

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 March 31, 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 85,031,165 shares of the Registrant's common stock, \$0.01 par value per share, outstanding on April 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)

	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 291,905	\$ 229,902
Marketable securities	327,044	193,436
Total cash, cash equivalents, and marketable securities	618,949	423,338
Accounts receivable, net	191,987	300,173
Unbilled receivables, net	170,458	237,379
Other current assets	78,193	68,137
Total current assets	1,059,587	1,029,027
Long-term unbilled receivables, net	72,814	85,402
Goodwill	81,467	81,611
Other long-term assets	297,860	314,696
Total assets	<u><u>\$ 1,511,728</u></u>	<u><u>\$ 1,510,736</u></u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 6,353	\$ 11,290
Accrued expenses	80,642	39,941
Accrued compensation and related expenses	55,438	126,640
Deferred revenue	382,765	377,845
Convertible senior notes, net	499,985	—
Other current liabilities	19,096	21,343
Total current liabilities	1,044,279	577,059
Long-term convertible senior notes, net	—	499,368
Long-term operating lease liabilities	63,645	66,901
Other long-term liabilities	13,618	13,570
Total liabilities	1,121,542	1,156,898
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, 1,000 shares authorized; none issued	—	—
Common stock, 200,000 shares authorized; 85,011 and 83,840 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	850	838
Additional paid-in capital	432,217	379,584
(Accumulated deficit)	(20,829)	(8,705)
Accumulated other comprehensive (loss)	(22,052)	(17,879)
Total stockholders' equity	390,186	353,838
Total liabilities and stockholders' equity	<u><u>\$ 1,511,728</u></u>	<u><u>\$ 1,510,736</u></u>

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 March 31,	
	2024	2023
Revenue		
Subscription services	\$ 211,903	\$ 187,509
Subscription license	63,338	84,527
Consulting	54,047	53,033
Perpetual license	859	403
Total revenue	<u>330,147</u>	<u>325,472</u>
Cost of revenue		
Subscription services	35,824	36,864
Subscription license	643	719
Consulting	58,182	60,348
Perpetual license	9	3
Total cost of revenue	<u>94,658</u>	<u>97,934</u>
Gross profit	235,489	227,538
Operating expenses		
Selling and marketing	127,695	149,797
Research and development	72,113	75,376
General and administrative	23,527	23,110
Litigation settlement, net of recoveries	32,403	—
Restructuring	163	1,461
Total operating expenses	<u>255,901</u>	<u>249,744</u>
(Loss) from operations	<u>(20,412)</u>	<u>(22,206)</u>
Foreign currency transaction (loss)	(3,262)	(2,675)
Interest income	5,281	1,485
Interest expense	(1,752)	(1,918)
Gain on capped call transactions	3,299	3,206
Other income, net	1,684	6,583
(Loss) before (benefit from) provision for income taxes	<u>(15,162)</u>	<u>(15,525)</u>
(Benefit from) provision for income taxes	<u>(3,038)</u>	<u>5,249</u>
Net (loss)	<u><u>\$ (12,124)</u></u>	<u><u>\$ (20,774)</u></u>
(Loss) per share		
Basic	\$ (0.14)	\$ (0.25)
Diluted	\$ (0.14)	\$ (0.25)
Weighted-average number of common shares outstanding		
Basic	84,266	82,604
Diluted	84,266	82,604

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	2023
Net (loss)	\$ (12,124)	\$ (20,774)
Other comprehensive (loss) income, net of tax		
Unrealized (loss) on available-for-sale securities	(746)	(46)
Foreign currency translation adjustments	(3,427)	1,589
Total other comprehensive (loss) income, net of tax	<u>(4,173)</u>	<u>1,543</u>
Comprehensive (loss)	<u><u>\$ (16,297)</u></u>	<u><u>\$ (19,231)</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		Retained earnings			Total stockholders' equity	
	Number of shares	Amount	Additional paid-in capital	(accumulated deficit)	Accumulated other comprehensive (loss)		
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	
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	

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	2023
Operating activities		
Net (loss)	\$ (12,124)	\$ (20,774)
Adjustments to reconcile net (loss) to cash provided by operating activities		
Stock-based compensation	34,781	42,557
Amortization of deferred commissions	17,282	14,277
Amortization of intangible assets and depreciation	4,254	4,724
Lease expense	3,472	4,594
Foreign currency transaction (loss)	3,262	2,675
(Gain) on capped call transactions	(3,299)	(3,206)
Deferred income taxes	(646)	(126)
(Gain) on investments	(1,628)	(3,802)
(Gain) on repurchases of convertible senior notes	—	(2,781)
Other non-cash	(1,886)	854
Change in operating assets and liabilities, net	136,678	29,115
Cash provided by operating activities	<u>180,146</u>	<u>68,107</u>
Investing activities		
Purchases of investments	(161,438)	(39,401)
Proceeds from maturities and called investments	29,643	36,475
Investment in property and equipment	(604)	(11,487)
Cash (used in) investing activities	(132,399)	(14,413)
Financing activities		
Repurchases of convertible senior notes	—	(29,901)
Dividend payments to stockholders	(2,515)	(2,474)
Proceeds from employee stock plans	22,419	3,922
Common stock repurchases for tax withholdings for net settlement of equity awards	(2,005)	(1,107)
Other	—	188
Cash provided by (used in) financing activities	17,899	(29,372)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,803)	782
Net increase in cash, cash equivalents, and restricted cash	62,843	25,104
Cash, cash equivalents, and restricted cash, beginning of period	232,827	145,054
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 295,670</u>	<u>\$ 170,158</u>
 Cash and cash equivalents	 \$ 291,905	 \$ 168,318
Restricted cash included in other current assets	775	—
Restricted cash included in other long-term assets	2,990	1,840
Total cash, cash equivalents, and restricted cash	<u>\$ 295,670</u>	<u>\$ 170,158</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)	March 31, 2024				December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Government debt	\$ 15,857	\$ 10	\$ (15)	\$ 15,852	\$ 11,471	\$ 33	\$ (1)	\$ 11,503
Corporate debt	311,733	17	(558)	311,192	181,960	200	(227)	181,933
	<u>\$ 327,590</u>	<u>\$ 27</u>	<u>\$ (573)</u>	<u>\$ 327,044</u>	<u>\$ 193,431</u>	<u>\$ 233</u>	<u>\$ (228)</u>	<u>\$ 193,436</u>

As of March 31, 2024, marketable securities' maturities ranged from April 2024 to January 2026, with a weighted-average remaining maturity of 0.5 years.

NOTE 3. RECEIVABLES, CONTRACT ASSETS, AND DEFERRED REVENUE

Receivables

(in thousands)	March 31, 2024	December 31, 2023
Accounts receivable, net	\$ 191,987	\$ 300,173
Unbilled receivables, net	170,458	237,379
Long-term unbilled receivables, net	72,814	85,402
	<u>\$ 435,259</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)	March 31, 2024	
1 year or less	\$ 170,458	70 %
1-2 years	54,111	22 %
2-5 years	18,703	8 %
	<u>\$ 243,272</u>	<u>100 %</u>

Unbilled receivables by contract effective date:

(Dollars in thousands)	March 31, 2024	
2024	\$ 19,018	8 %
2023	144,525	59 %
2022	38,025	16 %
2021	35,988	15 %
2020 and prior	5,716	2 %
	<u>\$ 243,272</u>	<u>100 %</u>

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

Major clients

Clients that represented 10% or more of the Company's total accounts receivable and unbilled receivables:

	March 31, 2024	December 31, 2023
Client A		
Accounts receivable	10 %	*
Unbilled receivables	12 %	*
Total receivables	11 %	*

* Client accounted for less than 10% of receivables.

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)	March 31, 2024	December 31, 2023
Contract assets ⁽¹⁾	\$ 10,853	\$ 16,238
Long-term contract assets ⁽²⁾	20,909	20,635
	<u>\$ 31,762</u>	<u>\$ 36,873</u>

(1) Included in other current assets.

(2) Included in other long-term assets.

Deferred revenue

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

(in thousands)	March 31, 2024	December 31, 2023
Deferred revenue	\$ 382,765	\$ 377,845
Long-term deferred revenue ⁽¹⁾	1,784	2,478
	<u>\$ 384,549</u>	<u>\$ 380,323</u>

(1) Included in other long-term liabilities.

The increase in deferred revenue in the three months ended March 31, 2024, was primarily due to new billings in advance of revenue recognized. In the three months ended March 31, 2024, \$ 168.3 million in revenue was recognized from deferred revenue as of December 31, 2023.

NOTE 4. DEFERRED COMMISSIONS

(in thousands)	March 31, 2024	December 31, 2023
Deferred commissions ⁽¹⁾	\$ 102,855	\$ 114,119

(1) Included in other long-term assets.

(in thousands)	Three Months Ended March 31,	
	2024	2023
Amortization of deferred commissions ⁽¹⁾	\$ 17,282	\$ 14,277

(1) Included in selling and marketing.

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

NOTE 5. GOODWILL AND OTHER INTANGIBLES

Goodwill

(in thousands)	Three Months Ended		
	March 31,	2024	2023
January 1,		\$ 81,611	\$ 81,399
Currency translation adjustments		(144)	35
March 31,		\$ 81,467	\$ 81,434

Intangibles

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

(in thousands)	March 31, 2024			
	Useful Lives	Cost	Accumulated Amortization	Net Book Value ⁽¹⁾
Client-related	4 - 10 years	\$ 63,111	\$ (60,371)	\$ 2,740
Technology	2 - 10 years	68,105	(64,820)	3,285
Other	1 - 5 years	5,361	(5,361)	—
		\$ 136,577	\$ (130,552)	\$ 6,025

(1) Included in other long-term assets.

(in thousands)	December 31, 2023			
	Useful Lives	Cost	Accumulated Amortization	Net Book Value ⁽¹⁾
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)	—
		\$ 136,616	\$ (129,614)	\$ 7,002

(1) Included in other long-term assets.

Future estimated amortization of intangible assets:

(in thousands)	March 31, 2024	
	2024	2028
Remainder of 2024		\$ 2,208
2025		2,616
2026		874
2027		327
		\$ 6,025

Amortization of intangible assets:

(in thousands)	March 31,	
	2024	2023
Cost of revenue	\$ 621	\$ 706
Selling and marketing	343	343
	\$ 964	\$ 1,049

NOTE 6. OTHER ASSETS AND LIABILITIES

Other current assets

(in thousands)	March 31, 2024	December 31, 2023
Income tax receivables	\$ 9,058	\$ 4,804
Contract assets	10,853	16,238
Insurance receivable	8,305	1,954
Capped call transactions	4,192	—
Restricted cash	775	—
Other	45,010	45,141
	\$ 78,193	\$ 68,137

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

Other long-term assets

(in thousands)	March 31, 2024	December 31, 2023
Deferred commissions	\$ 102,855	\$ 114,119
Right of use assets	61,512	64,198
Property and equipment	44,856	47,279
Venture investments	20,946	19,450
Contract assets	20,909	20,635
Intangible assets	6,025	7,002
Capped call transactions	—	893
Deferred income taxes	3,666	3,678
Restricted cash	2,990	2,925
Other	34,101	34,517
	<u>\$ 297,860</u>	<u>\$ 314,696</u>

Accrued expenses

(in thousands)	March 31, 2024	December 31, 2023
Litigation settlements	\$ 35,000	\$ —
Cloud hosting	12,736	1,358
Outside professional services	13,352	10,419
Marketing and sales program	3,888	2,557
Income and other taxes	6,676	15,428
Employee related	4,466	4,486
Other	4,524	5,693
	<u>\$ 80,642</u>	<u>\$ 39,941</u>

Other current liabilities

(in thousands)	March 31, 2024	December 31, 2023
Operating lease liabilities	\$ 14,184	\$ 15,000
Dividends payable	2,550	2,515
Other	2,362	3,828
	<u>\$ 19,096</u>	<u>\$ 21,343</u>

Other long-term liabilities

(in thousands)	March 31, 2024	December 31, 2023
Deferred revenue	\$ 1,784	\$ 2,478
Income taxes payable	2,175	859
Other	9,659	10,233
	<u>\$ 13,618</u>	<u>\$ 13,570</u>

NOTE 7. LEASES

Expense

(in thousands)	Three Months Ended	
	March 31,	2023
Fixed lease costs	\$ 4,262	\$ 5,766
Short-term lease costs	543	781
Variable lease costs	1,609	1,975
	<u>\$ 6,414</u>	<u>\$ 8,522</u>

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

Right of use assets and lease liabilities

<i>(in thousands)</i>	March 31, 2024	December 31, 2023
Right of use assets ⁽¹⁾	\$ 61,512	\$ 64,198
Operating lease liabilities ⁽²⁾	\$ 14,184	\$ 15,000
Long-term operating lease liabilities	\$ 63,645	\$ 66,901

(1) Included in other long-term assets.

(2) Included in other current liabilities.

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

	March 31, 2024	December 31, 2023
Weighted-average remaining lease term	6.7 years	6.8 years
Weighted-average discount rate ⁽¹⁾	4.0 %	4.0 %

(1) The rates implicit in most of 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.

Maturities of lease liabilities:

(in thousands)	March 31, 2024
Remainder of 2024	\$ 12,700
2025	16,024
2026	11,246
2027	10,066
2028	9,334
2029	8,500
Thereafter	21,647
Total lease payments	89,517
Less: imputed interest ⁽¹⁾	(11,688)
	\$ 77,829

(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)	Three Months Ended March 31,	
	2024	2023
Cash paid for operating leases, net of tenant improvement allowances	\$ 5,069	\$ 5,038
Right of use assets recognized for new leases and amendments (non-cash)	\$ 1,095	\$ 721

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 months ended March 31, 2023, the Company recorded a gain of \$ 2.8 million in other income, net from the repurchase of Notes representing \$ 33 million 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:

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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 March 31, 2024, the Notes were not eligible for conversion.

Repurchase rights

On or after March 1, 2023 and on or before the 40 th 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)	March 31, 2024	December 31, 2023
Principal	\$ 502,270	\$ 502,270
Unamortized issuance costs	(2,285)	(2,902)
Convertible senior notes, net	\$ 499,985	\$ 499,368

Interest expense related to the Notes:

(in thousands)	Three Months Ended	
	March 31,	
Contractual interest expense (0.75 % coupon)	\$ 942	\$ 1,125
Amortization of issuance costs	617	728
	\$ 1,559	\$ 1,853

The average interest rate on the Notes in the three months ended March 31, 2024 and 2023 was 1.2 %.

Future payments:

(in thousands)	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 2023, Capped Call Transactions covering approximately 0.7 million shares were settled for proceeds of \$ 0.3 million. As of March 31, 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.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

Change in capped call transactions:

(in thousands)	Three Months Ended	
	March 31,	2023
January 1,	\$ 893	\$ 2,582
Settlements	—	(188)
Fair value adjustment	3,299	3,206
March 31,	\$ 4,192	\$ 5,600

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 March 31, 2024 and December 31, 2023, the Company had \$ 27.3 million in outstanding letters of credit, reducing available borrowing capacity under the Credit Facility, 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	\$	1,241
Office space reduction	March 31, 2023	\$	1,241
Employee severance and related benefits	June 30, 2023	\$	1,581
Employee severance and related benefits and office space reduction	September 30, 2023	\$	17,236
Office space reduction	December 31, 2023	\$	1,497

Accrued employee severance and related benefits:

Change for all restructuring actions:

(in thousands)	Three Months Ended	
	March 31,	2023
January 1,	\$ 8,095	\$ 18,573
Costs incurred	384	220
Cash disbursements	(3,347)	(14,458)
Currency translation adjustments	(131)	181
March 31,	\$ 5,001	\$ 4,516

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.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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
- 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)	March 31, 2024				December 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 93,135	\$ —	\$ —	\$ 93,135	\$ 54,357	\$ —	\$ —	\$ 54,357
Marketable securities	\$ —	\$ 327,044	\$ —	\$ 327,044	\$ —	\$ 193,436	\$ —	\$ 193,436
Capped Call Transactions ⁽¹⁾	\$ —	\$ 4,192	\$ —	\$ 4,192	\$ —	\$ 893	\$ —	\$ 893
Venture investments ⁽¹⁾⁽²⁾	\$ —	\$ —	\$ 20,946	\$ 20,946	\$ —	\$ —	\$ 19,450	\$ 19,450

(1) Included in other long-term assets.

(2) Investments in privately-held companies.

Changes in venture investments:

(in thousands)	Three Months Ended March 31,	
	2024	2023
January 1,	\$ 19,450	\$ 13,069
New investments	250	400
Changes in foreign exchange rates	(20)	58
Changes in fair value:		
included in other income, net	1,628	3,802
included in other comprehensive (loss)	(362)	(1,064)
March 31,	\$ 20,946	\$ 16,265

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 \$ 481.7 million as of March 31, 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 March 31,	
	2024	2023
U.S.	\$ 180,983	54 %
Other Americas	21,786	7 %
United Kingdom ("U.K.")	32,117	10 %
Europe (excluding U.K.), Middle East, and Africa	61,847	19 %
Asia-Pacific	33,414	10 %
	\$ 330,147	100 %
	\$ 325,472	100 %

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Revenue streams

(in thousands)	Three Months Ended	
	March 31,	2023
Subscription license	\$ 63,338	\$ 84,527
Perpetual license	859	403
Revenue recognized at a point in time	64,197	84,930
Maintenance	81,001	79,630
Pega Cloud	130,902	107,879
Consulting	54,047	53,033
Revenue recognized over time	265,950	240,542
Total revenue	\$ 330,147	\$ 325,472

(in thousands)	Three Months Ended	
	March 31,	2023
Pega Cloud	\$ 130,902	\$ 107,879
Maintenance	81,001	79,630
Subscription services	211,903	187,509
Subscription license	63,338	84,527
Subscription	275,241	272,036
Consulting	54,047	53,033
Perpetual license	859	403
Total revenue	\$ 330,147	\$ 325,472

Remaining performance obligations ("Backlog")

Expected future revenue from existing non-cancellable contracts:

As of March 31, 2024:

(Dollars in thousands)	Subscription services		Subscription			Consulting	Total
	Pega Cloud	Maintenance	license	Perpetual license	Consulting		
1 year or less	\$ 461,928	\$ 225,598	\$ 33,985	\$ 2,727	\$ 34,716	\$ 758,954	53 %
1-2 years	292,787	65,605	10,008	—	1,604	370,004	26 %
2-3 years	149,797	32,307	2,903	—	2,428	187,435	13 %
Greater than 3 years	86,601	21,650	98	—	—	108,349	8 %
	\$ 991,113	\$ 345,160	\$ 46,994	\$ 2,727	\$ 38,748	\$ 1,424,742	100 %

As of March 31, 2023:

(Dollars in thousands)	Subscription services		Subscription			Consulting	Total
	Pega Cloud	Maintenance	license	Perpetual license	Consulting		
1 year or less	\$ 389,632	\$ 235,315	\$ 35,346	\$ 5,262	\$ 41,203	\$ 706,758	54 %
1-2 years	239,228	66,272	3,215	2,252	6,653	317,620	24 %
2-3 years	131,085	29,295	6,777	—	2,292	169,449	13 %
Greater than 3 years	106,778	7,479	—	—	—	114,257	9 %
	\$ 866,723	\$ 338,361	\$ 45,338	\$ 7,514	\$ 50,148	\$ 1,308,084	100 %

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

NOTE 12. STOCK-BASED COMPENSATION

Expense

(in thousands)	Three Months Ended	
	March 31,	2023
Cost of revenue	\$ 6,572	\$ 8,912
Selling and marketing	13,888	17,661
Research and development	7,646	9,060
General and administrative	6,675	6,924
	\$ 34,781	\$ 42,557
Income tax benefit	\$ (311)	\$ (672)

As of March 31, 2024, the Company had \$ 184.1 million of unrecognized stock-based compensation expense, net of estimated forfeitures, which is expected to be recognized over a weighted-average period of 1.8 years.

Grants

(in thousands)	Three Months Ended	
	March 31, 2024	Total Fair Value
Restricted stock units ⁽¹⁾	1,239	\$ 76,466
Non-qualified stock options	1,718	\$ 44,377
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 three months ended March 31, 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)	Three Months Ended	
	March 31,	2023
(Benefit from) provision for income taxes	\$ (3,038)	\$ 5,249
Effective income tax rate	20 %	(34) %

The Company's effective income tax rate in the three months ended March 31, 2024, was primarily driven by the valuation allowance on the Company's deferred tax assets in the U.S. and U.K., and forecasted taxable income, offset by an income tax benefit for discrete items in the three months ended March 31, 2024.

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.

NOTE 14. (LOSS) PER SHARE

Basic (loss) per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted (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.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Calculation of (loss) per share:

	Three Months Ended March 31,	
	2024	2023
(in thousands, except per share amounts)		
Net (loss)	\$ (12,124)	\$ (20,774)
Weighted-average common shares outstanding	84,266	82,604
(Loss) per share, basic	\$ (0.14)	\$ (0.25)
Net (loss)	\$ (12,124)	\$ (20,774)
Weighted-average common shares outstanding, assuming dilution ^{(1) (2) (3)}	84,266	82,604
(Loss) per share, diluted	\$ (0.14)	\$ (0.25)
Outstanding anti-dilutive stock options and RSUs ⁽⁴⁾	3,171	1,348

(1) All dilutive securities are excluded in periods of loss as 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 March 31, 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 March 31, 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 (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.

In the three months ended March 31, 2024 the Company recorded a \$ 32.4 million litigation settlement net of insurance recoveries, which is comprised of an agreed in principle \$ 35 million litigation settlement reduced by \$ 2.6 million of expected insurance coverage recovery. The Company had no accrued loss for litigation as of 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.

PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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. The parties are awaiting a ruling by the court on that motion and thereafter final approval of the settlement, which will not be heard until after a notice period to the proposed class of shareholders during which they have the opportunity to object to the proposed settlement. Although the outcome of the litigation is not certain until final disposition, the Company has recorded a \$ 35 million accrued loss as of March 31, 2024, for the proposed settlement, the substantial majority of which the Company anticipates will be paid for directly by the Company and not reimbursed by insurance. However, it is possible that actual future losses related to the litigation could exceed the accrual amount if and to the extent that the court does not approve the proposed settlement.

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 Gynnes, 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. The Company is unable to reasonably estimate possible damages or a range of possible damages in this matter given the stage of the lawsuit and there being no specified quantum of damages sought in the complaint.

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;
- the potential legal and financial liabilities and 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 April 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. 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.

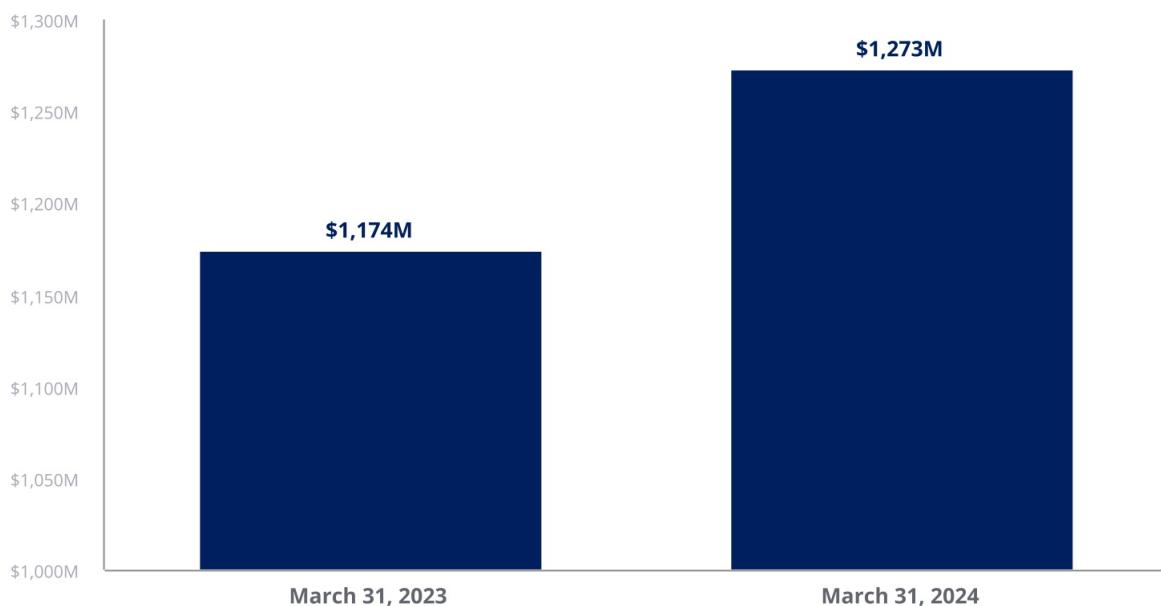
Performance metrics

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
9% (9% Constant Currency)

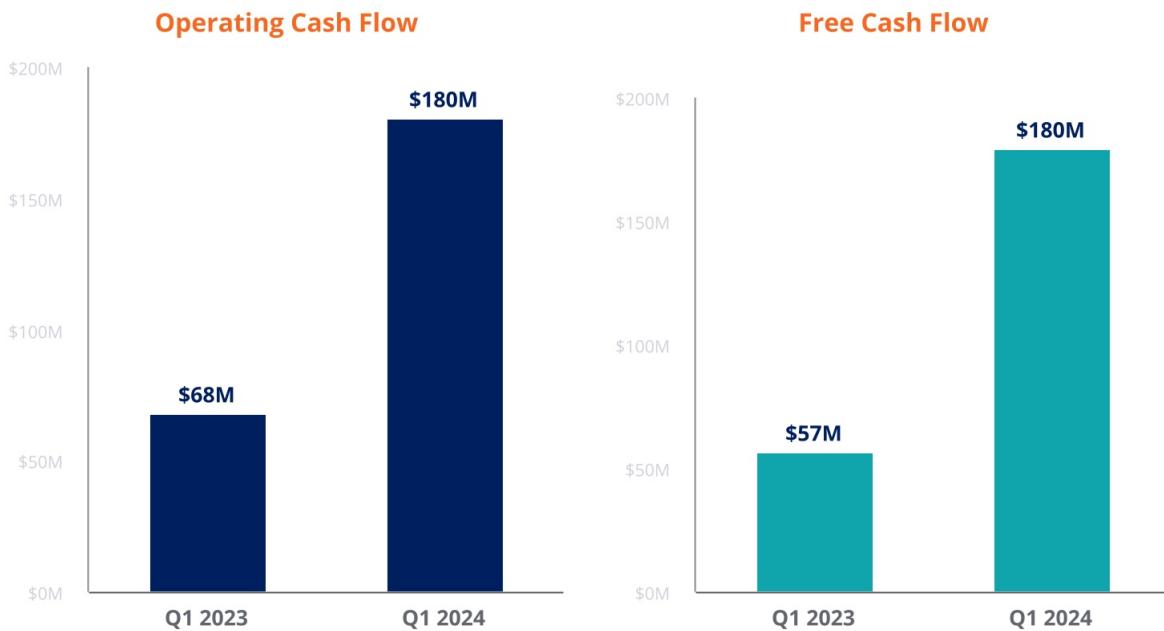


Reconciliation of ACV and constant currency ACV

(in millions, except percentages)	March 31, 2023	March 31, 2024	1-Year Change
ACV	\$ 1,174	\$ 1,273	9 %
Impact of changes in foreign exchange rates	—	4	
Constant currency ACV	\$ 1,174	\$ 1,277	9 %

Note: Constant currency ACV is calculated by applying the March 31, 2023 foreign exchange rates to all periods shown.

Cash flow ⁽¹⁾



(Dollars in thousands)

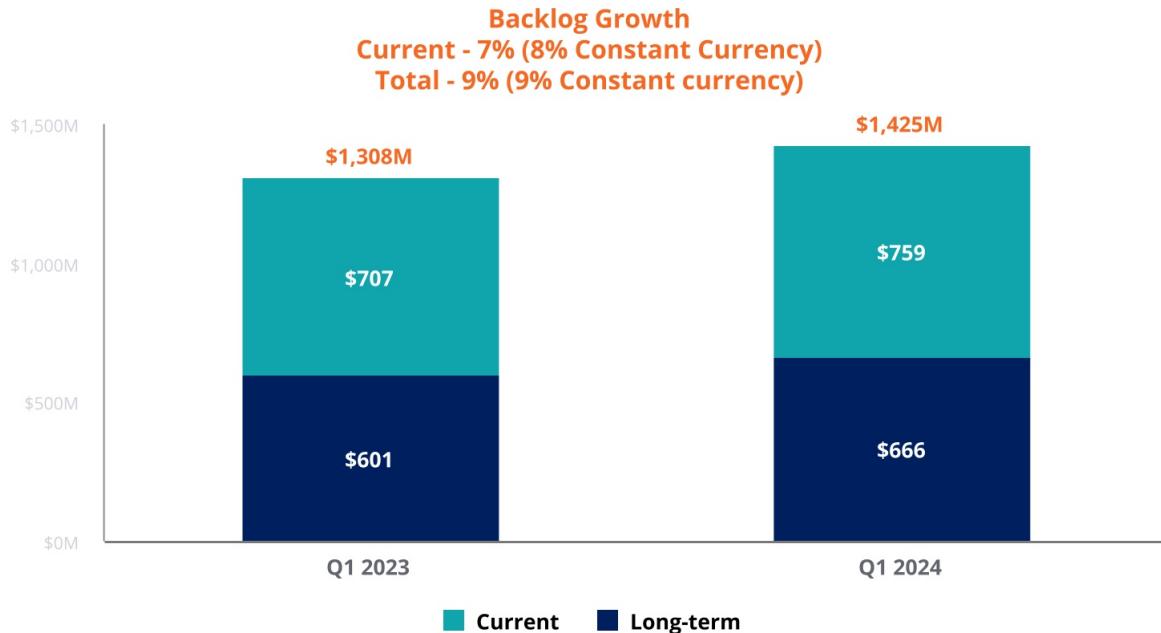
	Three Months Ended March 31,	
	2024	2023
Cash provided by operating activities	\$ 180,146	68,107
Investment in property and equipment	(604)	(11,487)
Free cash flow ⁽¹⁾	<u><u>\$ 179,542</u></u>	<u><u>\$ 56,620</u></u>
 <u>Supplemental information ⁽²⁾</u>		
Restructuring	\$ 3,347	14,458
Legal fees	2,739	1,515
Interest on convertible senior notes	1,884	2,250
Income taxes	8,163	2,825
	<u><u>\$ 16,133</u></u>	<u><u>\$ 21,048</u></u>

(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.

- Restructuring: Restructuring fluctuates in amount and frequency and is significantly affected by the timing and size of our restructuring activities.
- Legal fees: Legal and related fees arising from proceedings outside the ordinary course of business.
- Interest on convertible senior notes: In February 2020, we issued convertible senior notes, due March 1, 2025, in a private placement. The 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)	March 31, 2023	March 31, 2024	1-Year Growth Rate
Backlog - GAAP	\$ 1,308	\$ 1,425	9 %
Impact of changes in foreign exchange rates	—	4	
Constant currency backlog	\$ 1,308	\$ 1,429	9 %

Note: Constant currency Backlog is calculated by applying the Q1 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, given 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.

There have been no other significant changes to our critical accounting policies as 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				Change	
	March 31,		2024	2023		
Pega Cloud	\$ 130,902	40 %	\$ 107,879	33 %	\$ 23,023	21 %
Maintenance	81,001	24 %	79,630	25 %	1,371	2 %
Subscription services	211,903	64 %	187,509	58 %	24,394	13 %
Subscription license	63,338	19 %	84,527	26 %	(21,189)	(25)%
Subscription	275,241	83 %	272,036	84 %	3,205	1 %
Consulting	54,047	17 %	53,033	16 %	1,014	2 %
Perpetual license	859	— %	403	— %	456	113 %
	\$ 330,147	100 %	\$ 325,472	100 %	\$ 4,675	1 %

- The increase in Pega Cloud revenue for the three months ended March 31, 2024 was primarily due to the growth of the hosted client base as our clients continued to expand their use of Pega Cloud.
- The increase in maintenance revenue in the three months ended March 31, 2024 was primarily due to continued demand for our subscription license offerings, which are generally bundled with maintenance.
- The decrease in subscription license revenue in the three months ended March 31, 2024 was primarily due to a large multi-year contract recognized in revenue in the three months ended March 31, 2023.
- The increase in consulting revenue in the three months ended March 31, 2024 was primarily due to an increase in consultant realization rates in the Americas.

Gross profit

(Dollars in thousands)	Three Months Ended				Change	
	March 31,		2024	2023		
Pega Cloud	\$ 101,305	77 %	\$ 77,629	72 %	\$ 23,676	30 %
Maintenance	74,774	92 %	73,016	92 %	1,758	2 %
Subscription services	176,079	83 %	150,645	80 %	25,434	17 %
Subscription license	62,695	99 %	83,808	99 %	(21,113)	(25)%
Subscription	238,774	87 %	234,453	86 %	4,321	2 %
Consulting	(4,135)	(8)%	(7,315)	(14)%	3,180	43 %
Perpetual license	850	99 %	400	99 %	450	113 %
	\$ 235,489	71 %	\$ 227,538	70 %	\$ 7,951	3 %

* not meaningful

- The increase in Pega Cloud gross profit percent in the three months ended March 31, 2024 was 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 consulting gross profit percent in the three months ended March 31, 2024 was primarily due to an increase in consultant realization rates in the Americas.

Operating expenses

(Dollars in thousands)	Three Months Ended		Change
	2024	2023	
Selling and marketing	\$ 127,695	\$ 149,797	\$ (22,102) (15)%
% of Revenue	39 %	46 %	
Research and development	\$ 72,113	\$ 75,376	\$ (3,263) (4)%
% of Revenue	22 %	23 %	
General and administrative	\$ 23,527	\$ 23,110	\$ 417 2 %
% of Revenue	7 %	7 %	
Litigation settlement, net of recoveries	\$ 32,403	\$ —	\$ 32,403 100 %
% of Revenue	10 %	— %	
Restructuring	\$ 163	\$ 1,461	\$ (1,298) (89)%
% of Revenue	— %	— %	

- The decrease in selling and marketing during the three months ended March 31, 2024 was primarily due to a decrease in compensation and benefits of \$17.5 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 decrease in research and development for the three months ended March 31, 2024 was primarily due to a decrease in compensation and benefits of \$1.5 million due to reduced headcount and a decrease in cloud hosting expenses of \$1.2 million.
- The increase in litigation settlement, net of recoveries in the three months ended March 31, 2024 was primarily due to the estimated cost to settle ongoing 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 decrease in restructuring expenses during the three months ended March 31, 2024 was primarily due to efforts to optimize our go-to-market organization in the three months ended March 31, 2023. 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		Change
	2024	2023	
Foreign currency transaction (loss)	\$ (3,262)	\$ (2,675)	\$ (587) (22)%
Interest income	5,281	1,485	3,796 256 %
Interest expense	(1,752)	(1,918)	166 9 %
Gain on capped call transactions	3,299	3,206	93 3 %
Other income, net	1,684	6,583	\$ (4,899) (74)%
	<u>\$ 5,250</u>	<u>\$ 6,681</u>	<u>\$ (1,431) (21)%</u>

- The change in foreign currency transaction (loss) in the three months ended March 31, 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 increase in interest income in the three months ended March 31, 2024 was primarily due to higher investment balances and market interest rates.
- The decrease in other income, net in the three months ended March 31, 2024 was due to a gain of \$3.8 million on our venture investments and a gain of \$2.8 million from repurchases of our convertible senior notes in the three months ended March 31, 2023. For additional information, see "Note 8. Debt" and "Note 10. Fair Value Measurements" in Part I, Item 1 of this Quarterly Report.

(Benefit from) provision for income taxes

(Dollars in thousands)	Three Months Ended		Change
	2024	2023	
(Benefit from) provision for income taxes	\$ (3,038)	\$ 5,249	
Effective income tax rate	20 %	(34)%	

The effective income tax rate in the three months ended March 31, 2024 was primarily driven by the valuation allowance on our deferred tax assets in the U.S. and U.K., and forecasted taxable income, offset by an income tax benefit for discrete items in the three months ended March 31, 2024.

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)	Three Months Ended March 31,	
	2024	2023
Cash provided by (used in):		
Operating activities	\$ 180,146	\$ 68,107
Investing activities	(132,399)	(14,413)
Financing activities	17,899	(29,372)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(2,803)	782
Net increase in cash, cash equivalents, and restricted cash	\$ 62,843	\$ 25,104

(in thousands)	March 31, 2024	December 31, 2023
Held in U.S. entities	\$ 491,808	\$ 263,453
Held in foreign entities	127,141	159,885
Total cash, cash equivalents, and marketable securities	618,949	423,338
Restricted cash included in other current assets	775	—
Restricted cash included in other long-term assets	2,990	2,925
Total cash, cash equivalents, marketable securities, and restricted cash	\$ 622,714	\$ 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, 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 three months ended March 31, 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) investing activities in the three months ended March 31, 2024 was primarily due to our investments in financial instruments and reduced investment in property and equipment as we optimize 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 March 31, 2024, we had \$502.3 million in aggregate principal amount of convertible senior notes outstanding due on March 1, 2025. 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 five-year \$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 March 31, 2024 and December 31, 2023, we had \$27.3 million in outstanding letters of credit, reducing available borrowing capacity under the Credit Facility, 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)	Three Months Ended	
	March 31, 2024	
December 31, 2023	\$	60,000
Authorizations ⁽¹⁾		—
March 31, 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)	Three Months Ended	
	March 31,	
	2024	2023
Tax withholdings for net settlement of equity awards	Shares 32 \$ 2,005	Shares 27 \$ 1,107

In the three months ended March 31, 2024 and 2023, instead of receiving cash from the equity holders, we withheld shares with a value of \$2.8 million and \$0.6 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)	Three Months Ended	
	March 31,	
	2024	2023
Dividend payments to stockholders	\$ 2,515	\$ 2,474

Contractual obligations

As of March 31, 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⁾	128,610	137,788	126,585	135,247	990	—	—	—	529,220
Operating lease obligations	12,700	16,024	11,246	10,066	9,334	30,147	—	—	89,517
Venture investment commitments ⁽³⁾	500	500	—	—	—	—	—	—	1,000
Liability for uncertain tax positions ⁽⁴⁾	—	—	—	—	—	—	2,175	2,175	2,175
	<u>\$ 143,693</u>	<u>\$ 658,466</u>	<u>\$ 137,831</u>	<u>\$ 145,313</u>	<u>\$ 10,324</u>	<u>\$ 30,147</u>	<u>\$ 2,175</u>	<u>\$ 1,127,949</u>	

(1) Includes principal and interest.

(2) Represents the fixed amount owed for purchase obligations 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:

	Three Months Ended March 31,	
	2024	2023
(Decrease) in revenue	(4)%	(4)%
(Decrease) increase in net income	(4)%	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:

	Three Months Ended March 31,	
	2024	2023
(in thousands)		
Foreign currency (loss)	\$ (14,618)	\$ (9,251)

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 March 31, 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 March 31, 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 March 31, 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 March 31, 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
			—	—
January 1, 2024 - January 31, 2024	14	\$ 49.31	—	\$ 60,000
February 1, 2024 - February 29, 2024	45	63.50	—	\$ 60,000
March 1, 2024 - March 31, 2024	19	63.69	—	\$ 60,000
	<u>78</u>	<u>\$ 61.06</u>	<u>—</u>	

(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

During the three months ended March 31, 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.

Credit Facility

On April 23, 2024, we entered into an amendment to our \$100 million senior secured revolving credit agreement with PNC Bank, National Association which extends the expiration date of the Credit Facility to February 4, 2025. The description contained herein is qualified in its entirety by reference to the Amendment, a copy of which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q.

Share Repurchase Program

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. Any actual repurchases under the current repurchase program will be disclosed in the Company's annual reports on Form 10-K and quarterly reports on Form 10-Q filed with the Securities and Exchange Commission for the annual and applicable quarterly periods ending between June 30, 2024 and December 31, 2025.

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	
10.1	Seventh Amendment to Loan Documents, between Pegasystems Inc. and PNC Bank, National Association				X
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: April 24, 2024

By: _____

/s/ KENNETH STILLWELL

Kenneth Stillwell

Chief Operating Officer and Chief Financial Officer

(Principal Financial Officer)

Seventh Amendment to Loan Documents

THIS SEVENTH AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is made as of April 23, 2024, by and among **PEGASYSTEMS INC.** (the "Borrower"), the Guarantors (as such term is defined in the Credit Agreement defined in Exhibit A attached hereto and made a part hereof (the "Loan Agreement")) party hereto (the "Guarantors" and each, individually, a "Guarantor"; the Borrower and the Guarantors are collectively referred to herein as the "Loan Parties" and each, individually, a "Loan Party"), the Lenders (as such term is defined in the Loan Agreement) party hereto (the "Lenders") and **PNC BANK, NATIONAL ASSOCIATION** (the "Agent"), in its capacity as "Agent" (as such term is defined in the Loan Agreement) for the Lenders.

BACKGROUND

A. The Loan Parties have executed and delivered to the Agent and/or the Lenders one or more promissory notes, letter agreements, loan agreements, security agreements, pledge agreements, collateral assignments, and other agreements, instruments, certificates and documents, some or all of which are more fully described on Exhibit A attached hereto, which is made a part of this Amendment (collectively, as amended from time to time, the "Loan Documents") which evidence or secure some or all of the Borrower's Obligations.

B. The Loan Parties, the Lenders and the Agent desire to amend the Loan Documents as provided for in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain of the Loan Documents are amended as set forth in Exhibit A attached hereto and made a part hereof. Any and all references to any Loan Document which is amended hereby in any other Loan Document shall be deemed to refer to such Loan Document as amended by this Amendment. This Amendment is deemed incorporated into each of the Loan Documents being amended hereby. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Loan Agreement. To the extent that any term or provision of this Amendment is or may be inconsistent with any term or provision in any Loan Document, the terms and provisions of this Amendment shall control.

2. The Borrower hereby certifies that (a) all of its representations and warranties in the Loan Documents, as amended by this Amendment, are, except as may otherwise be stated in this Amendment, (i) true and correct in all material respects (except for any representation or warranty which expressly relates to an earlier date, in which case such representation and warranty was true and correct as of such earlier date) as of the date of this Amendment, (ii) ratified and confirmed without condition as if made anew (except for any representation or warranty which expressly relates to an earlier date, in which case such representation and warranty shall be ratified and confirmed as of such earlier date), and (iii) incorporated into this Amendment by reference; (b) no Event of Default or event which, with the passage of time or the giving of notice or both, would constitute an Event of Default, exists under any Loan Document which will not be cured by the execution and effectiveness of this Amendment; (c) no consent, approval, order or authorization of, or registration or filing with, any third party is required in connection with the execution, delivery and carrying out of this Amendment or, if required, has been obtained; and (d) this Amendment has been duly authorized, executed and delivered so that it constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms. The Borrower confirms that the Obligations remain outstanding without defense, set off, counterclaim, discount or charge of any kind as of the date of this Amendment.

3. The Borrower hereby confirms that any collateral for the Obligations, including liens, security interests, mortgages, and pledges granted by the Borrower or third parties (if applicable), shall continue unimpaired and in full force and effect, and shall cover and secure all of the Borrower's existing and future Obligations to the Lenders, as modified by this Amendment.

4. As a condition precedent to the effectiveness of this Amendment, the Borrower shall comply with the terms and conditions specified in Exhibit A attached hereto and made a part hereof.

5. To induce the Agent and the Lenders to enter into this Amendment, each Loan Party reaffirms all of its indemnification obligations contained in the Loan Documents, including, without limitation, pursuant to Section 11.3.2 of the Loan Agreement.

6. This Amendment may be signed in any number of counterpart copies and by the parties to this Amendment on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by electronic or facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Amendment by electronic or facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by electronic or facsimile transmission, as applicable.

7. Notwithstanding any other provision herein or in the other Loan Documents, each Loan Party agrees that this Amendment, the Note, the other Loan Documents, any other amendments thereto and any other information, notice, signature card, agreement or authorization related thereto (each, a "**Communication**") may, at the Agent's option, be in the form of an electronic record. Any Communication may, at the Agent's option, be signed or executed using electronic signatures. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Agent of a manually signed paper Communication which has been converted into electronic form (such as scanned into PDF format) for transmission, delivery and/or retention. Each Loan Party, each Lender and the Agent acknowledge and agree that the methods for delivering Communications, including notices, under the Loan Documents include electronic transmittal to any electronic address provided by either party to the other party from time to time.

8. This Amendment will be binding upon and inure to the benefit of each Loan Party, the Agent, and the Lenders and their respective heirs, executors, administrators, successors and assigns.

9. This Amendment has been delivered to and accepted by the Agent and the Lenders and will be deemed to be made in the State of New York. This Amendment will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State of New York, excluding its conflict of laws rules, including without limitation the Electronic Signatures and Records Act (or equivalent) in such State (or, to the extent controlling, the laws of the United States of America, including without limitation the Electronic Signatures in Global and National Commerce Act).

10. Except as amended hereby, the terms and provisions of the Loan Documents remain unchanged, are and shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms, and are hereby ratified, reaffirmed and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any default or Event of Default under any Loan Document, or a waiver or release of any of the Agent's or Lenders' rights and remedies (all of which are hereby reserved). **Each Loan Party, the Agent and the Lenders mutually expressly ratify and confirm the waiver of jury trial or arbitration provisions contained in the Loan Documents, all of which are incorporated herein by reference.**

[signatures appear on following page]

WITNESS the due execution of this Amendment as of the date first written above, with the intent to be legally bound hereby.

WITNESS:

BORROWER:

PEGASYSTEMS INC.

By: s/Jennelle Senechal

Name: Jennelle Senechal
Title: Senior Paralegal

By: s/Kenneth Stillwell

Name: Kenneth Stillwell
Title: Chief Operating Officer and Chief
Financial Officer

GUARANTORS:

PEGASYSTEMS WORLDWIDE INC.

By: s/Jennelle Senechal

Name: Jennelle Senechal
Title: Senior Paralegal

By: s/Efstathios Kouninis

Name: Efstathios Kouninis,
Title Director

ANTENNA SOFTWARE, LLC

By: PEGASYSTEMS INC., its sole member

By: s/Jennelle Senechal

Name: Jennelle Senechal
Title: Senior Paralegal

By: s/Kenneth Stillwell

Name: Kenneth Stillwell
Title: Chief Operating Officer and Chief
Financial Officer

PEGA GOVERNMENT LLC

By: s/Jennelle Senechal

Name: Jennelle Senechal
Title: Senior Paralegal

By: s/Efstathios Kouninis

Name: Efstathios Kouninis,
Title: Manager

PNC BANK, NATIONAL ASSOCIATION,
Individually and as Agent

By: s/Terence J. O'Malley

Name: Terence J. O'Malley

Title: Senior Vice President

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Signature Page – PNC Bank – Seventh Amendment to Loan Documents

EXHIBIT A
TO SEVENTH AMENDMENT TO LOAN DOCUMENTS
DATED AS OF APRIL 23, 2024

A. The “**Loan Documents**” that are the subject of this Amendment include the following (as any of the foregoing have previously been amended, modified or otherwise supplemented):

1. Credit Agreement dated as of November 5, 2019 made by and among Pegasystems Inc., (the ‘**Borrower**”), each of the Guarantors, and the Agent (the “**Loan Agreement**”).
2. Amendment to Loan Documents dated as of February 18, 2020 made by and among the Borrower, each of the Guarantors, and the Agent (the “**First Amendment**”).
3. Second Amendment to Loan Documents dated as of July 22, 2020 made by and among the Borrower, each of the Guarantors, and the Agent (the “**Second Amendment**”).
4. Third Amendment to Loan Documents dated as of September 20, 2020 made by and among the Borrower, each of the Guarantors, and the Agent (the “**Third Amendment**”).
5. Fourth Amendment to Loan Documents dated as of March 31, 2022 made by and among the Borrower, each of the Guarantors, and the Agent (the “**Fourth Amendment**”).
6. Fifth Amendment to Loan Documents dated as of July 25, 2022 made by and among the Borrower, each of the Guarantors, and the Agent (the “**Fifth Amendment**”).
7. Sixth Amendment to Loan Documents dated as of March 31, 2023 made by and among the Borrower, each of the Guarantors, and the Agent (the “**Sixth Amendment**”).
8. Guarantor Joinder and Assumption Agreement made as of August 24, 2020, by Pega Government LLC in favor of the Agent and the Lenders (the “**Guarantor Joinder**”).
9. Revolving Credit Note in the principal amount of \$100,000,000.00 dated as of November 5, 2019 executed by the Borrower in favor of the Agent (the “**Note**”).
10. Security Agreement dated as of November 5, 2019, by and between the Borrower and the Agent (the ‘**Borrower Security Agreement**”).
11. Security Agreement dated as of November 5, 2019, by and among Pegasystems Worldwide, Inc., Antenna Software, LLC and the Agent (the “**Guarantor Security Agreement**”).
12. Continuing Agreement of Guaranty and Suretyship dated as of November 5, 2019, by and among Pegasystems Worldwide, Inc., Antenna Software, LLC and the Agent (the “**Guaranty Agreement**”).
13. Pledge Agreement dated as of November 5, 2019, by and between the Borrower and the Agent (the “**Borrower Pledge Agreement**”).
14. First Amendment to Pledge Agreement dated as of August 24, 2020, by and between the Borrower and the Agent (the “**First Amendment to Pledge Agreement**”)

15. Pledge Agreement (Bank Deposits) dated as of November 5, 2019, by and among the Borrower and the Agent (the "**Deposit Account Pledge Agreement**").
16. Deposit Account Control Agreement dated as of December 23, 2019, by and among the Borrower, the Agent and Bank of America, N.A. (as amended and in effect from time to time, the "**Deposit Account Control Agreement**").
17. Patent, Trademark and Copyright Security Agreement dated as of November 5, 2019, by and between the Borrower and the Agent (the "**Borrower PTC Agreement**").
18. Patent, Trademark and Copyright Security Agreement dated as of November 5, 2019, by and between Antenna Software, LLC and the Agent (the "**Guarantor PTC Agreement**").
19. Fee Letter dated as of March 31, 2023 made by and among the Borrower and the Agent (the "**Fee Letter**").
20. All other documents, instruments, agreements, and certificates executed and delivered in connection with the Loan Documents listed in this Exhibit A.

B. Amendments to Loan Documents. The Loan Documents are hereby amended and modified as follows:

1. Amendments to Loan Agreement

1.01 Reference is hereby made to the definition of "Expiration Date" in Section 1.1 of the Loan Agreement. Said definition of "Expiration Date" in Section 1.1 of the Loan Agreement is hereby amended and restated as follows:

"Expiration Date shall mean, with respect to the Revolving Credit Commitments, February 4, 2025."

C. Conditions to Effectiveness of Amendment. The Agent's willingness to agree to the amendments set forth in this Amendment is subject to the prior satisfaction of the following conditions:

1. Execution by all applicable parties and delivery to the Agent of this Amendment (including the attached Consent).
2. Reimbursement by the Borrower to the Agent of the fees and expenses of the Agent and the Agent's outside counsel in connection with this Amendment.
3. All representations and warranties contained in the Loan Documents are true and correct in all material respects on the date hereof (except for any representation or warranty which expressly relates to an earlier date, in which case such representation and warranty was true and correct as of such earlier date).
4. Immediately after giving effect to this Amendment, no default or Event of Default shall have occurred and be continuing under the Loan Agreement or any of the other Loan Documents.

CONSENT OF GUARANTOR

Each of the undersigned guarantors (jointly and severally if more than one, the "Guarantors") consent to the provisions of the foregoing Amendment, any and all documents executed in connection therewith, and all prior amendments (if any) and confirms and agrees that (a) the Guarantors' obligations under the Guaranty shall be unimpaired by the Amendment; (b) as of the date hereof, the Guarantors have no defenses, set offs, counterclaims, discounts or charges of any kind against the Agent and/or the Lenders, their respective officers, directors, employees, agents or attorneys with respect to the Guaranty; (c) except as expressly modified by the foregoing Amendment, all of the terms, conditions and covenants in the Guaranty remain unaltered and in full force and effect and are hereby ratified and confirmed and apply to the Obligations, as modified by the Amendment; and (d) the Guarantors are bound by the terms and provisions of paragraph 5 of the Amendment. The Guarantors certify that all representations and warranties made in the Guaranty are true and correct in all material respects (except for any representation or warranty which expressly relates to an earlier date, in which case such representation and warranty was true and correct as of such earlier date).

By signing below, the Guarantors agree that this Consent, the Guaranty, the other Loan Documents, any amendments thereto and any other information, notice, signature card, agreement or authorization related thereto (each, a "Communication") may, at the Agent's option, be in the form of an electronic record. Any Communication may, at the Agent's option, be signed or executed using electronic signatures. For the avoidance of doubt, the authorization under this paragraph may include, without limitation, use or acceptance by the Agent of a manually signed paper Communication which has been converted into electronic form (such as scanned into PDF format) for transmission, delivery and/or retention. The Guarantor acknowledges and agrees that the methods for delivering Communications, including notices, under the Guaranty and the other Loan Documents include electronic transmittal to any electronic address provided by any party to the other party from time to time.

The Guarantors hereby confirm that any collateral for the Obligations, including liens, security interests, mortgages, and pledges granted by the Guarantors, shall continue unimpaired and in full force and effect, shall cover and secure all of the Guarantors' existing and future Obligations to the Lenders, as modified by this Amendment.

The Guarantor ratifies and confirms the indemnification (if any) and waiver of jury trial provisions contained in the Guaranty.

[signatures appear on following page]

WITNESS the due execution of this Consent as of the date of the Amendment, intending to be legally bound hereby.

WITNESS:

GUARANTORS:

PEGASYSTEMS WORLDWIDE INC.

By: s/Jennelle Senechal

Name: Jennelle Senechal
Title: Senior Paralegal

By: s/Efstathios Kouninis

Name: Efstathios Kouninis,
Title Director

ANTENNA SOFTWARE, LLC

By: PEGASYSTEMS INC., its sole member

By: s/Jennelle Senechal

Name: Jennelle Senechal
Title: Senior Paralegal

By: s/Kenneth Stillwell

Name: Kenneth Stillwell
Title: Chief Operating Officer and Chief
Financial Officer

PEGA GOVERNMENT LLC

By: s/Jennelle Senechal

Name: Jennelle Senechal
Title: Senior Paralegal

By: s/Efstathios Kouninis

Name: Efstathios Kouninis,
Title: Manager

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: April 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: April 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 March 31, 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: April 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)