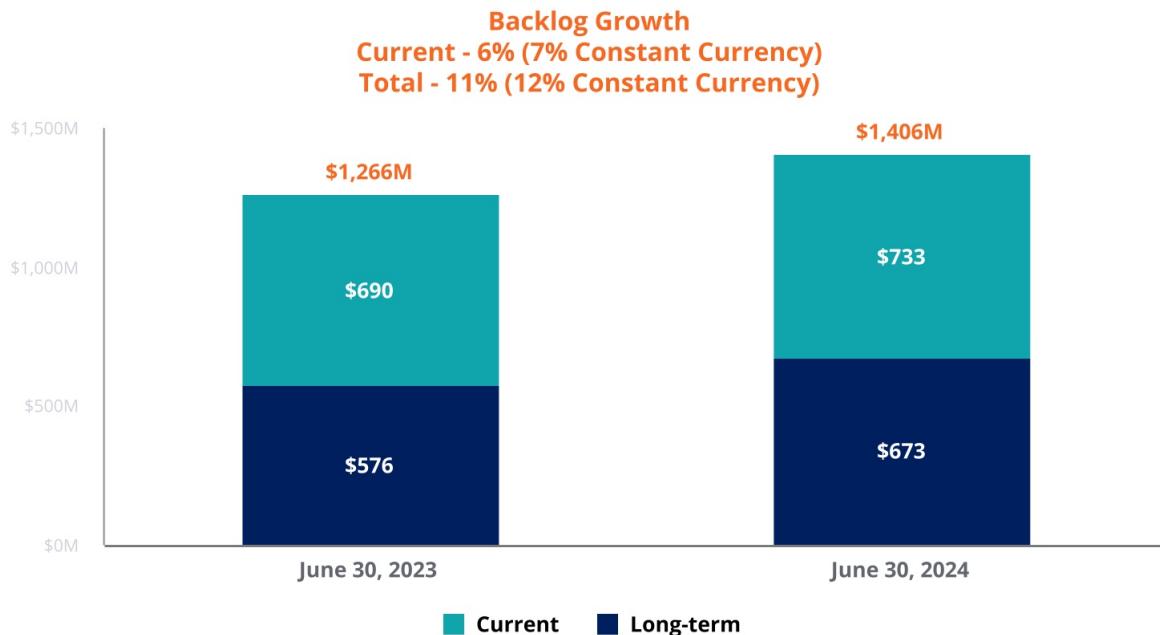
Litigation settlement, net of recoveries	\$ 32,403	—
Legal fees	2,701	2,950
Restructuring	3,852	17,521
Interest on convertible senior notes	1,884	2,250
Income taxes	25,560	6,627
	\$ 66,400	29,348

(1) Our non-GAAP free cash flow is defined as cash provided by operating activities less investment in property and equipment. Investment in property and equipment fluctuates in amount and frequency and is significantly affected by the timing and size of investments in our facilities. We provide information on free cash flow to enable investors to assess our ability to generate cash without incurring additional external financings. This information is not a substitute for financial measures prepared under U.S. GAAP.

(2) The supplemental information discloses items that affect our cash flows and are considered by management not to be representative of our core business operations and ongoing operational performance.

- Litigation settlement, net of recoveries: Cost to settle litigation, net of insurance recoveries, arising from proceedings outside the ordinary course of business. See Note 15. Commitments and Contingencies in our Quarterly Report for the three months ended June 30, 2024 for additional information.
- Legal fees: Legal and related fees arising from proceedings outside the ordinary course of business.
- Restructuring: Restructuring fluctuates in amount and frequency and is significantly affected by the timing and size of our restructuring activities.
- Interest on convertible senior notes: In February 2020, we issued convertible senior notes, due March 1, 2025, in a private placement. The convertible senior notes accrue interest at an annual rate of 0.75%, payable semi-annually in arrears on March 1 and September 1.
- Income taxes: Direct income taxes paid net of refunds received.

Remaining performance obligations ("Backlog")



Reconciliation of Backlog and Constant Currency Backlog (Non-GAAP)

(in millions, except percentages)	June 30, 2023	June 30, 2024	1-Year Growth Rate
Backlog - GAAP	\$ 1,266	\$ 1,406	11 %
Impact of changes in foreign exchange rates	—	7	
Constant currency backlog	<u>\$ 1,266</u>	<u>\$ 1,413</u>	<u>12 %</u>

Note: Constant currency Backlog is calculated by applying the June 30, 2023 foreign exchange rates to all periods shown.

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our unaudited condensed consolidated financial statements, which have been prepared following accounting principles generally accepted in the United States of America ("U.S.") and the rules and regulations of the SEC for interim financial reporting. Preparing these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions, and expectations of what could occur in the future based on the available information.

For more information about our critical accounting policies, we encourage you to read the discussion in the following locations in our Annual Report on Form 10-K for the year ended December 31, 2023:

- "Critical Accounting Estimates and Significant Judgments" in Item 7; and
- "Note 2. Significant Accounting Policies" in Item 8.

No significant changes have been made to our critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023.

RESULTS OF OPERATIONS

Revenue

(Dollars in thousands)	Three Months Ended						Six Months Ended							
	June 30,		2024		2023		Change		June 30,		2023		Change	
Pega Cloud	\$ 134,086	38 %	\$ 115,063	39 %	\$ 19,023	17 %	\$ 264,988	39 %	\$ 222,942	36 %	\$ 42,046	19 %		
Maintenance	80,344	23 %	82,042	27 %	(1,698)	(2)%	161,345	23 %	161,672	26 %	(327)	— %		
Subscription services	214,430	61 %	197,105	66 %	17,325	9 %	426,333	62 %	384,614	62 %	41,719	11 %		
Subscription license	84,647	24 %	41,197	14 %	43,450	105 %	147,985	22 %	125,724	20 %	22,261	18 %		
Subscription	299,077	85 %	238,302	80 %	60,775	26 %	574,318	84 %	510,338	82 %	63,980	13 %		
Consulting	52,040	15 %	58,387	19 %	(6,347)	(11)%	106,087	16 %	111,420	18 %	(5,333)	(5)%		
Perpetual license	36	— %	1,579	1 %	(1,543)	(98)%	895	— %	1,982	— %	(1,087)	(55)%		
	\$ 351,153	100 %	\$ 298,268	100 %	\$ 52,885	18 %	\$ 681,300	100 %	\$ 623,740	100 %	\$ 57,560	9 %		

- The increases in Pega Cloud revenue for the three and six months ended June 30, 2024 were primarily due to additional investments made by our existing clients as they continued to deepen and expand their use of Pega Cloud.
- The decreases in maintenance revenue in the three and six months ended June 30, 2024 were primarily due to the shift to Pega Cloud-based offerings, which do not generally result in maintenance revenue.
- The increases in subscription license revenue in the three and six months ended June 30, 2024 were primarily due to several large multi-year contracts recognized in revenue in the three and six months ended June 30, 2024.
- The decreases in consulting revenue in the three and six months ended June 30, 2024 were primarily due to decreases in consultant billable hours.

Gross profit

(Dollars in thousands)	Three Months Ended						Six Months Ended							
	June 30,		2024		2023		Change		June 30,		2023		Change	
Pega Cloud	\$ 104,331	78 %	\$ 84,761	74 %	\$ 19,570	23 %	\$ 205,636	78 %	\$ 162,390	73 %	\$ 43,246	27 %		
Maintenance	73,861	92 %	75,561	92 %	(1,700)	(2)%	148,635	92 %	148,577	92 %	58	— %		
Subscription services	178,192	83 %	160,322	81 %	17,870	11 %	354,271	83 %	310,967	81 %	43,304	14 %		
Subscription license	84,170	99 %	40,574	98 %	43,596	107 %	146,865	99 %	124,382	99 %	22,483	18 %		
Subscription	262,362	88 %	200,896	84 %	61,466	31 %	501,136	87 %	435,349	85 %	65,787	15 %		
Consulting	(8,191)	(16)%	(323)	(1)%	(7,868)	(2436)%	(12,326)	(12)%	(7,638)	(7)%	(4,688)	(61)%		
Perpetual license	36	100 %	1,555	98 %	(1,519)	(98)%	886	99 %	1,955	99 %	(1,069)	(55)%		
	\$ 254,207	72 %	\$ 202,128	68 %	\$ 52,079	26 %	\$ 489,696	72 %	\$ 429,666	69 %	\$ 60,030	14 %		

- The increases in Pega Cloud gross profit percent in the three and six months ended June 30, 2024 were primarily due to increased cost efficiency, particularly for hosting services and employee compensation and benefits, as Pega Cloud continues to grow and scale.
- The increase in subscription license gross profit percent in the three months ended June 30, 2024 was primarily due to increased cost efficiency as subscription license revenue grew.
- The decreases in consulting gross profit percent in the three and six months ended June 30, 2024 were primarily due to decreases in consultant utilization rates.

Operating expenses

(Dollars in thousands)	Three Months Ended			Six Months Ended				
	June 30,		Change	June 30,		Change		
	2024	2023		2024	2023			
Selling and marketing	\$ 139,761	\$ 143,858	\$ (4,097)	(3)%	\$ 267,456	\$ 293,655	\$ (26,199)	(9)%
% of Revenue	40 %	48 %			39 %	47 %		
Research and development	\$ 75,425	\$ 73,931	\$ 1,494	2 %	\$ 147,538	\$ 149,307	\$ (1,769)	(1)%
% of Revenue	21 %	25 %			22 %	24 %		
General and administrative	\$ 25,420	\$ 23,462	\$ 1,958	8 %	\$ 48,947	\$ 46,572	\$ 2,375	5 %
% of Revenue	7 %	8 %			7 %	7 %		
Litigation settlement, net of recoveries	\$ —	\$ —	\$ —	*	\$ 32,403	\$ —	\$ 32,403	*
% of Revenue	— %	— %			5 %	— %		
Restructuring	\$ 635	\$ 2,167	\$ (1,532)	(71)%	\$ 798	\$ 3,628	\$ (2,830)	(78)%
% of Revenue	— %	1 %			— %	1 %		

* not meaningful

- The decreases in selling and marketing during the three and six months ended June 30, 2024 were primarily due to decreases in compensation and benefits of \$7.6 million and \$25.1 million from reduced headcount as we optimized our go-to-market strategy. For additional information, see "Note 9. Restructuring" in Part I, Item 1 of this Quarterly Report.
- The increase in research and development for the three months ended June 30, 2024 was primarily due to an increase in compensation and benefits of \$1.1 million due to an increase in incentive-based compensation. The decrease in research and development for the six months ended June 30, 2024 was primarily due to a decrease in cloud hosting expenses of \$1.4 million.
- The increases in general and administrative during the three and six months ended June 30, 2024 were primarily due to increases in compensation and benefits of \$3.3 million and \$4.1 million due to increases in incentive-based compensation.
- The increase in litigation settlement, net of recoveries in the six months ended June 30, 2024 was primarily due to the cost to settle litigation arising from proceedings outside the ordinary course of business. See "Note 15. Commitments and Contingencies" in Part I, Item 1 of this Quarterly Report and "Risk Factors" in Part I, Item 1A of our Annual Report for the year ended December 31, 2023 for additional information.
- The decreases in restructuring expenses during the three and six months ended June 30, 2024 were primarily due to efforts to optimize our go-to-market organization and office space. For additional information, see "Note 9. Restructuring" in Part I, Item 1 of this Quarterly Report.

Other income and expenses

(Dollars in thousands)	Three Months Ended			Six Months Ended				
	June 30,		Change	June 30,		Change		
	2024	2023		2024	2023			
Foreign currency transaction gain (loss)	\$ 437	\$ (3,290)	\$ 3,727	*	\$ (2,825)	\$ (5,965)	\$ 3,140	53 %
Interest income	6,785	1,814	4,971	274 %	12,066	3,299	8,767	266 %
Interest expense	(1,656)	(1,778)	122	7 %	(3,408)	(3,696)	288	8 %
(Loss) income on capped call transactions	(3,277)	(1,361)	(1,916)	(141)%	22	1,845	(1,823)	(99)%
Other income, net	—	5,702	(5,702)	(100)%	1,684	12,285	(10,601)	(86)%
	<u>\$ 2,289</u>	<u>\$ 1,087</u>	\$ 1,202	111 %	<u>\$ 7,539</u>	<u>\$ 7,768</u>	\$ (229)	(3)%

* not meaningful

- The changes in foreign currency transaction gain (loss) in the three and six months ended June 30, 2024 was primarily due to fluctuations in foreign currency exchange rates associated with foreign currency-denominated cash and receivables held by our subsidiary in the United Kingdom.
- The increases in interest income in the three and six months ended June 30, 2024 were primarily due to higher investment balances and market interest rates.
- The changes in (loss) income on capped call transactions in the three and six months ended June 30, 2024 were due to fair value adjustments for our capped call transactions.
- The decrease in other income, net in the three months ended June 30, 2024 was due to a gain of \$0.7 million on our venture investments and a gain of \$5.1 million from repurchases of our convertible senior notes in the three months ended June 30, 2023. The decrease in other income, net in the six months ended June 30, 2024 was due to a gain of \$7.9 million from repurchases of our convertible senior notes in the six months ended June 30, 2023 and a decrease of \$2.8 million in the gain from our venture investments in the six months ended June 30, 2024. For additional information, see "Note 8. Debt" and "Note 10. Fair Value Measurements" in Part I, Item 1 of this Quarterly Report.

Provision for income taxes

(Dollars in thousands)	Six Months Ended June 30,	
	2024	2023
Provision for income taxes	\$ 5,604	\$ 11,850
Effective income tax rate	*	(21)%

* not meaningful

Our effective income tax rate for the six months ended June 30, 2024, is impacted by the jurisdictional mix and timing of the actual compared to projected earnings (losses). It is also impacted by the valuation allowance on our deferred tax assets in the U.S. and U.K. and a near break-even pretax income resulting in a not meaningful high effective income tax rate.

The Organization for Economic Cooperation and Development ("OECD") has introduced new global minimum tax regulations, known as Pillar Two, that began to come into effect on January 1, 2024. We are monitoring this development and evaluating its potential impact on our tax rate and eligibility to qualify for the safe harbor provisions. For 2024, we currently anticipate meeting the transitional safe harbors in most jurisdictions, with any remaining top-up tax being immaterial.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Six Months Ended June 30,	
	2024	2023
Cash provided by (used in):		
Operating activities	\$ 220,243	\$ 113,752
Investing activities	(209,700)	15,979
Financing activities	22,503	(86,988)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,842)	1,010
Net increase in cash, cash equivalents, and restricted cash	\$ 30,204	\$ 43,753

(in thousands)	June 30, 2024	December 31, 2023
Held in U.S. entities	\$ 468,286	\$ 263,453
Held in foreign entities	196,790	159,885
Total cash, cash equivalents, and marketable securities	665,076	423,338
Restricted cash included in other current assets	768	—
Restricted cash included in other long-term assets	4,006	2,925
Total cash, cash equivalents, marketable securities, and restricted cash	\$ 669,850	\$ 426,263

We believe that our current cash, marketable securities, cash flow provided by operations, borrowing capacity, and ability to engage in capital market transactions will be sufficient to fund our operations, settlement of our convertible senior notes due on March 1, 2025, stock repurchases, and quarterly cash dividends for at least the next 12 months and to meet our known long-term cash requirements. Whether these resources are adequate to meet our liquidity needs beyond that period will depend on our future growth, operating results, and the investments needed to support our operations. We may utilize available funds or seek external financing if we require additional capital resources.

If it becomes necessary or desirable to repatriate foreign funds, we may have to pay federal, state, and local income taxes as well as foreign withholding taxes upon repatriation. However, estimating the taxes we would have to pay is impracticable due to the complexity of income tax laws and regulations.

Operating activities

The change in cash provided by operating activities in the six months ended June 30, 2024 was primarily due to growth in client collections and the impact of our cost-efficiency initiatives. For additional information, see "Note 9. Restructuring" and "Note 15. Commitments and Contingencies" in Part I, Item 1 of this Quarterly Report.

Investing activities

The change in cash (used in) provided by investing activities in the six months ended June 30, 2024 was primarily due to our investments in financial instruments and reduced investment in property and equipment as we optimized our office space.

Financing activities

Debt financing

In February 2020, we issued \$600 million in aggregate principal amount of convertible senior notes, which mature on March 1, 2025. As of June 30, 2024, we had \$502.3 million in aggregate principal amount of convertible senior notes outstanding. For additional information, see "Note 8. Debt" in Part I, Item 1 of this Quarterly Report.

In November 2019, and as since amended, we entered into a \$100 million senior secured revolving credit agreement (the "Credit Facility") with PNC Bank, National Association. On April 23, 2024, the Credit Facility was amended to extend the expiration date to February 4, 2025. As of June 30, 2024 and December 31, 2023, we had \$27.3 million in outstanding letters of credit under the Credit Facility, reducing available borrowing capacity, but no outstanding cash borrowings. For additional information, see "Note 8. Debt" in Part I, Item 1 of this Quarterly Report.

Stock repurchase program

Changes in the remaining stock repurchase authority:

(in thousands)	Six Months Ended	
	June 30, 2024	
December 31, 2023	\$	60,000
Authorizations ⁽¹⁾		—
June 30, 2024	\$	60,000

(1) On April 23, 2024, our Board of Directors extended the expiration date of our current share repurchase program from June 30, 2024 to June 30, 2025.

Common stock repurchases

(in thousands)	Six Months Ended			
	June 30,			
	2024	2023		
Tax withholdings for net settlement of equity awards	Shares 38	Amount \$ 2,360	Shares 34	Amount \$ 1,422

In the six months ended June 30, 2024 and 2023, instead of receiving cash from the equity holders, we withheld shares with a value of \$2.8 million and \$0.9 million, respectively, for the exercise price of options. These amounts are not included in the table above.

Dividends

We intend to pay a quarterly cash dividend of \$0.03 per share. However, the Board of Directors may terminate or modify the dividend program without prior notice.

(in thousands)	Six Months Ended	
	June 30,	
	2024	2023
Dividend payments to stockholders	\$ 5,065	\$ 4,962

Contractual obligations

As of June 30, 2024, our contractual obligations were:

(in thousands)	Payments due by period							
	Remainder of							
	2024	2025	2026	2027	2028	2029 and after	Other	Total
Convertible senior notes ⁽¹⁾	\$ 1,883	\$ 504,154	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 506,037
Purchase obligations ⁽²⁾	81,896	142,483	126,905	135,488	990	—	—	487,762
Operating lease obligations	7,954	18,784	14,384	13,387	12,813	31,749	—	99,071
Venture investment commitments ⁽³⁾	500	500	—	—	—	—	—	1,000
Liability for uncertain tax positions ⁽⁴⁾	—	—	—	—	—	—	858	858
	<u>\$ 92,233</u>	<u>\$ 665,921</u>	<u>\$ 141,289</u>	<u>\$ 148,875</u>	<u>\$ 13,803</u>	<u>\$ 31,749</u>	<u>\$ 858</u>	<u>\$ 1,094,728</u>

(1) Includes principal and interest.

(2) Represents the fixed amount owed for purchase obligations including for software licenses, hosting services, and sales and marketing programs.

(3) Represents the maximum funding under existing venture investment agreements. Our venture investment agreements generally allow us to withhold unpaid funds at our discretion.

(4) We cannot reasonably estimate the timing of this cash outflow due to uncertainties in the timing of the effective settlement of tax positions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in financial market prices and rates.

Foreign currency exposure

Translation risk

Our international operations' operating expenses are primarily denominated in foreign currencies. However, our international sales are also primarily denominated in foreign currencies, partially offsetting our foreign currency exposure.

A hypothetical 10% strengthening in the U.S. dollar against other currencies would have resulted in the following:

	Six Months Ended June 30,	
	2024	2023
(Decrease) in revenue	(4)%	(4)%
(Decrease) increase in net income	(56)%	1 %

Remeasurement risk

We incur transaction gains and losses from the remeasurement of monetary assets and liabilities denominated in currencies other than the functional currency of the entities in which they are recorded.

We are primarily exposed to changes in foreign currency exchange rates associated with the Australian dollar, Euro, and U.S. dollar-denominated cash, cash equivalents, receivables, and intercompany balances held by our U.K. subsidiary, a British pound functional entity.

A hypothetical 10% strengthening in the British pound exchange rate in comparison to the Australian dollar, Euro, and U.S. dollar would have resulted in the following impact:

	Six Months Ended June 30,	
	2024	2023
(in thousands)		
Foreign currency (loss)	\$ (12,860)	\$ (9,869)

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of June 30, 2024. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and our management necessarily applied its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of June 30, 2024.

(b) Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2024 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in "Note 15. Commitments and Contingencies", in Part I, Item 1 of this Quarterly Report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

We encourage you to carefully consider the risk factors identified in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the U.S. Securities and Exchange Commission. These risk factors could materially affect our business, financial condition, and future results and may cause our actual business and financial results to differ materially from those contained in forward-looking statements made in this Quarterly Report on Form 10-Q or elsewhere by management.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer purchases of equity securities ⁽¹⁾

Common stock repurchased in the three months ended June 30, 2024:

(in thousands, except per share amounts)	Total Number of Shares Purchased ⁽²⁾	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Share Repurchase Program	Approximate Dollar Value of Shares That May Yet Be Purchased at Period End Under Publicly Announced Share Repurchased Programs
April 1, 2024 - April 30, 2024	1	\$ 58.28	—	\$ 60,000
May 1, 2024 - May 31, 2024	—	—	—	\$ 60,000
June 1, 2024 - June 30, 2024	6	57.81	—	\$ 60,000
	7	\$ 57.86	—	

(1) For additional information, see "Liquidity and Capital Resources" in Part I, Item 2 of this Quarterly Report.

(2) Includes shares withheld to cover the option exercise price and tax withholding obligations for stock compensation awards subject to net settlement provisions.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 and non-rule 10b5-1 trading arrangements

On April 30, 2024, Richard H. Jones, one of our directors, entered into a trading plan that provides for the sale of an aggregate of 50,000 shares of our common stock. The plan will terminate on April 30, 2025, subject to early termination for certain specified events set forth in the plan.

Other than as disclosed above, during the three months ended June 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit No.	Description	Incorporation by Reference			
		Form	Exhibit	Filing Date	Filed Herewith
3.1	Restated Articles of Organization of the Registrant and Amendments thereto	10-Q	3.1	November 4, 2014	
3.2	Amended and Restated Bylaws of Pegasystems Inc.	8-K	3.2	June 15, 2020	
31.1	Certification pursuant to Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.				X
31.2	Certification pursuant to Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.				X
32	Certification pursuant to 18 U.S.C. Section 1350 of the Chief Executive Officer and the Chief Financial Officer.				+
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.				X
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.				X
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.				X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				X

+ Indicates that the exhibit is being furnished with this report and is not filed as a part of it.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Pegasystems Inc.

Dated: July 24, 2024

By: _____

/s/ KENNETH STILLWELL

Kenneth Stillwell

Chief Operating Officer and Chief Financial Officer

(Principal Financial Officer)

CERTIFICATION

I, Alan Trefler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pegasystems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 24, 2024

/s/ ALAN TREFLER

Alan Trefler
Chairman and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Kenneth Stillwell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pegasystems Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 24, 2024

/s/ KENNETH STILLWELL

Kenneth Stillwell

Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Pegasystems Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Alan Trefler, Chairman and Chief Executive Officer of Pegasystems Inc., and Kenneth Stillwell, Chief Operating Officer and Chief Financial Officer of Pegasystems Inc., each certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: July 24, 2024

/s/ ALAN TREFLER

Alan Trefler

Chairman and Chief Executive Officer
(Principal Executive Officer)

/s/ KENNETH STILLWELL

Kenneth Stillwell

Chief Operating Officer and Chief Financial Officer
(Principal Financial Officer)