

PEGASYSTEMS INC

FORM 10-K (Annual Report)

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934
For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934

Commission File No. 1-11859

PEGASYSTEMS INC.

(Exact name of Registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of incorporation or organization)

04-2787865
(IRS Employer Identification No.)

One Rogers Street, Cambridge, MA 02142-1209
(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
Common Stock, \$.01 par value per share

Trading symbol(s)
PEGA

Name of each exchange on which registered
NASDAQ Global Select Market

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

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 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 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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the Registrant's common stock held by non-affiliates, based upon the closing price of the Registrant's common stock on the NASDAQ Global Select Market of \$101.17, on June 30, 2020 was approximately \$4.0 billion.

There were 80,900,637 shares of the Registrant's common stock, \$0.01 par value per share, outstanding on February 5, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement related to its 2021 annual meeting of stockholders to be filed subsequently are incorporated by reference into Part III of this report.

PEGASYSTEMS INC.

ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Item		Page
PART I		
1	Business	4
1A	Risk Factors	10
1B	Unresolved Staff Comments	22
2	Properties	22
3	Legal Proceedings	22
4	Mine Safety Disclosures	22
PART II		
5	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	23
6	Selected Financial Data	24
7	Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
7A	Quantitative and Qualitative Disclosures about Market Risk	33
8	Financial Statements and Supplementary Data	34
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	61
9A	Controls and Procedures	61
9B	Other Information	61
PART III		
10	Directors, Executive Officers, and Corporate Governance	62
11	Executive Compensation	62
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	62
13	Certain Relationships and Related Transactions, and Director Independence	62
14	Principal Accountant Fees and Services	62
PART IV		
15	Exhibits and Financial Statement Schedules	63
16	Form 10-K Summary	64
	Signatures	65

PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Annual Report”), including without limitation, “Item 1. Business,” “Item 1A. Risk Factors,” “Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities,” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” along with other reports that we have filed with the Securities and Exchange Commission (“SEC”), external documents and oral presentations, 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, projects, forecasts, guidance, likely, and usually, or variations of such words and other similar expressions identify forward-looking statements, which are based on current expectations and assumptions.

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

- our future financial performance and business plans;
- the adequacy of our liquidity and capital resources;
- the continued payment of quarterly dividends;
- the timing of revenue recognition;
- management of our transition to a more subscription-based business model;
- variation in demand for our products and services, including among clients in the public sector;
- the impact of actual or threatened public health emergencies, such as the Coronavirus (COVID-19);
- reliance on third-party service providers;
- compliance with our debt obligations and debt covenants;
- the potential impact of our convertible senior notes and related Capped Call Transactions;
- reliance on key personnel;
- the relocation of our corporate headquarters;
- the continued uncertainties in the global economy;
- foreign currency exchange rates;
- the potential legal and financial liabilities and reputation damage due to cyber-attacks;
- security breaches and security flaws;
- our ability to protect our intellectual property rights and costs associated with defending such rights;
- our client retention rate;
- 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 “Item 1A. Risk Factors” of this Annual Report and other filings we make with the SEC. 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 contained in this Annual Report represent our views as of February 17, 2021.

ITEM 1. BUSINESS

Our Business

We develop, market, license, host, and support enterprise software applications that help organizations transform how they engage with their customers and process work. We also license our low code Pega Platform™ for rapid application development to clients that wish to build and extend their business applications. Our cloud-architected portfolio of customer engagement and digital process automation applications leverages artificial intelligence (“AI”), case management, and robotic automation technology, built on our unified low code Pega Platform, empowering businesses to quickly design, extend, and scale their enterprise applications to meet strategic business needs.

To grow our business, we intend to:

- increase market share by developing and delivering market-leading applications for marketing, sales, service, and operations that can work together seamlessly with maximum competitive differentiation;
- execute new-market growth initiatives, further expanding go-to-market coverage within the Global 3000; and
- continue to scale our marketing efforts to support the way today’s clients discover, evaluate, and buy products and services.

Whether we are successful depends, in part, on our ability to:

- execute our marketing and sales strategies;
- appropriately manage our expenses as we grow our organization;
- effectively develop new products and enhance our existing products; and
- incorporate acquired technologies into our applications and unified Pega Platform.

Cloud Transition

We are in the process of transitioning our business to sell software primarily through subscription arrangements, particularly Pega Cloud (“Cloud Transition”). Until we substantially complete our Cloud Transition, which we anticipate will occur in early 2023, we expect to continue to experience lower revenue growth and lower operating cash flow growth or negative cash flow. The actual mix of revenue and new arrangements in a given period can fluctuate based on client preferences.

See risk factor “If we fail to manage our transition to a more subscription-based business model successfully, our results of operations and/or cash flows could be negatively impacted.” in Item 1A of this Annual Report for additional information.

Coronavirus (“COVID-19”)

As of December 31, 2020, COVID-19 has not had a material impact on our results of operations or financial condition.

COVID-19’s ultimate impact on our operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact of COVID-19 on our sales cycles, partners, vendors, and employees, all of which is uncertain and unpredictable. Our shift towards subscription-based revenue streams, the industry mix of our clients, the substantial size and available resources of our clients, and the critical nature of our products to our clients may reduce or delay the impact of COVID-19 on our business. However, it is not possible to estimate the ultimate impact that COVID-19 will have on our business at this time.

See “Coronavirus (“COVID-19”)” in Item 1A of this Annual Report for additional information.

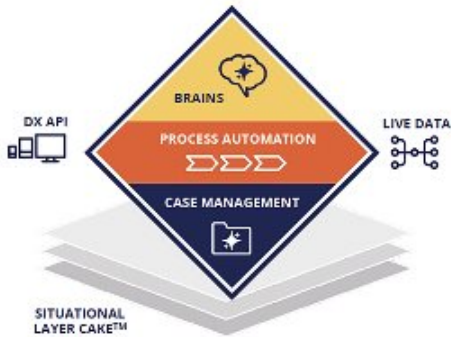
Relocation of Corporate Headquarters

On February 12, 2021, we entered into an agreement with our landlord to vacate our Cambridge, Massachusetts corporate headquarters on October 1, 2021, in exchange for a one-time payment to us of \$18 million. We expect to enter into a new lease agreement for a facility within the greater Boston area.

Our Products

Pega Infinity™

Software built on a Center-out™ Business Architecture



The infographic is divided into several sections. At the top is a yellow banner for 'Industry solutions' with various icons. Below it is a grey banner for 'Business solutions' containing three columns of text. The first column is '1:1 Customer Engagement', the second is 'Customer Service', and the third is 'Intelligent Automation'. Below these is a blue banner for 'Pega Express™ Methodology & low-code Pega App Studio™' with a Pega Express logo. At the bottom is a green banner for 'Future-proof technology' with cloud icons.

1:1 Customer Engagement	Customer Service	Intelligent Automation
Maximize top-line growth with a centralized, real-time AI-powered customer decision hub that delivers next-best-actions at every customer interaction, across all channels. Pega Customer Decision Hub™	Axe cost and streamline service experiences for customers and employees with a state-of-the-art customer service application and out-of-the-box, industry-specific microjourneys. Pega Customer Service™ Pega Sales Automation™	Eliminate cost and complexity by driving automation, transparency, and speed, while empowering business and IT with low-code case management and RPA at enterprise scale. Pega RPA™ Pega Platform™

Pega Infinity™, the latest version of our software portfolio, helps connect enterprises to their customers in real time across channels, streamline business operations, and adapt to meet changing requirements.

Our applications and platform intersect with and encompass several software markets, including:

- Customer Engagement, including Customer Relationship Management (“CRM”);
- Digital Process Automation (“DPA”), including Business Process Management (“BPM”) and Dynamic Case Management (“DCM”);
- Robotic Process Automation (“RPA”);
- Business Rules Management Systems (“BRMS”);
- Decision Management, including predictive and adaptive analytics;
- Low code application development platforms, including Multi-experience Development Platforms (“MXDP”); and
- Vertical-Specific Software (“VSS”) market of industry solutions and packaged applications.

1:1 Customer Engagement

Our omnichannel customer engagement applications are designed to maximize the lifetime value of customers and help reduce the costs of serving customers while ensuring a consistent, unified, and personalized customer experience. At the center of our customer engagement applications is the Pega Customer Decision Hub™, our real time AI engine, which can predict a customer’s behavior and recommend the “next best action” to take across channels in real time. It is designed to enable enterprises to improve customer acquisition and experiences across inbound, outbound, and paid media channels. It incorporates AI in the form of predictive and machine-learning analytics, as well as business rules, and executes these decisions in real time to evaluate the context of each customer interaction and dynamically deliver the most relevant action, offer, content, and channel.

Customer Service

The Pega Customer Service™ application simplifies customer service. It is designed to anticipate customer needs, connect customers to the right people and systems, and automate or intelligently guide customer interactions, to rapidly and continuously evolve the customer service experience, and to allow enterprises to deliver consistent interactions across channels and improve employee productivity. The application consists of a contact center desktop, case management for customer service, chat, knowledge management, mobile field service, omnichannel self-service, AI-powered virtual assistants, and industry-specific processes (“Microjourneys™”) and data models. For clients who want to extend intelligence and automation into the early stages of the customer journey, Pega Sales Automation™ automates and manages the entire sales process, from prospecting to product fulfillment. It allows enterprises to capture best practices and leverage AI to guide sales teams through the sales and customer onboarding processes.

Intelligent Automation

Our software for Intelligent Automation boosts the efficiency of our clients' processes. This technology allows organizations to take an end-to-end approach to transformation by using intelligence and design thinking to streamline processes and create better experiences for their customers and employees. Intelligent automation goes beyond traditional Business Process Management (BPM) to unify technologies such as Robotic Process Automation (RPA) and Artificial Intelligence (AI) and enable organization-wide digital transformation. The Pega Platform, with its intelligent automation capabilities, allows clients to break down silos, improve customer-centricity, add agility to legacy technology, and provide end-to-end automation to support the needs of customers and employees.

Our Capabilities

We drive better business outcomes in two ways:

- Making decisions: delivering real time customer engagement, powered by real time, omnichannel AI.
- Getting work done: making customer and employee-facing processes more efficient through end-to-end automation and robotics.

We deliver our solution through our Center-out Business™ Architecture®, which enables clients to transcend channels and internal data silos to achieve both quick wins and long-term transformation. This approach insulates business logic from back-end and front-end complexity, delivering both consistent experiences to customers and agility to the business.

The key aspects of this architecture are:

Centrally-managed intelligence

Pega's centrally-managed intelligence ensures AI and business rules operate across all channels. Applications built on the Pega Platform leverage predictive and adaptive analytics to deliver more personalized customer experiences and maximize business objectives. For example, Pega Customer Decision Hub, a centralized, always-on "customer brain," unleashes the power of predictive analytics, machine learning, and real time decisioning across our clients' data, systems, and touchpoints - orchestrating engagement across customer interaction channels.

End-to-end automation aligned with business outcomes

We bring together human-assisted robotic desktop automation and unattended robotic process automation with our unified process and case management capabilities. This provides our platform and applications the differentiated ability to automate both customer-facing and back-office operational processes from "end to end," connecting across organizational and system silos to connect customers and employees to outcomes seamlessly and easily.

Consistent omni-channel experiences

With business and process logic centrally defined, Pega provides dynamic, open APIs to keep front-end channels and business logic operating in alignment for consistent customer experiences. By leveraging cutting-edge user interface (UI) technology, Pega-powered processes and decisions can be easily embedded into existing front-ends or used as the basis for new employee-facing applications.

Insulation of back-end complexity

Pega's architecture insulates case and decision logic from the complexity of back-end systems. Our data virtualization automatically pulls in needed data in a common structure, regardless of source. This capability gives clients the agility to build new experiences on existing systems, modernizing legacy systems without breaking existing processes.

A Layered approach to managing variation

Pega's Situational Layer Cake organizes logic into layers that map to the unique dimensions of a client's business – customer types, lines of business, geographies, etc. This layered approach lets organizations manage variations of their business without duplicating logic. This capability allows initial deployments into a single department or region to seamlessly scale to manage the complexity of a global, multi-line enterprise.

In addition to our Center-out Business Architecture, Pega technology has been designed to be deployed rapidly, be changed easily, and scale across changing architecture needs.

Pega Express™ Methodology and low code

Our solutions are designed to quickly improve targeted customer outcomes and with out-of-the-box functionality that connects enterprise data and systems to customer experience channels. From there, organizations can scale, one customer experience at a time, to realize greater value while delivering increasingly consistent and personalized customer experiences. We prescribe a "Microjourney™" approach to delivery that breaks customer journeys into discrete processes that drive meaningful outcomes, such as "inquiring about a bill" or "updating an insurance policy." This allows us to combine design-thinking and out-of-the-box functionality to deliver rapid results and ensure the ability to enhance the application going forward.

Our approach leverages low code to improve business and IT collaboration and bypass the error-prone and time-consuming process of manually translating requirements into code. Users design software in low code visual models that reflect the needs of the business. The software application is created and optimized automatically and directly from the model, helping to close the costly gap between vision and execution. Changes to the code are made by altering the model, and application documentation is generated directly from the model.

Cloud choice

Pega Cloud® allows clients to develop, test, and deploy, on an accelerated basis, our applications and the Pega Platform using a secure, flexible internet-based infrastructure, minimizing cost while focusing on core revenue-generating competencies.

Clients can also choose to manage the Pega deployment themselves (“client cloud”) using the cloud architecture they prefer. This multi-cloud approach of both Pega Cloud and client-managed cloud gives our clients the ability to select, and change as needed, the best cloud architecture for the security, data access, speed-to-market, and budget requirements of each application they deploy.

Our Services and Support

We offer services and support through our Global Client Success, Global Service Assurance, Global Client Support, and Pega Academy™ groups. We also use third-party contractors to assist us in providing these services.

- *Global Client Success* – Our Global Client Success group guides our clients on how to maximize their investment in our technology and realize the business outcomes they are targeting. This includes building implementation expertise and creating awareness of product features and capabilities.
- *Global Service Assurance* – Our Global Service Assurance group addresses risks to client success because of technical concerns. By providing technical staff dedicated to client success, we reduce the time to resolve technical issues, eliminate lengthy deliberations of technical resource logistics, and increase clients’ confidence in our technology and client service.
- *Global Client Support* – Our Global Client Support group provides technical support for our products and Pega Cloud services. Support services include cloud service reliability management, online support community management, self-service knowledge, proactive problem prevention through information and knowledge sharing, problem tracking, prioritization, escalation, diagnosis, and resolution.
- *Pega Academy* – The success of our sales strategy for repeat sales to target clients depends on enablement and ecosystem engagement. We have increased our ability to train a large number of partners and clients to implement our technology and made it easier for individuals to stay current with our technology as it evolves. We offer both instructor-led and online training to our employees, clients, and partners. We have also partnered with universities to provide our courseware as part of the student curriculum to expand our ecosystem. Engagement is an important part of our strategy to create a broad ecosystem that is passionate about Pega technology.

Our Partners

We collaborate with global systems integrators and technology consulting firms that provide consulting services to our clients, as well as Independent Software Vendors (“ISVs”) and technology partners that extend clients’ investments with integrated solutions. In addition, Authorized Training Partners (“ATPs”) support Pega customers in local languages, while our Workforce Development Partners let clients outsource their recruiting. Strategic partnerships with these firms are important to our sales efforts because they influence buying decisions, identify sales opportunities, and complement our software with their domain expertise, solutions, and services capabilities. These partners may deliver strategic business planning, consulting, project management, training, and implementation services to our clients.

Our partners include well-respected major firms, such as Accenture PLC, Amazon.com, Inc., Capgemini SA, Coforge, Cognizant Technology Solutions Corporation, EY, HCL Infosys, Merkle, PwC, Tata Consultancy Services Limited, Tech Mahindra Limited, Virtusa Corporation, and Wipro Limited.

Our Markets

Target Clients

Our target clients are Global 3000 organizations and government agencies that require applications to differentiate themselves in the markets they serve. Our applications achieve and facilitate differentiation by increasing business agility, driving growth, improving productivity, attracting and retaining customers, and reducing risk. We deliver applications tailored to our clients’ specific industry needs.

Our clients represent many industries, including:

- *Financial services* – Financial services organizations rely on software to market, onboard, cross-sell, retain, and service their customers, as well as automate the operations that support these customer interactions. Our intelligent automation, customer service, account onboarding, Know Your Customer (“KYC”), payment dispute and exception management, collections, and next best action solutions allow clients to improve the efficiency of their operations and provide better service to their customers.
- *Life sciences* – Life sciences organizations are looking for solutions to improve customer engagement, as well as increase efficiencies and transparency across the product development lifecycle. Our customer engagement, clinical, and pharmacovigilance applications are designed to deliver customer engagement, safety and risk management, and regulatory transparency.
- *Healthcare* – Healthcare organizations seek software that integrates their front and back-offices and helps them deliver personalized care and customer service while reducing costs, automating processes, and increasing operational efficiency. Our applications allow healthcare clients to address the sales, service, operational, financial, administrative, and regulatory requirements of healthcare consumerism and reform.

- *Communications and media* – Communications and media organizations need to address high levels of customer churn, growing pressure to increase revenue, and an ability to respond quickly to changing market conditions. Our applications enable organizations to reshape the way they engage with customers and increase customer lifetime value throughout the customer lifecycle by delivering omnichannel, personalized customer experiences. Our applications are designed to solve the most critical business issues, including acquiring more customers at a higher margin, increasing cross-sell/upsell, improving customer service efficiency and effectiveness, and streamlining sales and quoting.
- *Government* – Government agencies need to modernize legacy systems and processes to meet the growing demands for improved constituent service, lower costs, reduced fraud, and greater transparency. Our applications deliver advanced capabilities to help streamline operations and optimize service delivery through an agile, low risk approach.
- *Insurance* – Insurance companies, whether competing globally or nationally, need software to automate policyholder acquisition, cross sell/upsell, underwriting, claims, policy service, and retention activities across operations and channels of distribution. Insurers are also becoming increasingly sensitive to ways to improve customer service and the overall customer experience. Our applications for insurance carriers are designed to help increase business value by delivering customer-focused experiences and personalized interactions that help drive higher sales, lower expense ratios, and mitigate risk.
- *Manufacturing and high tech* – Manufacturers and high tech companies worldwide are transforming their businesses to engage customers and suppliers better, as well as to directly manage product performance throughout the product lifecycle. Our manufacturing applications address customer service and field service, manage warranties, recalls, repairs, returns, improve the performance of direct sales forces, and extend existing enterprise resource planning system capabilities.
- *Consumer services* – Consumer services organizations provide services to a range of consumers in industries such as transportation, utilities, internet providers, retail, hospitality, and entertainment. Our 1:1 customer engagement, customer service, and intelligent automation solutions help these organizations personalize their customer engagement to acquire more customers, drive revenue through cross-sell/upsell, and increase service efficiency while increasing customer satisfaction.

Competition

The markets for our offerings are intensely competitive, rapidly changing, and highly fragmented, as current competitors expand their product offerings and new companies enter the market.

We compete in the CRM, including marketing, sales, and customer service, and DPA, including BPM, case management, decision management, robotic automation, co-browsing, social engagement, and mobile application development platform software markets, as well as in markets for the vertical applications we provide (e.g., Pega KYC™ for Financial Services, Pega Underwriting™ for Insurance).

We also compete with clients' internal information systems departments that seek to modify their existing systems or develop their own proprietary systems, and professional service organizations that develop their own products or create custom software in conjunction with rendering consulting services.

Competitors vary in size, scope, and breadth of the products and services they offer and include some of the world's largest companies, including Salesforce.com, Microsoft Corporation, Oracle Corporation, SAP SE, ServiceNow, and International Business Machines Corporation ("IBM").

We have been most successful in competing for clients whose businesses are characterized by a high degree of change, complexity, or regulation.

We believe we are competitively differentiated from our competitors because our unified Pega Platform is designed to allow client business and IT staff, using a single, intuitive user interface, to build and evolve enterprise applications in a fraction of the time it would take with disjointed architectures and tools offered by many of our competitors. In addition, our applications, built on the Pega Platform, provide the same level of flexibility and ability to adapt to our clients' needs as our Pega Platform. We believe we compete favorably due to our expertise in our target industries and our long-standing client relationships. We believe we compete less favorably on some of the above factors against our larger competitors, many of which have greater sales, marketing, and financial resources, more extensive geographical presence, and greater name recognition than we do. In addition, we may be at a competitive disadvantage against our larger competitors with respect to our ability to provide expertise outside our target industries.

See risk factor "The market for our offerings is intensely and increasingly competitive, rapidly changing, and fragmented" in Item 1A of this Annual Report for additional information.

Intellectual Property

We rely primarily on a combination of copyright, patent, trademark, and trade secrets laws, as well as confidentiality and intellectual property agreements to protect our proprietary rights. We have obtained patents relating to our system architecture and products in strategic global markets. We enter into confidentiality, intellectual property ownership, and license agreements with our employees, partners, clients, and other third parties. We also control access to and ownership of software, services, documentation, and other information to protect our proprietary rights.

Sales and Marketing

We encourage our direct sales force and outside partners to co-market, pursue joint sales initiatives, and drive broader adoption of our technology, helping us grow our business more efficiently and focus our resources on continued innovation and enhancement of our solutions. In addition, strategic partnerships with management consulting firms and major systems integrators are important to our sales efforts because they influence buying decisions, help us identify sales opportunities and complement our software and services with their domain expertise and consulting capabilities. We also partner with technology providers and application developers.

To support our sales efforts, we conduct a broad range of marketing programs, including awareness advertising, client and industry-targeted solution campaigns, trade shows, including our PegaWorld® iNspire user conference, solution seminars and webinars, industry analyst and press relations, web and digital marketing, community development, social media presence, and other direct and indirect marketing efforts. Our consulting employees, business partners, and other third parties also conduct joint and separate marketing campaigns that generate sales leads for us.

Research and Development

Our research and development organization is responsible for product architecture, core technology development, product testing, and quality assurance. Our product development priority is to continue expanding our technology's capabilities and ensure we deliver superior cloud-native solutions. We intend to maintain and extend the support of our existing applications, and we may choose to invest in additional strategic applications that incorporate the latest business innovations. We also intend to maintain and extend the support of popular hardware platforms, operating systems, databases, and connectivity options to facilitate easy and rapid deployment in diverse IT infrastructures. Our goal with all products is to enhance product capabilities, ease of implementation, long-term flexibility, and the ability to provide improved client service.

Backlog

As of December 31, 2020, we expected to recognize approximately \$1.1 billion in revenue in future periods from backlog on existing contracts. See "Remaining performance obligations ("Backlog")" in Item 7 of this Annual Report for additional information.

Our People

As of January 31, 2021, we had 5,776 employees, of which 2,476 were based in the Americas, 1,306 were based in Europe, 1,668 were based in India, and 326 were based elsewhere in Asia-Pacific.

As a high technology company, our employees are critical to our success. We strive to be an employer of choice that can attract and retain exceptional talent. We aim to create a corporate culture that is equitable, inclusive, and diverse. We believe that encouraging employee development will help achieve our goal of developing, expanding, and retaining our workforce to support our business.

We build our corporate culture through a variety of initiatives, including global inclusion and diversity, employee engagement, pay equity, and employee development.

Global Inclusion and Diversity

An inclusive and diverse culture contributes to our ability to deliver innovative products and services, which is critical to our success. Our commitment to inclusion and diversity begins with a highly skilled and diverse board and includes our commitment to educate both managers and individual contributors about our corporate values. In 2020, we made significant investments in furthering our culture of inclusion, including hiring a Global Leader of Inclusion and Diversity and Diversity Talent Attraction Partner. We expanded our diversity recruiting efforts and delivered inclusivity workshops to leaders at all levels, among other efforts. We also currently sponsor formal resource groups for women, veterans, and members of the black and LGBTQIA+ communities, and plan to launch four additional resource groups in the first half of 2021.

Employee Engagement, Health, and Well-Being

Our efforts to recruit and retain diverse and passionate employees include providing competitive rewards packages and ensuring active communication throughout the Company. We regularly solicit and collect feedback to better understand and improve our employee experience and identify opportunities to strengthen our corporate culture. In 2020, in addition to our annual employee survey and continuous feedback tools, we hosted monthly check-in chats with our leadership team to directly address our employees' questions and constructive feedback. We are committed to creating an environment that supports our employees' health and overall well-being, focusing on physical, emotional, financial, and personal wellness. PegaUp!, our employee wellness program, includes such programs as awareness campaigns, fitness classes, guided meditation, and health, wellness, and financial seminars.

Pay Equity

We compensate our employees for what they do and how they do it, regardless of their gender, race, or other personal characteristics. To deliver on that commitment, we benchmark and set pay ranges based on market data and consider individual factors, such as an employee's role and experience, job location, and job performance. We also regularly review our compensation practices, both in terms of our overall workforce and individual employees, to ensure our pay is fair and equitable.

Employee Development

Employee development underpins our efforts to execute our strategy and continue to create and sell innovative products and services. We continually invest in our employees' career growth and provide employees with a wide range of development opportunities, including formal and informal learning, mentoring, and coaching. Pega Academy helps employees as well as clients and partners more rapidly gain and advance Pega software skills. To ensure our business's long-term continuity, we actively manage the development of talent to fill the roles most critical to our success. To support our current and future leaders' development, Pega currently offers five programs addressing the development of people managers and leaders in a cohort format comprised of all functions and geographies. We also provide educational resources and classes, career training, and education reimbursement programs. In 2020, more than 90% of our employees participated in a formal education program.

Corporate Information

Pegasystems Inc. was incorporated in Massachusetts in 1983. Our stock is traded on the NASDAQ Global Select Market under the symbol "PEGA." Our website is located at www.pega.com, and our investor relations website is located at www.pega.com/about/investors.

Available Information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports, free of charge through our website as soon as reasonably practicable after we electronically file such material with or furnish such material to the SEC. We also make available on our website reports filed by our executive officers and directors on Forms 3, 4, and 5 regarding their ownership of our securities. Our Code of Conduct is available on our website in the "Governance" section.

The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones we face. Events that we do not currently anticipate or that we currently expect to be immaterial may also affect our results of operations, cash flows, and financial condition.

Risks Related to Our Business and Industry

If we fail to manage our transition to a more subscription-based business model successfully, our results of operations and/or cash flows could be negatively impacted.

We are transitioning to a more subscription-based business model, which may have negative revenue and/or cash flow implications. The subscription model prices and delivers our software differently than a perpetual license model. These changes reflect a significant shift from perpetual license sales in favor of providing our clients the right to access our software in a hosted environment or use downloaded software for a specified subscription period. The potential shift of our clients' preference to a cloud-based subscription model requires a considerable investment of technical, financial, legal, managerial and sales resources, and a scalable organization.

Market acceptance of our subscription-based offering will depend on our ability to continue to:

- innovate and include new functionality and improve the usability of our products in a manner that addresses our clients' needs and requirements; and
- optimally price our products in light of marketplace conditions, competition, our costs, and client demand.

Our cloud-based subscription model also requires that we rely on third parties to host our products for our clients. We incur significant recurring third-party hosting expenses to deliver our Pega Cloud offering that we do not incur for our perpetual and term license products. These expenses may cause the gross margin we realize from our Pega Cloud sales to be lower than the gross margin we realize from our perpetual and term license products. If we are unable to meet these challenges effectively, our operating results and financial condition could be materially adversely affected.

The transition to a subscription-based business model gives rise to several risks, including the following:

- our revenues and cash flows may fluctuate more than anticipated in the near term;
- if the increased demand for our offerings does not continue, we could experience decreased profitability or losses and reduced or negative cash flow because of our continued significant investments in our Pega Cloud offering;
- if new or current clients desire only perpetual licenses, our subscription sales may lag behind our expectations;
- we may be unsuccessful in maintaining or implementing our target pricing or new pricing models, product adoption and projected renewal rates, or we may select a target price or new pricing model that is not optimal and could negatively affect our sales or earnings;
- if our clients do not renew their subscriptions, our revenue may decline, and our business may be materially adversely affected; and
- we may incur sales compensation costs at a higher than forecasted rate if the pace of our subscription transition is faster than anticipated.

The metrics our investors and we use to monitor our business model transition may evolve over the course of the transition as significant trends emerge. Therefore, it may be difficult to accurately determine the impact of this transition on our business on a contemporaneous basis or to clearly communicate the appropriate metrics to our investors.

We may not achieve the key elements of our strategy and grow our business as anticipated.

We currently intend to grow our business by pursuing strategic initiatives. Key elements of our strategy include growing our market share by developing and delivering robust applications that can work together seamlessly with maximum differentiation and minimal customization, offering versatility in our Pega Platform and application deployment and licensing options to meet the specific needs of our clients, growing our network of partner alliances, and developing the talent and organizational structure capable of supporting our revenue and earnings growth targets. We may not be able to achieve one or more of our key initiatives. Our success depends on our ability to manage our expenses as we grow our organization appropriately, successfully execute our marketing and sales strategies, successfully incorporate acquired technologies into our unified Pega Platform and develop new products or product enhancements. If we are not able to execute these actions, our business may not grow as we anticipate, and our operating results and financial condition could be materially adversely affected.

We depend on key personnel, including our Chief Executive Officer, and must be able to attract and retain qualified personnel in the future.

Our business is dependent on key, highly skilled technical, managerial, consulting, sales, and marketing personnel, including our Chief Executive Officer, who is also our founder and largest stockholder.

On February 12, 2021, we entered into an agreement with our landlord to vacate our Cambridge, Massachusetts facility on October 1, 2021 and expect to enter into a new lease agreement for a facility within the greater Boston area. Although we believe this relocation will help us attract and retain key personnel and provide a dynamic space to engage with our employees, competition for talent, delays in and costs associated with development and occupancy of the new facility and changes in commuting for our existing employees could impact our ability to realize the intended benefits of the move.

The loss of key personnel could be disruptive to our operations, and materially adversely affect financial performance. We do not have any significant key-person life insurance on any officers or employees and do not plan to obtain any. Our success will largely depend on the ability to attract and retain qualified personnel and rapidly replace and develop new management. The number of potential employees who have the extensive knowledge needed to develop, sell, and maintain our offerings is limited, and competition for their services is intense. There can be no assurance that we will be able to attract and retain such personnel. If we are unable to do so, our business, operating results, and financial condition could be materially adversely affected.

The timing of our license and Pega Cloud revenue is difficult to predict accurately, which may cause our operating results to vary considerably.

A change in the size or volume of license and Pega Cloud arrangements, or a change in the mix between perpetual licenses, term licenses, and Pega Cloud arrangements can cause our revenues and cash flows to fluctuate materially between periods. Revenue from Pega Cloud arrangements is typically recognized over the contract term. In contrast, revenue from license sales is generally recognized upfront when the license rights become effective. Pega Cloud and term license arrangements are generally billed and collected over the contract term while perpetual license arrangements are generally billed in full and collected upfront when the license rights become effective.

Factors that may influence the predictability of our license and Pega Cloud revenue include:

- changes in clients' budgets and decision-making processes that could affect both the timing and size of transactions;
- deferral of license revenue to future periods due to the timing of the execution of an agreement or our ability to deliver the products or services;
- changes in our business model; and
- our ability to execute our marketing and sales strategies.

We budget for our selling and marketing, product development, and other expenses based upon anticipated future bookings and revenue. If the timing or amount of revenue fails to meet our expectations in a given period, our financial performance is likely to be materially adversely affected because only a small portion of our expenses vary with revenue. Other factors that may cause our operating results to vary considerably include changes in foreign currency exchange rates, income tax effects, and the impact of new accounting pronouncements.

As a result, period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon to predict future performance. If our revenues and operating results do not meet the expectations of our investors or securities analysts or fall below guidance we may provide to the market, or due to other factors discussed elsewhere in this section, the price of our common stock may decline.

The number of license and Pega Cloud arrangements has been increasing, and we may not be able to sustain this growth unless our partners and we can provide sufficient high-quality consulting, training, and maintenance resources to enable our clients to realize significant business value from our software.

Our clients typically request consulting and training to assist them in implementing our license and Pega Cloud offerings. Our clients also typically purchase maintenance on our perpetual and term licenses. As a result, an increase in the number of license and Pega Cloud arrangements is likely to increase demand for consulting, training, and maintenance related to our offerings. Given that the number of our license and Pega Cloud arrangements has been growing, we will need to provide our clients with more consulting, training, and maintenance to enable them to realize significant business value from our software. We have been increasing our partner and client enablement through training to create an expanded ecosystem of people that are skilled in the implementation of our products. However, if our partners and we are unable to provide sufficient high-quality consulting, training, and maintenance resources, our clients may not realize sufficient business value from our offerings to justify follow-on sales, which could impact our future financial performance. Further, some of our client engagements have high public visibility. If our partners or we encounter problems in helping these clients implement our license and Pega Cloud offerings or if there is negative publicity regarding these engagements (even if unrelated to our services or offerings) our reputation could be harmed and our future financial performance could be negatively impacted. Finally, the investments required to meet the increased demand for our consulting services could strain our ability to deliver our consulting engagements at desired profitability, thereby impacting our overall profitability and financial results.

We may not be able to maintain our retention rate for Pega Cloud clients.

An increasing percentage of our revenue has been derived from our Pega Cloud offerings. Our clients have no obligation to renew their Pega Cloud subscriptions, although historically, most have elected to do so. If our retention rate for those clients decreases our business, operating results, and financial condition could be materially adversely affected.

We are investing heavily in sales and marketing, research and development, and support resources in anticipation of continued growth in license and Pega Cloud arrangements, and we may experience decreased profitability or losses and reduced or negative cash flow if we do not continue to increase the value of our license and Pega Cloud arrangements to balance our growth in expenses.

We have been expanding our sales and marketing capacity to meet the increasing demand for our software and to broaden our market coverage by hiring additional sales and marketing personnel. We anticipate that we will need to provide our clients with more maintenance support because of this increase in demand and have been hiring additional personnel in this area. We continue to invest significantly in research and development to expand and improve the Pega Platform and applications. These investments have resulted in increased fixed costs that do not vary with the level of revenue. If the increased demand for our offerings does not continue, we could experience decreased profitability or losses and reduced or negative cash flow because of these increased fixed costs. Conversely, if we are unable to hire sales and marketing personnel to meet future demand or research and development personnel to enhance our current products or develop new products, we may not be able to achieve our sales and profitability targets.

We face risks from operations and clients based outside of the U.S.

We market our products and services to clients based outside of the U.S., which represent 43% of our revenue over the last three years. We have established offices in the Americas, Europe, Asia, and Australia. We believe that growth will necessitate expanded international operations, resulting in increased managerial attention and costs. We anticipate hiring additional personnel to accommodate increased international market demand, and we may also enter into agreements with local distributors, representatives, or resellers. If we are unable to do one or more of these things in a timely and effective manner, the growth, if any, of our international operations may be restricted, and our business, operating results, and financial condition could be materially adversely affected.

Additional risks inherent in our international business activities generally include:

- laws and business practices favoring local competitors;
- compliance with multiple, conflicting, and changing governmental laws and regulations, including employment, tax, privacy and data privacy and protection, and increased tariffs and other trade barriers;
- the costs of localizing offerings for local markets, including translation into foreign languages and associated expenses;
- longer payment cycles and credit and collectability risk on our foreign trade receivables;
- difficulties in enforcing contractual and intellectual property rights;
- heightened fraud and bribery risks;
- treatment of revenue from international sources and changes to tax codes, including being subject to foreign tax laws, being liable for paying withholding, income or other taxes in foreign jurisdictions, and other potentially adverse tax consequences (including restrictions on repatriating earnings and the threat of “double taxation”);
- management of our international operations, including increased accounting, internal control, and compliance expenses;
- heightened risks of political and economic instability; and
- foreign currency exchange rate fluctuations and controls.

There can be no assurance that one or more of these factors will not have a material adverse effect on our international operations and, consequently, on our business, operating results, and financial condition.

We rely on third-party relationships.

We have a number of relationships with third parties that are significant to our sales, marketing, support, and product development efforts, including hosting facilities for our Pega Cloud offering. We rely on software and hardware vendors, large system integrators, and technology consulting firms to supply marketing and sales opportunities for our direct sales force and to strengthen our products using industry-standard tools and utilities. We also have relationships with third parties that distribute our products. There can be no assurance that these companies, many of which have far greater financial and marketing resources than us, will not develop or market offerings that compete with ours in the future or will not otherwise end or limit their relationships with us. Further, the use of third-party hosting facilities requires us to rely on the functionality and availability of the third parties' services, as well as their data security, which despite our due diligence, may be or become inadequate.

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

Because a significant portion of our business is conducted outside of the U.S., we face exposure to movements in foreign currency exchange rates. Our international sales are usually denominated in foreign currencies. The operating expenses of our foreign operations are also primarily denominated in foreign currencies, which partially offset our foreign currency exposure on our international sales. Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the U.S. dollar, the Euro, and the Australian dollar relative to the British Pound. These exposures may change over time as business practices evolve.

We have historically used but do not currently use foreign currency forward contracts to hedge our exposure to changes in foreign currency exchange rates associated with our foreign currency-denominated cash, accounts receivable, and intercompany receivables and payables held by our U.S. parent company and its U.K. subsidiary. We may enter into hedging contracts again in the future if we believe it is appropriate.

Our realized gain or loss for foreign currency fluctuations will generally depend on the size and type of cross-currency exposures that we enter into, the currency exchange rates associated with these exposures and changes in those rates, whether we have entered into forward contracts to offset these exposures and other factors. All of these factors could materially impact our operating results, financial condition, and cash flows.

Our consulting revenue is significantly dependent upon our consulting personnel implementing new license and Pega Cloud arrangements.

We derive a substantial portion of our consulting revenue from implementations of new license and Pega Cloud arrangements managed by our consulting personnel and consulting for partner and client-led implementation efforts. Our strategy is to support and encourage partner-led and client-led implementations to increase the breadth, capability, and depth of market capacity to deliver implementation services to our clients. Accordingly, if our consulting personnel's involvement in future implementations decreases, this could materially adversely affect our consulting revenue.

We frequently enter into a series of license or Pega Cloud arrangements that are each focused on a specific purpose or area of operations. If we are not successful in obtaining follow-on business from these clients, our financial performance could be materially adversely affected.

Once a client has realized the value of our software, we work with the client to identify opportunities for follow-on sales. However, we may not be successful in demonstrating this value for several reasons, including the performance of our products, the quality of the services and support provided by our partners and us, or external factors. Also, some of our smaller clients may have limited additional sales opportunities available. We may not obtain follow-on sales, or the follow-on sales may be delayed, and our future revenue could be limited. This could lower the total value of all transactions, and materially adversely affect our financial performance.

We will need to acquire or develop new products, evolve existing ones, address any defects or errors, and adapt to technology changes.

Technical developments, client requirements, programming languages, industry standards, and regulatory requirements frequently change in the markets in which we operate. The introduction of third-party solutions embodying new technologies and the emergence of new industry standards could make our existing and future software solutions obsolete and unmarketable. As a result, our success will depend upon our ability to enhance current products, address any product defects or errors, acquire or develop and introduce new products that meet client needs, keep pace with technology and regulatory changes, respond to competitive products, and achieve market acceptance. Product development requires substantial investments for research, refinement, and testing. We may not have sufficient resources to make the necessary product development investments. We may experience technical or other difficulties that will delay or prevent the successful development, introduction, or implementation of new or enhanced products. We may also experience technical or other challenges in the integration of acquired technologies into our existing platform and applications. Inability to introduce or implement new or enhanced products in a timely manner could result in loss of market share if competitors are able to provide solutions to meet client needs before we do, give rise to unanticipated expenses related to further development or modification of acquired technologies, and materially adversely affect our financial performance. We may also fail to adequately anticipate and prepare for the development of new markets and applications for our technology and the commercialization of emerging technologies such as blockchain and thereby fail to take advantage of new market opportunities or fall behind early movers in those markets.

The market for our offerings is intensely and increasingly competitive, rapidly changing, and fragmented.

We encounter significant competition from:

- customer engagement vendors, including CRM application vendors;
- DPA vendors and platforms, including BPM vendors, low code application development platforms, and service-oriented architecture middleware vendors;
- case management vendors;
- decision management, data science, and AI vendors, as well as vendors of solutions that leverage decision making and data science in managing customer relationships and marketing;
- robotic automation and workforce intelligence software providers;
- companies that provide application-specific software for financial services, healthcare, insurance, and other specific markets;
- mobile application platform vendors;
- co-browsing software providers;
- social listening, text analytics, and natural language processing vendors;
- commercialized open-source vendors;
- professional service organizations that develop their own products or create custom software in conjunction with rendering consulting services; and
- clients' in-house information technology departments, which may seek to modify their existing systems or develop their own proprietary systems.

Many of our competitors, such as Salesforce.com, Microsoft Corporation, Oracle Corporation, SAP SE, ServiceNow, and International Business Machines Corporation ("IBM"), have far greater resources than we do and may be able to respond more quickly and efficiently to new or emerging technologies, programming languages or standards, or changes in client requirements or preferences. Competitors may also be able to devote greater managerial and financial resources to develop, promote, and distribute products and to provide related consulting and training services.

We believe the principal competitive factors within our market include:

- product adaptability, scalability, functionality, and performance;
- proven success in delivering cost-savings and efficiency improvements;
- proven success in enabling improved customer interactions;
- ease-of-use for developers, business units, and end-users;
- timely development and introduction of new products and product enhancements;
- establishment of a significant base of reference clients;
- ability to integrate with other products and technologies;
- customer service and support;
- product price;
- vendor reputation; and
- relationships with systems integrators.

Competition for market share and pressure to reduce prices and make sales concessions is likely to increase. There can be no assurance that we will be able to compete successfully against current or future competitors or that the competitive pressures faced by us will not materially adversely affect our business, operating results, and financial condition.

See "Competition" in Item 1 of this Annual Report for additional information.

Our Chief Executive Officer is our largest stockholder and can exert significant influence over matters submitted to our stockholders, which could materially adversely affect our other stockholders.

As of December 31, 2020, our Chief Executive Officer beneficially owned 49% of our outstanding common stock. As a result, he has the ability to exert significant influence over all matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation, or sale of our assets. This concentration of ownership may delay or prevent a change in control, impede a merger, consolidation, takeover, or other business combination involving us, discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, or result in actions that may be opposed by other stockholders.

Risks Related to Information Technology Resilience and Security

We face risks related to outages, data losses, and disruptions of our online services if we fail to maintain an adequate operations infrastructure.

The increasing user traffic for our Pega Cloud offering demands more computing power. It requires that we maintain an internet connectivity infrastructure that is robust and reliable within competitive and regulatory constraints that continue to evolve. Inefficiencies or operational failures, including temporary or permanent loss of client data, power outages, or telecommunications infrastructure outages, by our third-party service providers or us, could diminish the quality of our user experience resulting in contractual liability, claims by clients and other third parties, damage to our reputation, loss of current and potential clients, and negatively impact our operating results and financial condition.

Security of our systems and global client data is a growing challenge on many fronts. Cyber-attacks and security breaches may expose us to significant legal and financial liabilities.

Security breaches could expose our clients and us to a risk of loss or misuse of this information. Any security breach could result in a loss of confidence in the security of our services, damage our reputation, disrupt our business, lead to legal liability, and negatively impact our future sales. High-profile security breaches at other companies have increased in recent years. Security industry experts and government officials have warned about the risks of hackers and cyber-attackers targeting information technology products and businesses. Threats to IT security can take a variety of forms. Individual hackers, groups of hackers, and sophisticated organizations, including state-sponsored organizations, or nation-states themselves, may take steps that threaten our clients and IT structure. Additionally, our Pega Cloud offering provides environments that are provisioned, monitored, and maintained for individual clients to create and deploy Pega-based applications using an Internet-based infrastructure. These services involve the storage and transmission of clients' data and other confidential information. Our security measures and those of our clients may be breached because of third-party actions or that of employees, consultants, or others, including intentional misconduct by computer hackers, system error, human error, technical flaws in our products, or otherwise. Because we do not control the configuration of Pega applications by our clients, the transmissions between our clients and our third-party technology providers, the processing of data on the servers at third-party technology providers, or the internal controls maintained by our clients and third-party technology providers that could prevent unauthorized access or provide appropriate data encryption, we cannot fully ensure the complete integrity or security of such transmissions processing or controls. In addition, privacy, security, and data transmission concerns in some parts of the world may inhibit demand for our Pega Cloud offering or lead to requirements to provide our products or services in configurations that may increase the cost of serving such markets. The techniques used to obtain unauthorized access or sabotage systems change frequently and are generally not recognized until launched against a target. While we have invested in protecting our data and systems and our clients' data to reduce these risks, there can be no assurance that our efforts will prevent breaches. We carry data breach insurance coverage to mitigate the financial impact of a breach, though this may prove insufficient in the event of a breach.

Our Pega Cloud offering involves the hosting of clients' applications on the servers of third-party technology providers. We also rely on third-party systems and technology, including encryption, virtualized infrastructure, and support, and we employ a shared security model with our clients and our third-party technology providers.

To defend against security threats, we need to continuously engineer products and services with enhanced security and reliability features, improve the deployment of software updates to address security vulnerabilities, apply technologies that mitigate the risk of attacks, and maintain a digital security infrastructure that protects the integrity of our network, products, and services. The cost of these steps could negatively impact our operating results.

We may experience significant errors or security flaws in our products and services and could face privacy, product liability, and warranty claims as a result.

Despite quality testing each release, our software frequently contains errors or security flaws, especially when first introduced or when new versions are released. Errors in our software could affect its ability to work with hardware or other software or delay the development or release of new products or new versions of our software. Additionally, the detection and correction of any security flaws can be time-consuming and costly. Errors or security flaws in our software could result in the inadvertent disclosure of confidential information or personal data relating to our clients, employees, or third parties. Software errors and security flaws in our products or services could expose us to privacy, product liability, and/or warranty claims as well as harm our reputation, which could impact our future sales of products and services. Typically, we enter into license agreements that contain provisions intended to limit the nature and extent of our risk of product liability and warranty claims. There is a risk that a court might interpret these terms in a limited way or could hold part or all of these terms to be unenforceable. Also, there is a risk that these contract terms might not bind a party other than the direct client. Furthermore, some of our licenses with our clients are governed by non-U.S. law, and there is a risk that foreign law might give us less or different protection. Although we have not experienced any material product liability claims to date, a product liability suit or action claiming a breach of warranty, whether meritorious, could result in substantial costs and a diversion of management's attention and our resources.

Risks Related to Our Financial Obligations and Indebtedness

We have a significant amount of debt that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur additional debt in the future, which may adversely affect our operations and financial results.

As of December 31, 2020, we had \$600 million aggregate principal amount of indebtedness under our Convertible Senior Notes due 2025 (the “Notes”).

Our indebtedness may:

- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, or other business purposes;
- limit our ability to use our cash flow or obtain additional financing for future working capital, capital expenditures, acquisitions, or other general business purposes;
- require us to use a substantial portion of our cash flow from operations to make debt service payments;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors;
- dilute the interests of our existing stockholders as a result of issuing shares of our common stock upon the conversion of the Notes; and
- increase our vulnerability to the impact of adverse economic and industry conditions.

Our ability to pay our debt when due or refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary investments in our business. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations which could, in turn, result in that and our other indebtedness becoming immediately payable in full which could harm our financial condition, results of operation or cost of borrowing. In addition, we may incur additional debt to meet future financing needs. If we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness will increase.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

Under certain circumstances, the noteholders may convert their Notes at their option prior to the scheduled maturities. Upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion, we will be obligated to make cash payments. In addition, holders of our Notes will have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the indenture, dated as of February 24, 2020, between U.S. Bank National Association, as trustee (the “Trustee”) and us (the “Indenture”)), at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but not including, the fundamental change repurchase date. Although it is our intention and we currently expect to settle the conversion value of the Notes in cash up to the principal amount and any excess in shares, there is a risk that we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or Notes being converted. In addition, our ability to make payments may be limited by law, by regulatory authority, or by agreements governing our future indebtedness. Our failure to repurchase Notes when the Indenture requires the repurchase or to pay any cash payable on the Notes’ future conversions as required by the Indenture would constitute a default under the Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof. In addition, even if holders of Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The Capped Call Transactions may affect the value of the Notes and our common stock.

In connection with the Notes’ issuance, we entered into Capped Call Transactions with certain financial institutions (“option counterparties”). The Capped Call Transactions are generally expected to reduce the potential dilution to our common stock upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. From time to time, the option counterparties that are parties to the Capped Call Transactions or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions before the maturity of the Notes. This activity could cause a decrease in the market price of our common stock.

We are exposed to counterparty risk for the Capped Call Transactions.

The option counterparties are financial institutions, and we are subject to the risk that one or more of the option counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the Capped Call Transactions. Our exposure to the credit risk of the option counterparties is not secured by any collateral. Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transaction. Our exposure depends on many factors, but our exposure will generally increase if the market price or the volatility of our common stock increases. In addition, upon default or other failures to perform, or termination of obligations, by an option counterparty, we may suffer more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

Provisions in the Notes' Indenture may deter or prevent a business combination that may be favorable to our stockholders.

If a fundamental change occurs prior to the Notes' maturity date, holders of the Notes will have the right, at their option, to require us to repurchase all or a portion of their Notes. In addition, if a "make-whole fundamental change" (as defined in the Indenture) occurs prior to the maturity date, we will in some cases be required to increase the conversion rate of the Notes for a holder that elects to convert its Notes in connection with such make-whole fundamental change.

Furthermore, the Indenture will prohibit us from engaging in certain mergers or acquisitions unless, among other things, the surviving entity assumes our obligations under the Notes. These and other provisions in the Indenture could deter or prevent a third party from acquiring us even when the acquisition may be favorable to our stockholders.

Conversion of the Notes may dilute the ownership interest of existing stockholders.

The conversion of some or all of the Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares of our common stock upon conversion of any of the Notes. Any sales in the public market of the common stock issuable upon such conversion could adversely affect our common stock's prevailing market prices. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the price of our common stock.

We are required to comply with certain financial and operating covenants under our revolving credit facility. Failure to comply with these covenants could cause amounts borrowed to become immediately due and payable and/or prevent us from borrowing under the credit facility.

We must comply with specified financial and operating covenants under our credit facility and to make payments, limiting our ability to operate our business as we otherwise might. Our failure to comply with any of these covenants or to meet any debt payment obligations could result in an event of default which, if not cured or waived, would result in any amounts outstanding, including any accrued interest and/or unpaid fees, becoming immediately due and payable. We might not have sufficient working capital or liquidity to satisfy any repayment obligations in the event of an acceleration of those obligations. In addition, if we are not in compliance with the financial and operating covenants under the credit facility at the time we wish to borrow funds, we will be unable to borrow funds. The financial and operating covenants under the credit facility may limit our ability to borrow funds or capital, including for strategic acquisitions, share repurchases, and other general corporate purposes.

Risks Related to Government Regulation and Intellectual Property

Our success depends in part on maintaining and increasing our sales to clients in the public sector.

We derive a portion of our revenues from contracts with federal, state, local, and foreign governments and agencies. We believe that our business's success and growth will continue to depend on our successful procurement of government contracts. Selling to government entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that our efforts will produce any sales.

Factors that could impede our ability to maintain or increase the revenue derived from government contracts include:

- changes in fiscal or contracting policies;
- decreases in available government funding;
- changes in government programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations;
- potential delays or changes in the government appropriations or other funding authorization processes;
- governments and governmental agencies requiring contractual terms that are unfavorable to us, such as most-favored-nation pricing provisions; and
- delays in the payment of our invoices by government payment offices.

The occurrence of any of those factors could cause governments and governmental agencies to delay or refrain from purchasing our software in the future or otherwise harm our business, results of operations, financial condition, and cash flows.

Further, to increase our sales to clients in the public sector, we must comply with laws and regulations relating to the formation, administration, performance, and pricing of contracts with the public sector, including U.S. federal, state, and local governmental bodies, which affect how our channel partners and we do business in connection with governmental agencies. These laws and regulations may impose added costs on our business, and failure to comply with these laws and regulations or other applicable requirements, including non-compliance in the past, could lead to claims for damages from our channel partners or government clients, penalties, termination of contracts, loss of intellectual property rights and temporary suspension or permanent debarment from government contracting. Any such damages, penalties, disruptions, or limitations in our ability to do business with the public sector could have a material adverse effect on our business, results of operations, financial condition, and cash flows.

We are subject to increasingly complex U.S. and foreign laws and regulations, requiring costly compliance measures. Any failure to comply with these laws and regulations could subject us to, among other things, penalties and legal expenses that could harm our reputation or have a material adverse effect on our business, financial condition, and results of operations.

We are subject to extensive federal, state, and foreign laws and regulations, including but not limited to the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, data privacy and security laws, and similar laws and regulations. The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and similar foreign anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to obtain or retain business. Similar laws and regulations exist in many other countries throughout the world in which we do or intend to do business. Data privacy laws and regulations in Europe, Australia, Latin America, and elsewhere are undergoing a rapid transformation toward increased restrictions.

In April 2016, the European Parliament adopted the General Data Protection Regulation (“GDPR”). It became effective in May 2018. The GDPR extends the scope of European privacy laws to any entity that controls or processes EU residents’ personal data in connection with the offer of goods or services or the monitoring of behavior and imposes new compliance obligations concerning the handling of personal data. Complying with the GDPR and other emerging and changing requirements caused us to incur additional costs in 2020 and may cause us to incur substantial additional costs or require us to change our business practices. Compliance also depends on how regulators choose to interpret and apply the new requirements. Moreover, non-compliance, or if regulators assert we have not complied, with GDPR could result in significant monetary penalties of up to the higher of 20 million Euro or 4% of annual worldwide revenue, private lawsuits, and damage to our reputation, which could have a material adverse effect on our business, financial condition, and results of operation.

The California Consumer Privacy Act (“CCPA”), which creates new individual privacy rights for California consumers (as defined in the law) and places increased privacy and security obligations on entities handling certain personal data of consumers or households, went into effect on January 1, 2020, and the California Attorney General may now bring enforcement actions for violations. The CCPA requires, among other things, covered companies to provide new disclosure to consumers about such companies’ data collection, use and sharing practices, provide such consumers new ways to opt-out of certain sales or transfers of personal information, and provide consumers with additional causes of action. The CCPA may increase our compliance costs and potential liability.

We have developed and implemented a compliance program based on what we believe are current best practices, including the background checking of our current partners and prospective clients and partners. We cannot guarantee, however, that we, our employees, our consultants, our partners, or our contractors are or will be compliant with all federal, state, and foreign regulations, particularly as we expand our operations outside of the U.S. If our representatives or we fail to comply with any of these laws or regulations, a range of fines, penalties, and/or other sanctions could be imposed on us, which could have a material adverse effect on our business, financial condition, and results of operations. Even if we are determined not to have violated these laws, government inquiries into these issues typically require the expenditure of significant resources and generate negative publicity, which could also harm our business. In addition, regulation of data privacy and security laws is increasing worldwide, including various restrictions on cross-border access or transfer of data, including personal data of our employees, our clients, and customers of our clients. Compliance with such regulations may increase our costs, and there is a risk of enforcement of such laws resulting in damage to our brand, as well as financial penalties and potential loss of business, which could be significant.

We may have exposure to greater than anticipated tax liabilities.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple U.S. and foreign jurisdictions. The determination of our tax liability is always subject to audit and review by applicable domestic and foreign tax authorities, and we are currently undergoing several inquiries, audits, and reviews by taxing authorities throughout the world. Any adverse outcome of any such audit or review could harm our business, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient.

In addition, our future income taxes could be materially adversely affected by a shift in our jurisdictional income mix, by changes in the valuation of our deferred tax assets and liabilities, as a result of changes in tax laws, regulations, or accounting principles, as well as by certain discrete items.

In light of continuing fiscal challenges in many jurisdictions, various levels of government are increasingly focused on tax reform and other legislative action to increase tax revenue, including corporate income taxes. Several U.S. states have attempted to increase corporate tax revenues by taking an expansive view of corporate presence to attempt to impose corporate income taxes and other direct business taxes on companies that have no physical presence in their state, and taxing authorities in foreign jurisdictions may take similar actions. Many U.S. states are also altering their apportionment formulas to increase the amount of taxable income or loss attributable to their state from certain out-of-state businesses. Similarly, in Europe and elsewhere globally, there are various tax reform efforts underway designed to ensure that corporate entities are taxed on a larger percentage of their earnings.

If it becomes necessary or desirable to repatriate any of our foreign cash balances to the United States, we may be subject to increased taxes, other restrictions, and limitations.

As of December 31, 2020, \$66.0 million of our cash and cash equivalents were held in our foreign subsidiaries. If it becomes necessary or desirable to repatriate these funds, we may be required to pay U.S. federal, state, and local income and foreign withholding taxes upon repatriation. We consider the earnings of our foreign subsidiaries to be permanently reinvested. As a result, U.S. federal, state, and local, and foreign withholding taxes on such earnings have not been provided in our financial statements. It is not practical to estimate the amount of tax we would have to pay upon repatriation due to the complexity of the tax laws and other factors.

We face risks related to intellectual property claims or appropriation of our intellectual property rights.

We rely primarily on a combination of patent, copyright, trademark, and trade secrets laws, as well as intellectual property and confidentiality agreements to protect our proprietary rights. We also try to control access to and distribution of our technologies and other proprietary information. We have obtained patents in strategically important global markets relating to the architecture of our systems. We cannot assure that such patents will not be challenged, invalidated, or circumvented, or that rights granted thereunder, or the claims contained therein will provide us with competitive advantages. Moreover, despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our software or to obtain the use of information that we regard as proprietary. Although we generally enter into intellectual property and confidentiality agreements with our employees and strategic partners, despite our efforts our former employees may seek employment with our business partners, clients, or competitors, and there can be no assurance that the confidential nature of our proprietary information will be maintained. In addition, the laws of some foreign countries do not protect our proprietary rights as effectively as they do in the U.S. There can be no assurance that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology.

Other companies or individuals have obtained proprietary rights covering a variety of designs, processes, and systems. There can be no assurance that third parties, including clients, will not claim infringement by us for current or future products. Although we attempt to limit the amount and type of our contractual liability for infringement of the proprietary rights of third parties and assert ownership of work product and intellectual property rights as appropriate, there are often exceptions, and limitations may not be applicable and enforceable in all cases. Even if limitations are found to be applicable and enforceable, our liability to our clients for these types of claims could be material given the size of certain of our transactions. We expect that software product developers will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment and delivery delays, require us to enter into royalty or licensing agreements, or be precluded from making and selling the infringing software, if such proprietary rights are found to be valid. Royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. Even if a license were available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require substantial effort and cost. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit or stop sales of our software and may be unable to compete effectively, which could have a material adverse effect upon our business, operating results, and financial condition.

We may be subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages, and could limit our ability to use certain technologies.

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, many of these companies can dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. The litigation may involve patent holding companies or other adverse patent owners that have no relevant product revenues and against which our patents may, therefore, provide little or no deterrence. We have received, and may in the future receive, notices that claim we have misappropriated, misused, or infringed other parties' intellectual property rights, and, to the extent we gain greater market visibility, we face a higher risk of being the subject of intellectual property infringement claims.

Coronavirus (“COVID-19”)

Epidemic diseases, such as the recent global COVID-19 outbreak, could harm our business and results of operations.

The recent outbreak of a novel coronavirus disease (“COVID-19”), which has been declared by the World Health Organization to be a pandemic, has spread across the globe and is impacting worldwide economic activity. A pandemic, including COVID-19, or other public health epidemics pose the risk that our employees, partners, and clients may be prevented from conducting business activities at full capacity for an indefinite period, including due to the spread of the disease within these groups or due to the shutdowns that are requested or mandated by governmental authorities. Moreover, these conditions can affect the rate of IT spending and may adversely affect our clients’ willingness to purchase our solutions, delay prospective clients’ purchasing decisions, reduce the value or duration of their contracts, request concessions including extended payment terms or better pricing, or affect attrition rates, all of which could adversely affect our future sales and operating results. The global spread of COVID-19 has created significant volatility, uncertainty, and economic disruption.

We have undertaken measures to protect our employees, partners, and clients, including by adopting a virtual-only meeting format for our annual PegaWorld conference and encouraging employees to work remotely. There can be no assurance that these measures will be sufficient, however, or that we can implement them without adversely affecting our business operations.

We continue to monitor the situation and adjust our policies as more information and public health guidance become available. Precautionary measures that have been adopted, or may be adopted in the future, could negatively affect our client success efforts, sales, and marketing efforts, delay and lengthen our sales cycles, or create operational or other challenges, any of which could harm our business and results of operations. In addition, COVID-19 may disrupt our clients’, vendors’, and partners’ operations for an indefinite period, including as a result of travel restrictions and/or business shutdowns, all of which could negatively impact our business and results of operations, including cash flows.

At this time, it is not possible to estimate the ultimate impact that COVID-19 could have on our business, as the impact will depend on future developments, which are highly uncertain and cannot be predicted. Furthermore, due to our shift to a renewable model, the effect of COVID-19 may not be fully reflected in our results of operations until future periods. The extent to which COVID-19 impacts our business, operations, and financial results will depend on numerous evolving factors that we may not be able to predict accurately, including:

- the duration and scope of the pandemic;
- governmental, business, and individual actions taken in response to the pandemic and the impact of those actions on global economic activity;
- the actions that are taken in response to economic disruption;
- the impact of business disruptions and reductions in our clients’ business and the resulting impact on their demand for our services and solutions; and
- our ability to provide our services and solutions, including as a result of our employees or our clients’ employees working remotely and/or closures of offices and facilities.

General Risk Factors

The provision in our amended and restated bylaws, requiring exclusive forum in certain courts in The Commonwealth of Massachusetts or the federal district court for the District of Massachusetts for certain types of lawsuits, may have the effect of discouraging lawsuits against us and our directors, officers, and employees.

Our amended and restated bylaws provide that unless we consent in writing to the selection of an alternative forum, the Business Litigation Section of the Superior Court of Suffolk County, Massachusetts (the “BLS”) or, if the BLS lacks jurisdiction, the federal district court for the District of Massachusetts, Eastern Division, shall be the exclusive forum for any (i) derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (iii) any action asserting a claim arising pursuant to the Massachusetts Business Corporation Act (the “MBCA”), our articles of organization, or our bylaws (as each may be amended from time to time), or (iv) any action asserting a claim governed by the internal affairs doctrine.

The choice of forum provision may increase costs to bring a claim, discourage claims, or limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us or our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions. The exclusive forum provision in our amended and restated bylaws will not preclude or contract the scope of exclusive federal or concurrent jurisdiction for actions brought under the federal securities laws, including the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, or the respective rules and regulations promulgated thereunder.

The continued uncertainties in the global economy may negatively impact our sales to, and the collection of receivables, from our clients.

Our sales to, and the collection of receivables from, our clients may be impacted by adverse changes in global economic conditions. The U.S. and other key international economies have experienced cyclical downturns from time to time, during which economic activity has been impacted by falling demand for goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity, and foreign exchange markets, bankruptcies, and economic uncertainty. These changes in global economic conditions could impact the ability and willingness of our clients to make investments in technology, which in turn may delay or reduce the purchases of our software and services. These factors could also impact the ability and willingness of these clients to pay their trade obligations and honor their contractual commitments. These clients may also become subject to increasingly restrictive regulatory requirements, which could limit or delay their ability to proceed with technology purchases and may result in longer sales cycles, increased price competition, and reductions in sales of our products and services. The financial uncertainties facing many of our clients and the industries in which they operate could negatively impact our business, operating results, and financial condition.

The U.K.'s withdrawal from the European Union (commonly referred to as "Brexit") on January 31, 2020 could have a material impact on our business, including our relationships with existing and future clients, suppliers, and employees, which could harm our financial results and operations.

We have material operations in the U.K. and European Union. The ultimate or perceived effects of the U.K.'s withdrawal from the European Union, could potentially disrupt the markets we serve and the tax jurisdictions in which we operate.

The market price of our common stock has been and is likely to continue to be volatile.

The market price of our common stock may be highly volatile and may fluctuate substantially due to a variety of factors, some of which are related in complex ways.

Factors that may affect the market price of our common stock include:

- actual or anticipated fluctuations in our financial condition and operating results;
- variance in our financial performance from expectations of securities analysts;
- changes in our projected operating and financial results;
- changes in the prices of our products and professional services;
- changes in laws or regulations applicable to our products or services;
- announcements by our competitors or us of significant business developments, acquisitions, or new offerings;
- our involvement in any litigation or investigations by regulators;
- our sale of our common stock or other securities;
- changes in our Board of Directors, senior management, or key personnel;
- the trading volume of our common stock;
- price and volume fluctuations in the overall stock market;
- changes in the anticipated future size and growth rate of our market; and
- general economic, regulatory, political, and market conditions.

Broad market and industry fluctuations, as well as general economic, regulatory, political, and market conditions, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial costs and divert our management's attention.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which could cause our stock price to decline.

We have provided and may continue to give guidance on our business, future operating results, and other business metrics. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control and which could materially adversely affect our operations and operating results. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors, or other interested parties, our common stock price would decline.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal administrative, sales, marketing, support, and research and development operations are in Cambridge, Massachusetts and Hyderabad, India. We also maintain offices elsewhere in the Americas, Europe, and the Asia-Pacific regions. On February 12, 2021, we entered into an agreement with our landlord to vacate our Cambridge, Massachusetts corporate headquarters on October 1, 2021, in exchange for a one-time payment to us of \$18 million. We expect to enter into a new lease agreement for a facility within the greater Boston area. All of our properties are leased. We are currently assessing the impact of the COVID-19 pandemic and the increase in remote work on our future real estate needs. We believe we will be able to obtain future space as needed on acceptable and commercially reasonable terms.

See "Note 9. Leases" in Item 8 of this Annual Report for additional information.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings and civil and regulatory claims that arise in the ordinary course of our business activities. Regardless of the outcome, litigation can have a material adverse effect on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market information

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PEGA."

Holders

As of February 5, 2021, we had 48 stockholders of record.

Dividends

During 2020, 2019, and 2018, we paid quarterly cash dividends of \$0.03 per share of common stock. We currently expect to pay a quarterly cash dividend of \$0.03 per share, however, the Board of Directors may terminate or modify this dividend program at any time without prior notice.

Issuer purchases of equity securities ⁽¹⁾

Common stock repurchased in the three months ended December 31, 2020:

<i>(in thousands, except per share amounts)</i>	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
October 1, 2020 - October 31, 2020	37	\$ 125.97	26	\$ 43,873
November 1, 2020 - November 30, 2020	105	\$ 123.82	23	\$ 41,024
December 1, 2020 - December 31, 2020	138	\$ 128.76	25	\$ 37,726
Total	<u>280</u>	\$ 126.54		

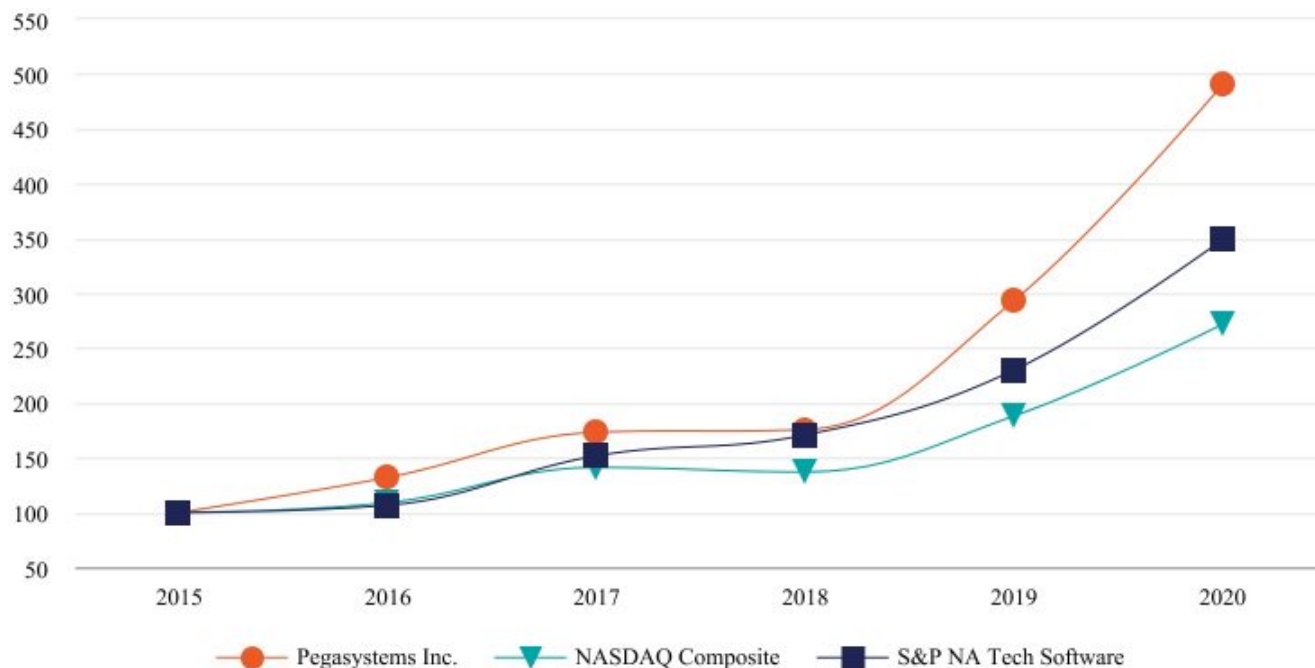
(1) See "Stock repurchase program" in Item 7 of this Annual Report for additional information.

(2) Shares withheld to cover the option exercise price and tax withholding obligations under the net settlement provisions of our stock compensation awards have been included in these amounts.

Stock performance graph and cumulative total stockholder return ⁽¹⁾

The following performance graph represents a comparison of the cumulative total stockholder return, assuming the reinvestment of dividends, for a \$100 investment on December 31, 2015 in our common stock, the Total Return Index for the NASDAQ Composite, a broad market index, and the Standard & Poor's ("S&P") North American Technology Sector - Software Index™ ("S&P NA Tech Software"), a published industry index.

Comparison of 5 Year Cumulative Total Return



	December 31,					
	2015	2016	2017	2018	2019	2020
Pegasystems Inc.	\$ 100.00	\$ 131.46	\$ 172.58	\$ 175.44	\$ 292.66	\$ 490.22
NASDAQ Composite	\$ 100.00	\$ 108.87	\$ 141.13	\$ 137.12	\$ 187.44	\$ 271.64
S&P NA Tech Software	\$ 100.00	\$ 106.20	\$ 151.66	\$ 170.83	\$ 229.93	\$ 349.26

(1) The graph lines merely connect measurement dates and do not reflect fluctuations between those dates.

ITEM 6. SELECTED FINANCIAL DATA

Consistent with the final rules promulgated by the SEC on November 19, 2020 (Release 33-10890 titled "Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Data"), we have elected early adoption of the elimination of Item 301 of Regulation S-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW

We develop, market, license, host, and support enterprise software applications that help organizations transform how they engage with their customers and process work. We also license our low code Pega Platform™ for rapid application development to clients that wish to build and extend their business applications. Our cloud-architected portfolio of customer engagement and digital process automation applications leverages artificial intelligence ("AI"), case management, and robotic automation technology, built on our unified low code Pega Platform, empowering businesses to quickly design, extend, and scale their enterprise applications to meet strategic business needs.

Our target clients are Global 3000 organizations and government agencies that require applications to differentiate themselves in the markets they serve. Our applications achieve and facilitate differentiation by increasing business agility, driving growth, improving productivity, attracting and retaining customers, and reducing risk. We deliver applications tailored to our clients' specific industry needs.

Cloud Transition

We are in the process of transitioning our business to sell software primarily through subscription arrangements, particularly Pega Cloud (“Cloud Transition”). Until we substantially complete our Cloud Transition, which we anticipate will occur in early 2023, we expect to continue to experience lower revenue growth and lower operating cash flow growth or negative cash flow. The actual mix of revenue and new arrangements in a given period can fluctuate based on client preferences.

See risk factor “If we fail to manage our transition to a more subscription-based business model successfully, our results of operations and/or cash flows could be negatively impacted.” in Item 1A of this Annual Report for additional information.

Coronavirus (“COVID-19”)

As of December 31, 2020, COVID-19 has not had a material impact on our results of operations or financial condition.

COVID-19’s ultimate impact on our operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact of COVID-19 on our sales cycles, partners, vendors, and employees, all of which is uncertain and unpredictable. Our shift towards subscription-based revenue streams, the industry mix of our clients, the substantial size and available resources of our clients, and the critical nature of our products to our clients may reduce or delay the impact of COVID-19 on our business. However, it is not possible to estimate the ultimate impact that COVID-19 will have on our business at this time.

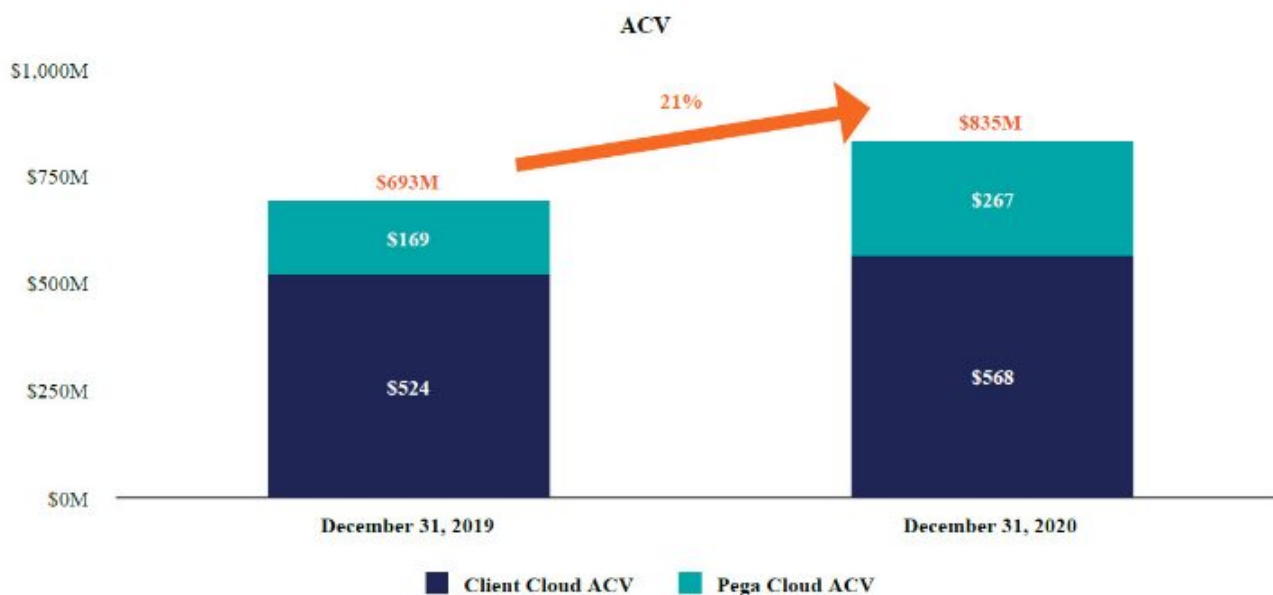
See “Coronavirus (“COVID-19”)” in Item 1A of this Annual Report for additional information.

Relocation of Corporate Headquarters

On February 12, 2021, we entered into an agreement with our landlord to vacate our Cambridge, Massachusetts corporate headquarters on October 1, 2021, in exchange for a one-time payment to us of \$18 million. We expect to enter into a new lease agreement for a facility within the greater Boston area.

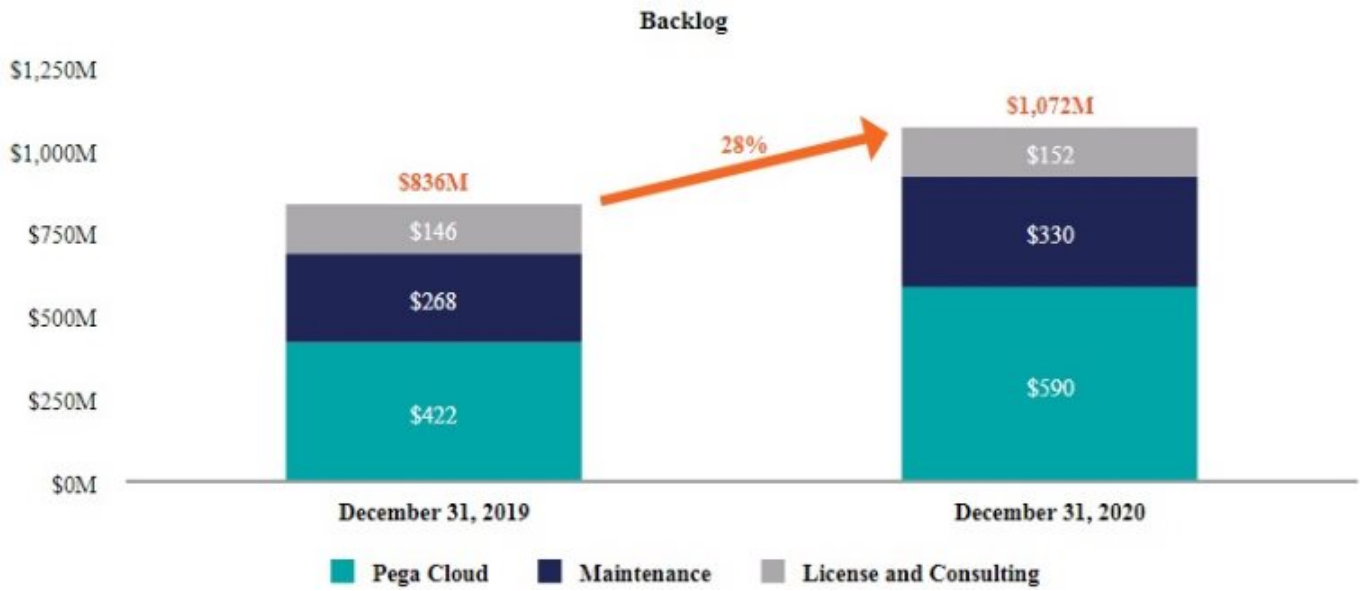
Performance metrics

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



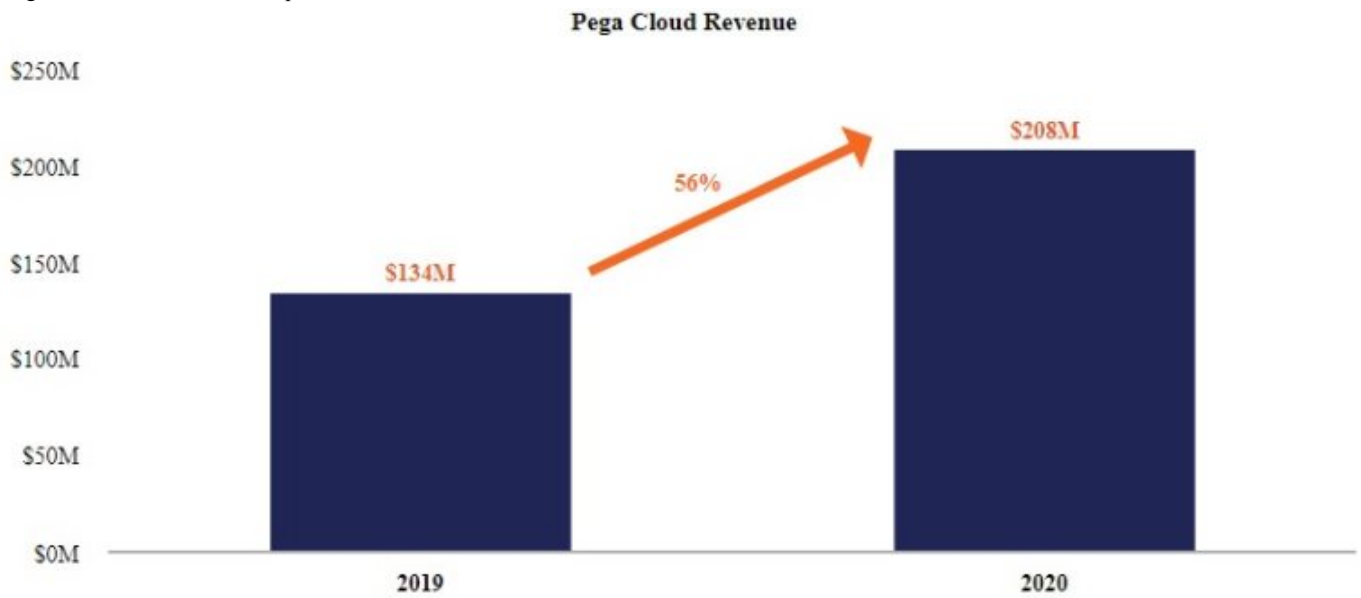
Annual contract value (“ACV”) | Increased 21% since December 31, 2019

- ACV, as reported, 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 for term license and Pega Cloud contracts. Maintenance revenue for the quarter then ended is multiplied by four to calculate ACV for maintenance. Client Cloud ACV is composed of maintenance ACV and ACV from term license contracts. ACV is a performance measure that we believe provides useful information to our management and investors, particularly during our Cloud Transition. Reported amounts have not been adjusted for changes in foreign exchange rates. Foreign currency contributed 1%-2% to ACV growth in 2020.



Remaining performance obligations (“Backlog”) | Increased 28% since December 31, 2019

- Backlog represents contracted revenue that has not yet been recognized and includes deferred revenue and non-cancellable amounts expected to be invoiced and recognized as revenue in future periods.



Pega Cloud revenue | Increased 56% since 2019

- Pega Cloud revenue is revenue as reported under U.S. GAAP for cloud contracts.

RESULTS OF OPERATIONS

Revenue

Cloud Transition

We are in the process of transitioning our business to sell software primarily through subscription arrangements, particularly Pega Cloud. Revenue growth has and is expected to continue to be slower during this transition. Revenue from Pega Cloud arrangements is typically recognized over the contract term. In contrast, revenue from license sales is generally recognized upfront when the license rights become effective.

<i>(Dollars in thousands)</i>	2020			2019			Change		
Pega Cloud	\$	208,268	20 %	\$	133,746	15 %	\$	74,522	56 %
Maintenance		296,709	30 %		280,580	30 %		16,129	6 %
Term license		266,352	26 %		199,433	22 %		66,919	34 %
Subscription ⁽¹⁾	\$	771,329	76 %	\$	613,759	67 %		157,570	26 %
Perpetual license		28,558	3 %		80,015	9 %		(51,457)	(64)%
Consulting		217,630	21 %		217,609	24 %		21	— %
	\$	1,017,517	100 %	\$	911,383	100 %	\$	106,134	12 %

(1) Reflects client arrangements subject to renewal (Pega Cloud, maintenance, and term license).

The change in total revenue since 2019 generally reflects the impact of our Cloud Transition. Additional contributing factors were:

- An increasing portion of our term license contracts include multi-year committed maintenance periods instead of annually renewable maintenance periods. Under such arrangements, a larger portion of the total contract value is recognized as maintenance revenue over the contract term rather than as term license revenue upon effectiveness of the license rights. In 2020, multi-year committed maintenance contributed \$10.2 million to maintenance revenue growth and reduced term revenue growth by \$20.8 million.
- Maintenance renewal rates remained over 90% in 2020.
- The slight increase in consulting revenue in 2020 was primarily due to increased billable hours, which offset the impact of reduced billable travel expenses due to COVID-19. As part of our long-term strategy, we intend to continue growing and increasingly leveraging our ecosystem of partners on future implementation projects, potentially reducing our future consulting revenue growth rate.

Gross profit

<i>(Dollars in thousands)</i>	2020			2019			Change		
Software license	\$	291,982	99 %	\$	275,792	99 %	\$	16,190	6 %
Maintenance		274,398	92 %		254,924	91 %		19,474	8 %
Pega Cloud		131,693	63 %		67,918	51 %		63,775	94 %
Consulting		8,531	4 %		2,727	1 %		5,804	213 %
	\$	706,604	69 %	\$	601,361	66 %	\$	105,243	18 %

- The increase in gross profit in 2020 was primarily due to cost-efficiency gains as Pega Cloud grows and scales as a result of our Cloud Transition and overall revenue growth.
- The increase in consulting gross profit in 2020 was primarily due to a decrease in travel and entertainment expenses and an increase in consultant utilization. Consultant utilization is impacted by several factors, including the timing of new implementation projects and our scope and level of involvement in these projects compared to that of our consulting partners and enabled clients.

Operating expenses

<i>(Dollars in thousands)</i>	2020			2019			Change		
		% of Revenue			% of Revenue				
Selling and marketing	\$	545,693	54 %	\$	474,459	52 %	\$	71,234	15 %
Research and development	\$	236,986	23 %	\$	205,210	23 %	\$	31,776	15 %
General and administrative	\$	67,452	7 %	\$	56,570	6 %	\$	10,882	19 %

- The increase in selling and marketing in 2020 was primarily due to an increase in compensation and benefits of \$97.2 million, attributable to increases in headcount and equity compensation, partially offset by a decrease in travel and entertainment of \$27.2 million due to COVID-19. The increase in headcount reflects our efforts to increase our sales capacity to deepen relationships with existing clients and target new accounts.
- The increase in research and development in 2020 was primarily due to an increase in compensation and benefits of \$30.2 million, attributable to increases in headcount and equity compensation. The increase in headcount reflects additional investments in the development of our products, particularly for Pega Cloud.

- The increase in general and administrative in 2020 was primarily due to an increase in compensation and benefits of \$4.0 million, attributable to increases in headcount and equity compensation to support the growth in our operations and an increase in professional services fees of \$4.2 million.

Other income (expense), net

<i>(Dollars in thousands)</i>	2020	2019	Change	
Foreign currency transaction gain (loss)	3,704	(2,335)	\$ 6,039	*
Interest income	1,223	2,020	(797)	(39)%
Interest expense	(19,356)	(212)	(19,144)	(9,030)%
Gain on capped call transactions	31,697	—	31,697	*
Other (loss) income, net	1,370	559	811	145 %
	<u>\$ 18,638</u>	<u>\$ 32</u>	\$ 18,606	58,144 %

* not meaningful

- The change in foreign currency transaction gain (loss) in 2020 was primarily due to the impact of fluctuations in foreign currency exchange rates associated with our foreign currency-denominated cash, accounts receivable, and intercompany receivables and payables held by our United Kingdom (“U.K.”) subsidiary.
- The decrease in interest income in 2020 was due to the significant decline in market interest rates despite the significant increase in our interest-bearing investment balances.
- The increase in interest expense in 2020 was due to our issuance of \$600 million in aggregate principal amount of the Notes on February 24, 2020. See "Note 10. Debt" in Item 8 of this Annual Report for additional information.

Interest expense related to the Notes:

<i>(in thousands)</i>	Year Ended December 31,		
	2020	2019	Change
Contractual interest expense (0.75% coupon)	\$ 3,825	\$ —	\$ 3,825
Amortization of debt discount	12,898	—	12,898
Amortization of issuance costs	1,915	—	1,915
	<u>\$ 18,638</u>	<u>\$ —</u>	\$ 18,638

- The increase in the gain on capped call transactions in 2020 was due to fair value adjustments on the Capped Call Transactions. See "Note 10. Debt" in Item 8 of this Annual Report for additional information.
- The increase in other (loss) income, net in 2020 was due to a gain from our venture investments portfolio.

(Benefit from) income taxes

<i>(Dollars in thousands)</i>	2020	2019
(Benefit from) income taxes	\$ (63,516)	\$ (44,413)
Effective income tax benefit rate	51 %	33 %

During 2020, the increase in our effective income tax benefit rate was primarily due to an increase in excess tax benefits from stock-based compensation and a carryback claim benefit due to the Coronavirus Aid, Relief, and Economic Security Act (“Cares Act”). See "Note 16. Income Taxes" in Item 8 of this Annual Report for additional information.

Stock-based compensation increases the variability of our effective tax rates. The impact of stock-based compensation on a given period depends on our profitability, the attributes of our stock compensation awards we grant, and award holders' exercise behavior.

LIQUIDITY AND CAPITAL RESOURCES

<i>(in thousands)</i>	2020	2019
Cash provided by (used in)		
Operating activities	\$ (563)	\$ (42,165)
Investing activities	(321,683)	70,074
Financing activities	423,448	(74,258)
Effect of exchange rate on cash and cash equivalents	2,334	290
Net increase (decrease) in cash and cash equivalents	<u>\$ 103,536</u>	<u>\$ (46,059)</u>

<i>(in thousands)</i>	December 31,	
	2020	2019
Held in U.S. entities	\$ 399,138	\$ 23,437
Held in foreign entities	66,030	44,926
Total cash, cash equivalents, and marketable securities	<u>\$ 465,168</u>	<u>\$ 68,363</u>

We believe that our current cash, cash flow from operations, and borrowing capacity will be sufficient to fund our operations, stock repurchases, and quarterly cash dividends for at least the next 12 months. Whether these resources are adequate to meet our liquidity needs beyond that period will depend on our growth, operating results, and the investments required to respond to the possible increased demand for our services. If we require additional capital resources to grow our business, we may seek to finance our operations from available funds or additional external financing.

If it became necessary to repatriate foreign funds, we may be required to pay U.S. and foreign taxes upon repatriation. Due to the complexity of income tax laws and regulations, and the Tax Reform Act's effects, it is impracticable to estimate the amount of taxes we would have to pay. See risk factor "If it becomes necessary or desirable to repatriate any of our foreign cash balances to the United States, we may be subject to increased taxes, other restrictions, and limitations" in Item 1A of this Annual Report for additional information.

Cash (used in) operating activities

We are in the process of transitioning our business to sell software primarily through subscription arrangements, particularly Pega Cloud. This transition has and is expected to continue to impact our billings and resulting timing of cash collections. Pega Cloud and term license arrangements are generally billed and collected over the contract term while perpetual license arrangements are generally billed in full and collected upfront when the license rights become effective. As client preferences continue to shift in favor of Pega Cloud arrangements, we could continue to experience slower operating cash flow growth, or negative cash flow, in the near term.

In 2020, COVID-19 did not have a material impact on our cash flows from operations. See "Coronavirus ("COVID-19")" in Item 1A. of this Annual Report for additional information.

The change in cash (used in) operating activities in 2020 was primarily due to improved cash collections. The increased cash collections were partially offset by increased costs as we accelerated investments in our Pega Cloud offering and selling and marketing activities to support future growth.

Cash (used in) provided by investing activities

The change in cash (used in) provided by investing activities in 2020 was primarily driven by purchases of financial instruments and property and equipment investments for our offices.

Cash provided by (used in) financing activities

Convertible senior notes

In February 2020, we issued \$600 million in aggregate principal amount of our convertible senior notes (the "Notes") due March 1, 2025, which provided proceeds as follows:

<i>(in thousands)</i>	Amount
Principal	\$ 600,000
Less: issuance costs	(14,527)
Less: Capped Call Transactions	(51,900)
	<u>\$ 533,573</u>

A portion of the proceeds of the Notes was used to fund the Capped Call Transactions, with the remainder to be used for working capital and other general corporate purposes. The Notes mature on March 1, 2025; however, under certain circumstances, holders may surrender their Notes for conversion prior to the maturity date. We may settle conversion by paying or delivering, as applicable, cash, shares of our common

stock or a combination of cash and shares of our common stock. See "Note 10. Debt" in Item 8 of this Annual Report for additional information.

Credit facility

In November 2019, and as amended as of February 2020, July 2020, and September 2020, we entered into a five-year \$100 million senior secured revolving credit agreement (the "Credit Facility") with PNC Bank, National Association ("PNC"). As of December 31, 2020, we had no outstanding borrowings under the Credit Facility. See "Note 10. Debt" in Item 8 of this Annual Report for additional information.

Stock repurchase program

Changes in the remaining stock repurchase authority:

<i>(in thousands)</i>	2020
December 31, 2019	\$ 45,484
Authorizations ⁽¹⁾	20,516
Repurchases ⁽²⁾	(28,274)
December 31, 2020	<u>\$ 37,726</u>

(1) On June 15, 2020, we announced that our Board of Directors extended the current stock repurchase program's expiration date to June 30, 2021 and increased the remaining common stock repurchase authority to \$60 million.

(2) Purchases under this program have been made on the open market.

Common stock repurchases

<i>(in thousands)</i>	2020		2019	
	Shares	Amount	Shares	Amount
Tax withholdings for net settlement of equity awards	725	\$ 75,560	645	\$ 44,857
Stock repurchase program	278	28,274	333	21,136
	<u>1,003</u>	<u>\$ 103,834</u>	<u>978</u>	<u>\$ 65,993</u>

During 2020 and 2019, instead of receiving cash from the equity holders, we withheld shares with a value of \$59.6 million and \$41.7 million, respectively, for the exercise price of options. These amounts have been excluded from the table above.

Dividends

<i>(in thousands)</i>	2020	2019
Dividend payments to stockholders	\$ 9,628	\$ 9,486

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

Contractual obligations

As of December 31, 2020, our contractual obligations were:

<i>(in thousands)</i>	Payments due by period						Total
	2021	2022	2023	2024	2025 and after	Other	
Convertible senior notes (1)	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 601,488	\$ —	\$ 619,488
Purchase obligations (2)	59,685	56,829	7,669	747	351	—	125,281
Operating lease obligations	22,164	21,747	21,599	7,683	14,431	—	87,624
Investment commitments (3)	500	—	—	—	—	—	500
Liability for uncertain tax positions (4)	—	—	—	—	—	4,680	4,680
	<u>\$ 86,849</u>	<u>\$ 83,076</u>	<u>\$ 33,768</u>	<u>\$ 12,930</u>	<u>\$ 616,270</u>	<u>\$ 4,680</u>	<u>\$ 837,573</u>

(1) Includes principal and interest.

(2) Represents the fixed or minimum amounts due under purchase obligations for hosting services and sales and marketing programs.

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

(4) We are unable to reasonably estimate the timing of the cash outflow due to uncertainties in the timing of the effective settlement of tax positions.

A detailed discussion and analysis of the 2019 year-over-year changes can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2019.

CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGMENTS

Management's discussion and analysis of the financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. and the rules and regulations of the SEC for annual financial reporting. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions, and beliefs of what could occur in the future, given the available information.

We believe that, of our significant accounting policies, described in "Note 2. Significant Accounting Policies" in Item 8 of this Annual Report, the following accounting policies are most important to the portrayal of our financial condition and require the most subjective judgment. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations. If actual results differ significantly from management's estimates and projections, there could be a material effect on our financial statements.

Revenue recognition

Our contracts with clients typically contain promises by us to provide multiple products and services. Specifically, contracts associated with Pega Platform sales and other software applications, sold either as licenses to use functional intellectual property or as a cloud-based solution, typically include consulting services. Determining whether such products and services within a client contract are considered distinct performance obligations that should be accounted for separately requires significant judgment. We review client contracts to identify all separate promises to transfer goods and services that would be considered performance obligations. Judgment is also required in determining whether an option to acquire additional products and services within a client contract represents a material right that the client would not receive without entering into the contract.

A contract modification is a legally binding change to the scope, price, or both of an existing contract. Contract modifications are reviewed to determine whether they should be accounted for as part of the original contract or as a separate contract. This determination requires significant judgment, which could impact the timing of revenue recognition. We typically account for contract modifications prospectively as a separate contract. The additional performance obligation(s) in our contract modifications are generally distinct and priced at their stand-alone selling price.

We allocate the transaction price to the distinct performance obligations, including options in contracts determined to represent a material right, based on each performance obligation's relative stand-alone selling price. Judgment is required in estimating stand-alone selling prices. We maximize the use of observable inputs by maintaining pricing analyses that consider our pricing policies, historical stand-alone sales when they exist, and historical renewal prices charged to clients. We have concluded that the stand-alone selling prices of certain performance obligations, specifically the stand-alone selling prices of software licenses and Pega Cloud arrangements, are highly variable. In these instances, we estimate the stand-alone selling prices using the residual approach, determined based on total transaction price minus the stand-alone selling price of other performance obligations promised in the contract. We update our stand-alone selling price analysis periodically, including a re-assessment of whether the residual approach used to determine the stand-alone selling prices for software licenses and Pega Cloud arrangements remains appropriate.

Changes in the assumptions or judgments used in determining the performance obligations in client contracts and stand-alone selling prices could significantly impact the timing and amount of revenue we report in a particular period.

Goodwill and intangible assets impairment

Our goodwill and intangible assets result from our previous business acquisitions. Goodwill and intangible assets with indefinite useful lives are not amortized but are tested for impairment at least annually or as circumstances indicate their value may no longer be recoverable. We do not carry any intangible assets with indefinite useful lives other than goodwill. We perform our annual goodwill impairment test as of November 30th. To assess if goodwill is impaired, we first perform a qualitative assessment to determine whether further impairment testing is necessary. If based on the qualitative assessment, we consider it more-likely-than-not that our reporting unit's fair value is less than its carrying amount, we perform a quantitative impairment test. An excess of carrying value over fair value would indicate that goodwill may be impaired. We periodically reevaluate our business and have determined that we have one operating segment and one reporting unit. If our assumptions change in the future, we may be required to record impairment charges to reduce our goodwill's carrying value. Changes in the valuation of goodwill could materially impact our operating results and financial position.

We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that such assets' carrying amount may not be recoverable. In evaluating potential impairment of these assets, we specifically consider whether any indicators of impairment are present, including, but not limited to:

- whether there has been a significant adverse change in the business climate that affects the value of an asset;
- whether there has been a significant change in the extent or way an asset is used; and
- whether it is expected that the asset will be sold or disposed of before the end of its originally estimated useful life.

If indicators of impairment are present, we compare the estimated undiscounted cash flows that the specific asset is expected to generate to its carrying value. The key assumptions of the cash flow model involve significant subjectivity. If such assets are impaired, an impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

As of December 31, 2020, we had \$79.2 million of goodwill and \$15.7 million of intangible assets. Changes in the valuation of long-lived assets could materially impact our operating results and financial position. To date, there have been no impairments of goodwill or intangible assets.

Accounting for income taxes

Significant judgment is required to determine our provision for income taxes and income tax assets and liabilities, including evaluating uncertainties in applying accounting principles and complex tax laws. Changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact our financial statements.

We regularly assess the need for a valuation allowance against our deferred tax assets. Future realization of our deferred tax assets ultimately depends on sufficient taxable income within the available carryback or carryforward periods. We record a valuation allowance to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. Changes in our valuation allowance impact income tax expense in the period of adjustment. Our deferred tax valuation allowance requires significant judgment and uncertainties, including assumptions about future taxable income based on historical and projected information.

We assess our income tax positions and record tax benefits based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit is recognized in the financial statements.

As a global company, we use significant judgment to calculate and provide for income taxes in each of the tax jurisdictions in which we operate. In the ordinary course of our business, there are transactions and calculations undertaken whose ultimate tax outcome cannot be certain. Some of these uncertainties arise due to transfer pricing for transactions with our subsidiaries, the determination of tax nexus, and tax credit estimates. In addition, the calculation of acquired tax attributes and the associated limitations are complex. We estimate our exposure to unfavorable outcomes related to these uncertainties and estimate the probability of such outcomes.

Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome will not be different from what is reflected in our historical income tax provisions, returns, and accruals. Such differences, or changes in estimates relating to potential differences, could have a material impact on our income tax provision and operating results in the period in which such a determination is made.

See "Note 16. Income Taxes" in Item 8 of this Annual Report for additional information.

Convertible senior notes and capped call transactions

In February 2020, we issued Convertible Senior Notes (the "Notes") with an aggregate principal amount of \$600 million, due March 1, 2025, in a private placement. We also entered into privately negotiated capped call transactions ("Capped Call Transactions") with certain financial institutions. The Capped Call Transactions cover 4.4 million shares (representing the number of shares for which the Notes are initially convertible) of our common stock and are generally expected to reduce potential dilution of our common stock upon any conversion of the Notes.

In accounting for the convertible senior notes and Capped Call Transactions:

- The initial carrying amount of the liability component was calculated by measuring a similar debt instrument's fair value that does not have an associated conversion feature. The excess of the Notes' principal amount over the initial carrying amount of the liability component, the debt discount, is amortized as interest expense over the Notes' contractual term. The fair value was determined utilizing a discounted cash flow model and required us to make various estimates including, implied credit spread, expected volatility, and the risk-free rate for notes with a similar term.
- The equity component was recorded as an increase to additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Convertible Senior Notes.
- The Capped Call Transactions are accounted for as derivative instruments. The Capped Call Transactions do not qualify for the Company's own equity scope exception in ASC 815 since, in some cases of early settlement, the settlement value of the Capped Call Transactions, calculated in accordance with the governing documents, may not represent a fair value measurement.

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 models use various market-based inputs, including stock price, remaining contractual term, expected volatility, risk-free interest rate, and expected dividend yield, as applicable. Management applies judgment in its determination of expected volatility. We consider both historical and implied volatility levels of the underlying equity security and, to a lesser extent, historical peer group volatility levels.

Applying the accounting framework for the Convertible Senior Notes and the Capped Call Transactions requires the exercise of judgment and the determination of the fair value of the liability component of the convertible notes and the fair value of the Capped Call Transactions requires the Company to make significant estimates and assumptions. As of December 31, 2020, a hypothetical 10% increase in our stock price would have increased the fair value of the capped call to \$96.5 million, while a hypothetical 10% decrease in our stock price would have decreased the fair value of the capped call to \$70.3 million.

See "Note 2. Significant Accounting Policies", "Note 10. Debt", and "Note 12. Fair Value Measurements" in Item 8 of this Annual Report for additional information.

New accounting pronouncements

See "Note 2. Significant Accounting Policies" in Item 8 of this Annual Report for additional information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may affect us due to adverse changes in financial market prices and rates.

Foreign currency exposure

Translation risk

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

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

	2020	2019	2018
(Decrease) increase in revenue	(4)%	(4)%	(4)%
(Decrease) increase in net income	12 %	(7)%	(1)%

Remeasurement risk

We experience fluctuations in transaction gains or losses from 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 and cash equivalents, accounts receivable, unbilled receivables, and intercompany receivables and payables held by our U.K. subsidiary, a British pound functional entity.

A hypothetical 10% strengthening in the British pound exchange rate against the Australian dollar, Euro, and U.S. dollar would result in the following impact:

<i>(in thousands)</i>	December 31, 2020	December 31, 2019	December 31, 2018
Foreign currency (loss) gain	\$ (7,782)	\$ 3,633	\$ (6,295)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	35
Consolidated Balance Sheets as of December 31, 2020 and 2019	37
Consolidated Statements of Operations for the years ended December 31, 2020, 2019, and 2018	38
Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2020, 2019, and 2018	39
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2020, 2019, and 2018	40
Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018	41
Notes to Consolidated Financial Statements	42

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Pegasystems Inc.
Cambridge, Massachusetts

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Pegasystems Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on and Changes in Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition – Software License Arrangements - Refer to Note 2 to the financial statements

The Company generates revenue from multiple sources, including software license revenue primarily derived from license sales of the Company's Pega Platform and other software applications, maintenance revenue from client support, and services revenue primarily derived from cloud sales of the Company's hosted Pega Platform and other software applications and consulting services.

The Company's license and cloud arrangements often contain multiple performance obligations. These performance obligations may be included in the same contract or negotiated separately. Additionally, the Company enters into amendments to previously executed contracts which constitute contract modifications. Certain new complex arrangements require a detailed analysis of the contractual terms and application of more complex accounting guidance, specifically for contracts with higher contract values. Factors with potentially significant judgments include:

- Identification of the complete client arrangement
- Accounting treatment of contract modifications
- Valuation and allocation of identified material rights
- Allocation of arrangement consideration to bundled fixed price work orders

Given the accounting complexity and the management judgment necessary to properly identify, classify, and account for performance obligations, auditing such estimates involved especially complex and subjective auditor judgment in relation to license and cloud arrangements.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to license and cloud revenue arrangements included the following, among others:

- We tested the effectiveness of controls over revenue recognition, including those over the identification of performance obligations included in the transaction, accounting treatment of contract modifications, identification of material rights, and allocation of arrangement consideration.
- We selected a sample of client contracts and performed the following:
 - Evaluated whether the Company properly identified the terms of the arrangements and considered all arrangement terms that may have an impact on revenue recognition.
 - Evaluated whether the Company appropriately identified all performance obligations in the arrangement and whether the methodology to allocate the transaction price to the individual performance obligations was appropriately applied.
 - Tested the accuracy of management’s calculation of revenue for each performance obligation by developing an expectation for the revenue to be recorded in the current period and comparing it to the Company’s recorded balances.
 - Evaluated management’s assessment of any ongoing negotiations with clients and bundling with statements of work.
 - Analyzed the proper accounting treatment for any contract modifications based on 1) whether the additional products and services are distinct from the products and services in the original arrangement, and 2) whether the amount of consideration expected for the added products and services reflects the stand-alone selling price of those products and services.
 - Evaluated management’s determination of whether certain renewal clauses, additional product offers, or additional usage offers represented material rights included in the contract and whether they were properly valued based on the incremental discount provided and the probability of the right being exercised.
 - For contracts with a performance obligation of bundled fixed price services, evaluated whether management reasonably estimated the number of hours that each project will require and independently recalculated the stand-alone selling price for each bundled fixed price service.
 - Obtained evidence of delivery of the elements of the arrangement to the client.

Convertible senior notes and capped calls— Refer to Note 10 to the financial statements

In February 2020, the Company issued Convertible Senior Notes (the "Notes") with an aggregate principal amount of \$600 million, due March 1, 2025, in a private placement. In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The fair value was determined utilizing a discounted cash flow model that includes assumptions such as implied credit spread, expected volatility, and the risk-free rate for notes with a similar term. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In February 2020, the Company also entered into privately negotiated capped call transactions (“Capped Call Transactions”) with certain financial institutions. The Capped Call Transactions are generally expected to reduce potential dilution to the common stock upon any conversion of Notes and/or offset any potential cash payments the Company is required to make in excess of the principal amount of converted Notes. The Capped Call Transactions are accounted for as derivative instruments which are recorded at fair value at the end of each reporting period. The fair value was determined utilizing a lattice model that includes inputs and assumptions such as stock price, expected term, volatility, risk-free rate and implied yield.

There is complexity in applying the accounting framework for the Notes and the related Capped Call Transactions. In addition, the determination of the fair value of the liability component of the convertible notes and the Capped Call Transactions requires the Company to make significant estimates and assumptions relating to the implied credit spread, expected volatility, and the risk-free rate for the liability component of the Convertible Notes, and the expected term, volatility, risk-free rate and implied yield for the derivative value of the Capped Call Transactions. Performing audit procedures to evaluate the appropriateness of the accounting framework and the reasonableness of the estimates and assumptions used in the fair value of the liability component of the Notes and the Capped Call Transactions required a high degree of auditor judgment and an increased extent of effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the accounting for the Notes and Capped Call Transactions, including the Company’s judgments and calculations related to the fair value of the liability component of the Notes and the derivative value of the Capped Call Transactions, included the following procedures, among others:

- We tested the effectiveness of controls over the Company’s accounting for the Notes and Capped Call Transactions, and over the determination of the fair value of the liability component of the Notes and fair value of the Capped Call Transaction derivative.
- With the assistance of professionals in our firm having expertise in debt issuance and derivative transaction accounting, we evaluated the Company’s conclusions regarding the accounting treatment applied to the Notes and Capped Call Transactions.
- With the assistance of fair value specialists, we evaluated the reasonableness of the valuation methodologies and the significant assumptions used to determine the respective fair values of the liability component of the Notes and the Capped Call Transaction derivative, by:
 - Testing the source information underlying the respective fair values of the liability component of the Notes and the Capped Call Transaction derivative and the mathematical accuracy of the calculations.
 - Developing estimates of the respective fair values of the liability component of the Notes and the Capped Call Transaction derivative using independent expectations of the significant assumptions, and comparing our estimates of fair value to the Company’s estimates.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts
February 17, 2021

We have served as the Company's auditor since 2000.

PEGASYSTEMS INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	December 31, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 171,899	\$ 68,363
Marketable securities	293,269	—
Total cash, cash equivalents, and marketable securities	465,168	68,363
Accounts receivable	215,827	199,720
Unbilled receivables	207,155	180,219
Other current assets	88,760	57,308
Total current assets	976,910	505,610
Unbilled receivables	113,278	121,736
Goodwill	79,231	79,039
Other long-term assets	434,843	278,427
Total assets	<u>\$ 1,604,262</u>	<u>\$ 984,812</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 24,028	\$ 17,475
Accrued expenses	59,261	48,001
Accrued compensation and related expenses	123,012	104,126
Deferred revenue	232,865	190,080
Other current liabilities	20,969	18,273
Total current liabilities	460,135	377,955
Convertible senior notes, net	518,203	—
Operating lease liabilities	59,053	52,610
Other long-term liabilities	24,699	15,237
Total liabilities	1,062,090	445,802
Commitments and Contingencies (Note 19)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 1,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value, 200,000 shares authorized; 80,890 and 79,599 shares issued and outstanding at December 31, 2020 and 2019, respectively	809	796
Additional paid-in capital	204,432	140,523
Retained earnings	339,879	410,919
Accumulated other comprehensive (loss)		
Net unrealized gain on available-for-sale marketable securities, net of tax	46	—
Foreign currency translation adjustments	(2,994)	(13,228)
Total stockholders' equity	542,172	539,010
Total liabilities and stockholders' equity	<u>\$ 1,604,262</u>	<u>\$ 984,812</u>

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2020	2019	2018
Revenue			
Software license	\$ 294,910	\$ 279,448	\$ 288,119
Maintenance	296,709	280,580	263,875
Pega Cloud	208,268	133,746	82,627
Consulting	217,630	217,609	256,960
Total revenue	1,017,517	911,383	891,581
Cost of revenue			
Software license	2,928	3,656	5,169
Maintenance	22,311	25,656	24,565
Pega Cloud	76,575	65,828	37,409
Consulting	209,099	214,882	234,622
Total cost of revenue	310,913	310,022	301,765
Gross profit	706,604	601,361	589,816
Operating expenses			
Selling and marketing	545,693	474,459	373,495
Research and development	236,986	205,210	181,710
General and administrative	67,452	56,570	51,643
Total operating expenses	850,131	736,239	606,848
(Loss) from operations	(143,527)	(134,878)	(17,032)
Foreign currency transaction gain (loss)	3,704	(2,335)	2,421
Interest income	1,223	2,020	2,715
Interest expense	(19,356)	(212)	(10)
Gain on capped call transactions	31,697	—	—
Other income (loss), net	1,370	559	363
(Loss) before (benefit from) income taxes	(124,889)	(134,846)	(11,543)
(Benefit from) income taxes	(63,516)	(44,413)	(22,160)
Net (loss) income	\$ (61,373)	\$ (90,433)	\$ 10,617
(Loss) earnings per share			
Basic	\$ (0.76)	\$ (1.14)	\$ 0.14
Diluted	\$ (0.76)	\$ (1.14)	\$ 0.13
Weighted-average number of common shares outstanding			
Basic	80,336	79,055	78,564
Diluted	80,336	79,055	83,064

See notes to consolidated financial statements.

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

	2020	2019	2018
Net (loss) income	\$ (61,373)	\$ (90,433)	\$ 10,617
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on available-for-sale securities	46	249	(17)
Foreign currency translation adjustments	10,234	(155)	(6,600)
Total other comprehensive income (loss), net of tax	10,280	94	(6,617)
Comprehensive (loss) income	\$ (51,093)	\$ (90,339)	\$ 4,000

See notes to consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Number of Shares	Amount				
Balance at January 1, 2018	78,081	\$ 781	\$ 152,097	\$ 509,697	\$ (6,705)	\$ 655,870
Repurchase of common stock	(1,001)	(10)	(55,265)	—	—	(55,275)
Issuance of common stock for stock compensation plans	1,413	14	(39,375)	—	—	(39,361)
Issuance of common stock under the employee stock purchase plan	33	—	1,767	—	—	1,767
Stock-based compensation	—	—	63,981	—	—	63,981
Cash dividends declared (\$0.12 per share)	—	—	—	(9,451)	—	(9,451)
Other comprehensive (loss)	—	—	—	—	(6,617)	(6,617)
Net income	—	\$ —	\$ —	\$ 10,617	\$ —	\$ 10,617
December 31, 2018	78,526	\$ 785	\$ 123,205	\$ 510,863	\$ (13,322)	\$ 621,531
Repurchase of common stock	(333)	(3)	(21,133)	—	—	(21,136)
Issuance of common stock for stock compensation plans	1,375	14	(44,853)	—	—	(44,839)
Issuance of common stock under the employee stock purchase plan	31	—	2,202	—	—	2,202
Stock-based compensation	—	—	81,102	—	—	81,102
Cash dividends declared (\$0.12 per share)	—	—	—	(9,511)	—	(9,511)
Other comprehensive income	—	—	—	—	94	94
Net (loss)	—	—	—	(90,433)	—	(90,433)
December 31, 2019	79,599	\$ 796	\$ 140,523	\$ 410,919	\$ (13,228)	\$ 539,010
Equity component of convertible senior notes, net	—	—	61,604	—	—	61,604
Repurchase of common stock	(278)	(3)	(28,271)	—	—	(28,274)
Issuance of common stock for stock compensation plans	1,536	16	(75,578)	—	—	(75,562)
Issuance of common stock under the employee stock purchase plan	33	—	3,039	—	—	3,039
Stock-based compensation	—	—	103,115	—	—	103,115
Cash dividends declared (\$0.12 per share)	—	—	—	(9,667)	—	(9,667)
Other comprehensive income	—	—	—	—	10,280	10,280
Net (loss)	—	—	—	(61,373)	—	(61,373)
December 31, 2020	80,890	\$ 809	\$ 204,432	\$ 339,879	\$ (2,948)	\$ 542,172

See notes to consolidated financial statements.

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

	2020	2019	2018
Operating activities			
Net (loss) income	\$ (61,373)	\$ (90,433)	\$ 10,617
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities			
Stock-based compensation	103,068	80,909	63,862
(Gain) loss on capped call transactions	(31,697)	—	—
Deferred income taxes	(59,777)	(49,317)	(30,898)
Amortization of deferred commissions	33,302	29,152	17,271
Lease expense	16,248	14,497	—
Amortization of debt discount and issuance costs	14,813	—	—
Amortization of intangible assets and depreciation	21,348	21,396	25,295
Amortization of investments	1,073	800	1,596
Foreign currency transaction (gain) loss	(3,704)	2,335	(2,421)
Other non-cash	(879)	(521)	(1,678)
Change in operating assets and liabilities:			
Accounts receivable, unbilled receivables, and contract assets	(32,321)	1,088	25,779
Other current assets	(12,959)	(6,344)	(6,068)
Accounts payable, accrued compensation, and accrued expenses	37,945	25,670	20,798
Deferred revenue	43,661	1,937	28,951
Deferred commissions	(55,175)	(49,746)	(44,036)
Other long-term assets and liabilities	(14,136)	(23,588)	(4,712)
Cash (used in) provided by operating activities	<u>(563)</u>	<u>(42,165)</u>	<u>104,356</u>
Investing activities			
Purchases of investments	(326,549)	(11,424)	(69,494)
Proceeds from maturities and called investments	28,811	13,634	33,991
Sales of investments	1,424	89,406	—
Payments for acquisitions, net of cash acquired	—	(10,934)	(800)
Investment in property and equipment	(25,369)	(10,608)	(11,893)
Cash (used in) provided by investing activities	<u>(321,683)</u>	<u>70,074</u>	<u>(48,196)</u>
Financing activities			
Proceeds from issuance of convertible senior notes	600,000	—	—
Purchase of capped calls related to convertible senior notes	(51,900)	—	—
Payment of debt issuance costs	(14,527)	—	—
Dividend payments to stockholders	(9,628)	(9,486)	(9,432)
Proceeds from revolving credit facility	—	45,000	—
Payments on revolving credit facility	—	(45,000)	—
Common stock repurchases for tax withholdings for net settlement of equity awards	(72,523)	(42,637)	(37,594)
Common stock repurchases under stock repurchase program	(27,974)	(22,135)	(54,434)
Cash provided by (used in) financing activities	<u>423,448</u>	<u>(74,258)</u>	<u>(101,460)</u>
Effect of exchange rate changes on cash and cash equivalents	2,334	290	(2,557)
Net increase (decrease) in cash and cash equivalents	103,536	(46,059)	(47,857)
Cash and cash equivalents, beginning of period	68,363	114,422	162,279
Cash and cash equivalents, end of period	<u>\$ 171,899</u>	<u>\$ 68,363</u>	<u>\$ 114,422</u>
Supplemental disclosures			
Interest paid on convertible notes	\$ 2,338	\$ —	\$ —
Income taxes paid	\$ 3,377	\$ 4,745	\$ 6,630
Non-cash investing and financing activity:			
Dividends payable	\$ 2,427	\$ 2,388	\$ 2,363

See notes to consolidated financial statements.

PEGASYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Business

The Company develops, markets, licenses, and supports customer engagement and digital process automation software applications in addition to the Pega Platform™ for clients that wish to build and extend their own applications. The Company provides consulting, training, support, and hosting services to facilitate the use of its software.

Management estimates and reporting

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S.”) requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates. Accounts with reported amounts based on significant estimates and judgments include, but are not limited to, revenue, unbilled receivables, deferred revenue, deferred income taxes, deferred commissions, income taxes payable, convertible senior notes, capped call transactions, intangible assets, and goodwill.

Principles of consolidation

The Company’s consolidated financial statements reflect Pegasystems Inc. and subsidiaries in which the Company holds a controlling financial interest. All intercompany accounts and transactions were eliminated in consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue

The Company’s revenue is primarily derived from:

- software license revenue from sales of the Company’s Pega Platform and software applications. Software licenses represent functional intellectual property and are delivered separately from maintenance and services.
- maintenance revenue from client support including software upgrades (on a when and if available basis), telephone support, and bug fixes or patches.
- Pega Cloud revenue, which is sales of the Company’s hosted Pega Platform and software applications.
- consulting revenue, which is primarily related to new software license implementations, training, and reimbursable costs.

Performance Obligations

The Company’s software license and Pega Cloud arrangements often contain multiple performance obligations. If a contract contains multiple performance obligations, the Company accounts for each distinct performance obligation separately. The transaction price is allocated to the separate performance obligations on a relative stand-alone selling price basis. Any discounts or expected potential future price concessions are considered when determining the total transaction price. The Company’s policy is to exclude sales and similar taxes collected from clients from the determination of transaction price.

The Company’s typical performance obligations are:

Performance Obligation	How Standalone Selling Price is Typically Determined	When Performance Obligation is Typically Satisfied	When Payment is Typically Due
Perpetual license	Residual approach	Upon transfer of control to the client, defined when the client can use and benefit from the license (point in time)	Effective date of the license
Term license	Residual approach	Upon transfer of control to the client, defined when the client can use and benefit from the license (point in time)	Annually, or more frequently, over the term of the license
Maintenance	Consistent pricing relationship as a percentage of the related license and observable in stand-alone renewal transactions ⁽¹⁾	Ratably over the term of the maintenance (over time)	Annually, or more frequently, over the term of the maintenance
Pega Cloud	Residual approach	Ratably over the term of the service (over time)	Annually, or more frequently, over the term of the service
Consulting - time and materials	Observable hourly rate for time and materials-based services in similar geographies for similar contract sizes	Based on hours incurred to date	Monthly
Consulting - fixed price	Observable hourly rate for time and materials-based services in similar geographies for similar contract sizes multiplied by estimated hours for the project	Based on hours incurred as a percentage of total estimated hours	As contract milestones are achieved

(1) Technical support and software updates are considered distinct services but accounted for as a single performance obligation, as they have the same pattern of transfer to the client.

The Company utilizes the residual approach for performance obligations since the selling price is highly variable and stand-alone selling price is not discernible from past transactions or other observable evidence. Periodically, the Company reevaluates whether the residual approach remains appropriate. As required, the Company evaluates its residual approach estimate compared to all available observable data in order to conclude the estimate is representative of its stand-alone selling price.

If the contract grants the client the option to acquire additional products or services, the Company assesses whether the option represents a material right to the client that the client would not receive without entering into that contract. Discounts on options to purchase additional products and services greater than discounts available to similar clients are accounted for as an additional performance obligation.

During most of each client contract term, the amount invoiced is generally less than the amount of revenue recognized to date, primarily because we transfer control of the performance obligation related to the software license at the inception of the contract term. A significant portion of the total contract consideration is typically allocated to the license performance obligation. Therefore, our contracts often result in the recording of unbilled receivables and contract assets throughout most of the contract term. The Company records an unbilled receivable or contract asset when revenue recognized on a contract exceeds the billings. The Company recognizes an impairment on receivables and contract assets if, after contract inception, it becomes probable that payment is not collectible. The Company reviews receivables and contract assets on an individual basis for impairment.

Variable consideration

The Company's arrangements can include variable fees, such as the option to purchase additional usage of a previously delivered software license. The Company may also provide pricing concessions to clients, a business practice that also gives rise to variable fees in contracts. For variable fees arising from the client's acquisition of additional usage of a previously delivered software license, the Company applies the sales and usage-based royalties guidance related to a license of intellectual property and recognizes the revenue in the period the underlying sale or usage occurs. The Company includes variable fees in the determination of total transaction price if it is not probable that a future significant reversal of revenue will occur. The Company uses the expected value or most likely value amount, whichever is more appropriate for specific circumstances, to estimate variable consideration, and the estimates are based on the level of historical price concessions offered to clients. The variable consideration related to pricing concessions and other forms of variable consideration, including usage-based fees, have not been material to the Company's consolidated financial statements.

Significant financing components

The Company generally does not intend to provide financing to its clients, as financing arrangements are not contemplated as part of the negotiated terms of contracts between the Company and its clients. Although there may be instances with an intervening period between the delivery of the license and the payment, typically in term license arrangements, the purpose of that timing difference is to align the client's payment with the timing of the use of the software license or service.

In certain circumstances, however, there are instances where revenue recognition timing differs from the timing of payment due to extended payment terms or fees that are non-proportional to the associated usage of software licenses. In these instances, the Company evaluates whether a significant financing component exists. This evaluation includes determining the difference between the consideration the client would have paid at the time the performance obligation was satisfied and the amount of consideration actually paid. Contracts that include a significant financing component are adjusted for the time value of money at the rate inherent in the contract, the client's borrowing rate, or the Company's incremental borrowing rate, depending upon the recipient of the financing.

During 2020, 2019, and 2018, significant financing components were not material.

Contract modifications

The Company assesses contract modifications to determine:

- if the additional products and services are distinct from the products and services in the original arrangement; and
- if the amount of consideration expected for the added products and services reflects the stand-alone selling price of those products and services.

A contract modification meeting both criteria is accounted for as a separate contract. A contract modification not meeting both criteria is considered a change to the original contract and is accounted for on either:

- a prospective basis as a termination of the existing contract and the creation of a new contract; or
- a cumulative catch-up basis.

Deferred commissions

The Company recognizes an asset for the incremental costs of obtaining a client contract, primarily related to sales commissions. The Company expects to benefit from those costs for more than one year, as the Company primarily pays sales commissions on the initial contract. As a result, there are no commensurate commissions paid on contract renewals. Deferred commissions are allocated to each performance obligation within the contract and amortized according to the transfer of underlying goods and services within those contracts and expected renewals. The expected benefit period is determined based on the length of the client contracts, client attrition rates, the underlying technology life-cycle, and the competitive marketplace's influence in which the products and services are sold. Deferred costs allocated to maintenance and deferred costs for Pega Cloud arrangements are amortized over an average expected benefit period of five years. Deferred costs allocated to software licenses, and any expected renewals of term software licenses within the five years expected benefit period, are amortized at the point in time control of the software license is transferred. Deferred costs allocated to consulting are amortized over a period consistent with the pattern of transfer of control for the related services.

Financial instruments

The principal financial instruments held by the Company consist of cash equivalents, marketable securities, receivables, capped call transactions, and accounts payable. The Company considers debt securities that are readily convertible to known amounts of cash with maturities of three months or less from the purchase date to be cash equivalents. Interest is recorded when earned. All of the Company's investments are classified as available-for-sale and are carried at fair value. Unrealized gains and losses considered temporary in nature are recorded as a component of accumulated other comprehensive loss, net of related income taxes. The Company reviews all investments for reductions in fair value that are other-than-temporary. When such reductions occur, the investment cost is adjusted to fair value by recording a loss on investments in the consolidated statements of operations. Gains and losses on investments are calculated based upon the specific investment.

See "Note 4. Receivables, Contract Assets, And Deferred Revenue", "Note 10. Debt", and "Note 12. Fair Value Measurements" for additional information.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are three years for computer equipment and five years for furniture and fixtures. Leasehold improvements are amortized over the lesser of the lease's term or the useful life of the asset. Repairs and maintenance costs are expensed as incurred.

Leases

All the Company's leases are operating leases, primarily composed of office space leases. The Company accounts for a contract as a lease when it has the right to control the asset for a period of time while obtaining substantially all of the asset's economic benefits. The Company determines the initial classification and measurement of its operating right of use assets and lease liabilities at the lease commencement date and thereafter if modified. Fixed lease costs are recognized on a straight-line basis over the term of the lease. Variable lease costs are recognized in the period in which the obligation for those payments is incurred. The Company combines lease and non-lease components in the determination of lease costs for its office space leases. The lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain it will exercise those options. The Company's leases do not contain any material residual value guarantees or restrictive covenants.

Internal-use software

The Company capitalizes and amortizes certain direct costs associated with computer software developed or purchased for internal use incurred during the application development stage. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. The Company amortizes capitalized software costs generally over three to five years, commencing on the date the software is placed into service.

Goodwill

Goodwill represents the residual purchase price paid in a business combination after the fair value of all identified assets and liabilities have been recorded. Goodwill is not amortized. The Company has a single reporting unit. The Company performed a qualitative assessment as of November 30, 2020, 2019, and 2018, and concluded that there was no impairment since it was not more likely than not that the fair value of its reporting unit was less than its carrying value.

Intangible and long-lived assets

All of the Company's intangible assets are amortized using the straight-line method over their estimated useful life. The Company evaluates its long-lived tangible and intangible assets for impairment whenever events or changes in circumstances indicate that such assets' carrying amount may not be recoverable. Impairment is assessed by comparing the undiscounted cash flows expected to be generated by the long-lived tangible or intangible assets to their carrying value. If impairment exists, the Company calculates the impairment by comparing the carrying value to its fair value as determined by discounted expected cash flows.

Cash equivalents

Cash equivalents include money market funds, time deposits and other investments with original maturities of three months or less.

Business combinations

The Company uses its best estimates and assumptions to assign a fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

Research and development and software development costs

Research and development costs are expensed as incurred. Capitalization of computer software developed for resale begins upon the establishment of technological feasibility, generally demonstrated by a working model or an operative version of the computer software product. Such costs have not been material to date, as technological feasibility is established within a short time frame from the software's general availability. As a result, no costs were capitalized in 2020, 2019, or 2018.

Stock-based compensation

The Company recognizes stock-based compensation expense associated with equity awards based on the award's fair value at the grant date. Stock-based compensation is recognized over the requisite service period, which is generally the vesting period of the equity award and is adjusted each period for anticipated forfeitures. See "Note 14. Stock-Based Compensation" for discussion of the Company's key assumptions included in determining the fair value of its equity awards at the grant date.

Foreign currency translation and remeasurement

The translation of assets and liabilities for the Company's subsidiaries with functional currencies other than the U.S. dollar are made at period-end exchange rates. Revenue and expense accounts are translated at the average exchange rates during the period transactions occurred. The resulting translation adjustments are reflected in accumulated other comprehensive income. Realized and unrealized exchange gains or losses from transactions and remeasurement adjustments are reflected in foreign currency transaction gain (loss) in the accompanying consolidated statements of operations.

Accounting for income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company regularly assesses the need for a valuation allowance against its deferred tax assets. Future realization of the Company's deferred tax assets ultimately depends on sufficient taxable income within the available carryback or carryforward periods. Taxable income sources include taxable income in prior carryback years, future reversals of existing taxable temporary differences, tax planning strategies, and future taxable income. The Company records a valuation allowance to reduce its deferred tax assets to an amount it believes is more-likely-than-not to be realized. Changes in the valuation allowance impacts income tax expense in the period of adjustment. The Company's deferred tax valuation allowance requires significant judgment and uncertainties, including assumptions about future taxable income that are based on historical and projected information. The Company recognizes excess tax benefits when they are realized, as a reduction of the provision for income taxes.

The Company assesses its income tax positions and records tax benefits based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the Company records the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit is recognized in the financial statements. The Company classifies liabilities for uncertain tax positions as non-current liabilities unless the uncertainty is expected to be resolved within one year. The Company classifies interest and penalties on uncertain tax positions as income tax expense.

As a global company, the Company uses significant judgment to calculate and provide for income taxes in each of the tax jurisdictions in which it operates. In the ordinary course of the Company's business, there are transactions and calculations undertaken whose ultimate tax outcome cannot be certain. Some of these uncertainties arise as a consequence of transfer pricing for transactions with the Company's subsidiaries and nexus and tax credit estimates. In addition, the calculation of acquired tax attributes and the associated limitations are complex. See "Note 16. Income Taxes" for additional information.

Advertising expense

Advertising costs are expensed as incurred. Advertising costs were \$8.7 million, \$6.7 million, and \$6.9 million during 2020, 2019, and 2018, respectively.

New Accounting Standards

Convertible debt

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-06, “Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity” (ASU 2020-06), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity’s own equity. The standard eliminates the liability and equity separation model for convertible instruments with a cash conversion feature. As a result, after adoption, entities will no longer separately present in equity an embedded conversion feature for such debt. Additionally, the embedded conversion feature will no longer be amortized into income as interest expense over the instrument’s life. Instead, entities will account for a convertible debt instrument wholly as debt unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC Topic 815, Derivatives and Hedging, or (2) a convertible debt instrument was issued at a substantial premium. Additionally, the standard requires applying the if-converted method to calculate convertible instruments’ impact on diluted earnings per share (“EPS”). The standard is effective for fiscal years beginning after December 15, 2021, with early adoption permitted for fiscal years beginning after December 15, 2020. It can be adopted on either a full retrospective or modified retrospective basis. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements and related disclosures. The Company expects to elect to early adopt the new standard in the first quarter of 2021.

3. MARKETABLE SECURITIES

(in thousands)	December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Government debt	\$ 39,996	\$ —	\$ (8)	\$ 39,988
Corporate debt	253,345	88	(152)	253,281
	<u>\$ 293,341</u>	<u>\$ 88</u>	<u>\$ (160)</u>	<u>\$ 293,269</u>

As of December 31, 2020, marketable securities maturities ranged from January 2021 to December 2023, with a weighted-average remaining maturity of 1.5 years.

As of December 31, 2019, the Company did not hold any marketable securities.

4. RECEIVABLES, CONTRACT ASSETS, AND DEFERRED REVENUE

Receivables

(in thousands)	December 31, 2020	December 31, 2019
Accounts receivable	\$ 215,827	\$ 199,720
Unbilled receivables	207,155	180,219
Long-term unbilled receivables	113,278	121,736
	<u>\$ 536,260</u>	<u>\$ 501,675</u>

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

Unbilled receivables are expected to be billed in the future as follows:

(Dollars in thousands)	December 31, 2020	
1 year or less	\$ 207,155	65 %
1-2 years	83,992	26 %
2-5 years	29,286	9 %
	<u>\$ 320,433</u>	<u>100 %</u>

Unbilled receivables based upon contract effective date:

(Dollars in thousands)	December 31, 2020	
2020	\$ 149,867	47 %
2019	87,941	27 %
2018	31,097	10 %
2017	31,668	10 %
2016 and prior	19,860	6 %
	<u>\$ 320,433</u>	<u>100 %</u>

Major clients

No client represented 10% or more of the Company's total accounts receivable and unbilled receivables as of December 31, 2020 or December 31, 2019.

Contract assets and deferred revenue

(in thousands)

	December 31, 2020		December 31, 2019	
Contract assets ⁽¹⁾	\$	15,296	\$	5,558
Long-term contract assets ⁽²⁾		7,777		5,420
	\$	23,073	\$	10,978
Deferred revenue	\$	232,865	\$	190,080
Long-term deferred revenue ⁽³⁾		8,991		5,407
	\$	241,856	\$	195,487

(1) Included in other current assets. (2) Included in other long-term assets. (3) Included in other long-term liabilities.

Contract assets are client committed amounts for which revenue recognized exceeds the amount billed to the client where the right to payment is subject to conditions other than the passage of time, such as completing a related performance obligation. Deferred revenue consists of billings and payments received in advance of revenue recognition. Contract assets and deferred revenue are netted at the contract level for each reporting period.

The change in deferred revenue in the year ended December 31, 2020 was primarily due to new billings in advance of revenue recognition and \$187.6 million of revenue recognized during the period that was included in deferred revenue on December 31, 2019.

5. DEFERRED COMMISSIONS

(in thousands)

	December 31,	
	2020	2019
Deferred commissions ⁽¹⁾	\$ 108,624	\$ 85,314

(1) Included in other long-term assets.

(in thousands)

	2020		2019		2018	
Amortization of deferred commissions ⁽¹⁾	\$	33,302	\$	29,152	\$	17,271

(1) Included in selling and marketing expenses.

6. PROPERTY AND EQUIPMENT ⁽¹⁾

(in thousands)

	December 31,	
	2020	2019
Leasehold improvements	\$ 52,335	\$ 42,162
Computer equipment	30,211	25,147
Furniture and fixtures	10,572	8,524
Computer software purchased	8,415	7,775
Computer software developed for internal use	18,542	17,606
Fixed assets in progress	2,077	4,044
	122,152	105,258
Less: accumulated depreciation	(81,754)	(70,975)
	\$ 40,398	\$ 34,283

(1) Included in other long-term assets.

(in thousands)

	2020		2019		2018	
Depreciation expense	\$	17,378	\$	14,771	\$	13,875

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

(in thousands)

	2020		2019	
January 1,	\$	79,039	\$	72,858
Acquisition		—		6,179
Currency translation adjustments		192		2
December 31,	\$	79,231	\$	79,039

Intangibles

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

<i>(in thousands)</i>	Useful Lives	December 31, 2020		
		Cost	Accumulated Amortization	Net Book Value ⁽¹⁾
Client-related	4-10 years	\$ 63,168	\$ (55,877)	\$ 7,291
Technology	2-10 years	64,843	(56,386)	8,457
Other	1-5 years	5,361	(5,361)	—
		<u>\$ 133,372</u>	<u>\$ (117,624)</u>	<u>\$ 15,748</u>

⁽¹⁾ Included in other long-term assets.

<i>(in thousands)</i>	Useful Lives	December 31, 2019		
		Cost	Accumulated Amortization	Net Book Value ⁽¹⁾
Client-related	4-10 years	\$ 63,140	\$ (54,368)	\$ 8,772
Technology	2-10 years	64,843	(53,898)	10,945
Other	1-5 years	5,361	(5,361)	—
		<u>\$ 133,344</u>	<u>\$ (113,627)</u>	<u>\$ 19,717</u>

⁽¹⁾ Included in other long-term assets.

Amortization of intangible assets was:

<i>(in thousands)</i>	2020	2019	2018
Cost of revenue	\$ 2,487	\$ 3,500	\$ 5,027
Selling and marketing	1,483	3,125	6,416
	<u>\$ 3,970</u>	<u>\$ 6,625</u>	<u>\$ 11,443</u>

Future estimated amortization expense related to intangible assets:

<i>(in thousands)</i>	December 31, 2020
2021	\$ 3,657
2022	3,557
2023	3,289
2024	2,520
2025 and after	2,725
	<u>\$ 15,748</u>

8. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker (“CODM”) in deciding how to allocate resources and in assessing performance.

The Company derives substantially all of its revenue from the sale and support of one group of similar products and services – software that provides case management, business process management, and real time decisioning solutions to improve customer engagement and operational excellence in the enterprise applications market. To assess performance, the Company’s CODM, the Chief Executive Officer, reviews financial information on a consolidated basis. Therefore, the Company determined it has one operating segment and one reporting unit.

Long-lived assets related to the Company’s U.S. and international operations were:

<i>(Dollars in thousands)</i>	December 31,			
	2020		2019	
U.S.	\$ 31,339	78 %	\$ 26,644	78 %
International	9,059	22 %	7,639	22 %
	<u>\$ 40,398</u>	<u>100 %</u>	<u>\$ 34,283</u>	<u>100 %</u>

9. LEASES

Expense

<i>(in thousands)</i>	2020	2019
Fixed lease costs	\$ 20,235	\$ 18,250
Short-term lease costs	1,669	1,291
Variable lease costs	4,470	5,554
	<u>\$ 26,374</u>	<u>\$ 25,095</u>

Total rent expense under operating leases was \$14.9 million for 2018.

Right of use assets and lease liabilities

<i>(in thousands)</i>	December 31, 2020	December 31, 2019
Right of use assets ⁽¹⁾	\$ 67,651	\$ 58,273
Lease liabilities ⁽²⁾	\$ 18,541	\$ 15,885
Long-term lease liabilities	\$ 59,053	\$ 52,610

(1) Represents the Company's right to use the leased asset during the lease term. Included in other long-term assets. (2) Included in other current liabilities.

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

	December 31, 2020	December 31, 2019
Weighted-average remaining lease term	4.7 years	4.0 years
Weighted-average discount rate ⁽¹⁾	5.4 %	5.8 %

(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 are:

<i>(in thousands)</i>	December 31, 2020
1 year or less	\$ 22,164
1-2 years	21,747
2-3 years	21,599
3-4 years	7,683
> 4 years	14,431
Total lease payments	87,624
Less: imputed interest (1)	(10,030)
Total short and long-term lease liabilities	<u>\$ 77,594</u>

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

Cash flow information

<i>(in thousands)</i>	2020	2019
Cash paid for leases	\$ 20,548	\$ 19,727
Right of use assets recognized for new leases and amendments (non-cash)	\$ 24,276	\$ 31,155

10. 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 amount of \$600 million, due March 1, 2025, in a private placement. The proceeds from the Notes were used or are anticipated to be used for the Capped Call Transactions (described below), working capital, and other general corporate purposes. There are no required principal payments until the maturity of the Notes. The Notes accrue interest at an annual rate of 0.75%, payable semi-annually in arrears on March 1 and September 1, beginning on September 1, 2020.

Proceeds from the Notes and Capped Call Transactions:

<i>(in thousands)</i>	Amount
Principal	\$ 600,000
Less: issuance costs	(14,527)
Less: Capped Call Transactions	(51,900)
	<u>\$ 533,573</u>

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 Company will settle conversions by paying or delivering, as applicable, 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. The conversion rate will be adjusted upon the occurrence of certain events, including spin-offs, tender offers, exchange offers, and certain stockholder distributions.

Beginning on September 1, 2024, noteholders may convert their Notes at any time at their election. Before September 1, 2024, noteholders may convert their Notes in the following circumstances:

- During any calendar quarter commencing after the calendar quarter ending on June 30, 2020 (and only during such calendar quarter), if the last reported sale price per share of the Company's common stock exceeds one hundred and thirty percent (130%) of the conversion price for each of at least twenty (20) trading days (whether or not consecutive) during the thirty (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 the occurrence of certain corporate events or distributions, or if the Company calls all or any Notes for redemption, then the noteholder of any Note may convert such Note at any time 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 due on such redemption date in full, at any time until the Company pays such redemption price in full).

As of December 31, 2020, no Notes were eligible for conversion at the noteholders' election.

Repurchase rights

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

If certain corporate events that constitute a "Fundamental Change" (as described below) occur at any time, each noteholder will have the right, at such noteholder's option, 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 an integral 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 events such as mergers, changes in control of the Company, liquidation/dissolution of the Company, or the delisting of the Company's common stock.

Impact of the Notes

In accounting for the transaction, the Notes have been separated into liability and equity components.

- The initial carrying amount of the liability component was calculated by measuring a similar debt instrument's fair value that does not have an associated conversion feature. The excess of the Notes' principal amount over the initial carrying amount of the liability component, the debt discount, is amortized as interest expense over the Notes' contractual term.
- The equity component was recorded as an increase to additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Convertible Senior Notes.

The Company incurred issuance costs of \$14.5 million related to the Notes, allocated between the Notes' liability and equity components proportionate to the initial carrying amount of the liability and equity components.

- Issuance costs attributable to the liability component are recorded as an offset to the Notes' principal balance. They are amortized as interest expense using the effective interest method over the contractual term of the Notes.
- Issuance costs attributable to the equity component are recorded as an offset to the equity component in additional paid-in capital and are not amortized.

Net carrying amount of the liability component:

<i>(in thousands)</i>	December 31, 2020
Principal	\$ 600,000
Unamortized debt discount	(71,222)
Unamortized issuance costs	(10,575)
	<u>\$ 518,203</u>

Net carrying amount of the equity component, included in additional paid-in capital:

<i>(in thousands)</i>	December 31, 2020
Conversion options ⁽¹⁾	\$ 61,604

(1) Net of issuance costs and taxes.

Interest expense related to the Notes:

<i>(in thousands)</i>	2020
Contractual interest expense (0.75% coupon)	\$ 3,825
Amortization of debt discount ⁽¹⁾	12,898
Amortization of issuance costs ⁽¹⁾	1,915
	<u>\$ 18,638</u>

(1) Amortized based upon an effective interest rate of 4.31%.

Future payments of principal and contractual interest:

<i>(in thousands)</i>	December 31, 2020		
	Principal	Interest	Total
2021	—	4,500	4,500
2022	—	4,500	4,500
2023	—	4,500	4,500
2024	—	4,500	4,500
2025	600,000	1,488	601,488
	<u>\$ 600,000</u>	<u>\$ 19,488</u>	<u>\$ 619,488</u>

Capped Call Transactions

In February 2020, the Company entered into privately negotiated capped call transactions ("Capped Call Transactions") with certain financial institutions. The Capped Call Transactions cover 4.4 million shares (representing the number of shares for which the Notes are initially convertible) of the Company's common stock. They are generally expected to reduce potential dilution to the common stock upon any conversion of Notes and/or offset any potential cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. The cap price of the Capped Call Transactions is \$196.44, subject to adjustment upon the occurrence of specified extraordinary events affecting the Company, including merger events and tender offers.

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

Change in value of Capped Call Transactions:

<i>(in thousands)</i>	Year Ended December 31, 2020
Value at issuance	\$ 51,900
Fair value adjustment	31,697
Balance as of December 31,	<u>\$ 83,597</u>

Credit facility

In November 2019, and as amended as of February 2020, July 2020, and September 2020, the Company entered into a five-year \$100 million senior secured revolving credit agreement (the "Credit Facility") with PNC Bank, National Association ("PNC"). The Company may use borrowings to finance working capital needs and for general corporate purposes. Subject to specific conditions, the Credit Facility allows the Company to increase the aggregate commitment to \$200 million. The commitments expire on November 4, 2024, and any outstanding loans will be payable on such date. The Credit Facility, as amended, contains customary covenants, including, but not limited to, those relating to additional indebtedness, liens, asset divestitures, and affiliate transactions.

The Company is also required to comply with financial covenants, including:

- Beginning with the fiscal quarter ended on September 30, 2020 and ending with the fiscal quarter ended December 31, 2021, at least \$200 million in cash and investments held by Pegasystems Inc.
- Beginning with the quarter ended on March 31, 2022, a maximum net consolidated leverage ratio of 3.5 to 1.0 (with a step-up in the event of certain acquisitions) and a minimum consolidated interest coverage ratio of 3.5 to 1.0.

As of December 31, 2020 and December 31, 2019, the Company had no outstanding borrowings under the Credit Facility.

11. STOCKHOLDERS' EQUITY

Preferred stock

The Company has 1 million authorized shares of preferred stock, \$0.01 par value per share, of which none were issued and outstanding at December 31, 2020. The Board of Directors has the authority to issue the shares of preferred stock in one or more series, to establish the number of shares to be included in each series, and to determine the designation, powers, preferences, and rights of the shares of each series and the qualifications, limitations, or restrictions thereof, without any further vote or action by the stockholders. The issuance of preferred stock could decrease the earnings and assets available for distribution to holders of common stock and may have the effect of delaying, deferring, or defeating a change in control of the Company. The Company had not issued any shares of preferred stock through December 31, 2020.

Common stock

The Company has 200 million authorized shares of common stock, \$0.01 par value per share, of which 80.9 million shares were issued and outstanding at December 31, 2020.

Dividends declared

	2020		2019		2018	
Dividends declared (per share)	\$	0.12	\$	0.12	\$	0.12
Dividend payments to stockholders (in thousands)	\$	9,628	\$	9,486	\$	9,432

The Company's paid a quarterly cash dividend of \$0.03 per share in 2020, 2019, and 2018, however, the Board of Directors may terminate or modify the dividend program at any time without prior notice.

Stock repurchases

(in thousands)	2020		2019		2018	
	Shares	Amount	Shares	Amount	Shares	Amount
January 1,		\$ 45,484		\$ 6,620		\$ 34,892
Authorizations ⁽¹⁾		\$ 20,516		\$ 60,000		\$ 27,003
Repurchases ⁽²⁾	(278)	\$ (28,274)	(333)	\$ (21,136)	(1,001)	\$ (55,275)
December 31,		\$ 37,726		\$ 45,484		\$ 6,620

(1) On June 15, 2020, the Company announced that the Board of Directors extended the current stock repurchase program's expiration date to June 30, 2021 and increased the remaining stock repurchase authority to \$60 million.

(2) Purchases under this program have been made on the open market.

12. FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value on a recurring basis

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

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

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

- Level 3 - significant unobservable inputs on which there is 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 models use various market-based inputs, including stock price, remaining contractual term, expected volatility, risk-free interest rate, and expected dividend yield, as applicable. The Company applies judgment in its determination of expected volatility. The Company considers both historical and implied volatility levels of the underlying equity security and, to a lesser extent, historical peer group volatility levels. The Company's venture investments are recorded at fair value based on valuation methods using the observable transaction price and other unobservable inputs, including the volatility, rights, and obligations of the securities the Company holds.

The Company's assets and liabilities measured at fair value on a recurring basis:

<i>(in thousands)</i>	December 31, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents	\$ 42,339	\$ 14,000	\$ —	\$ 56,339	\$ —	\$ —	\$ —	\$ —
Marketable securities	\$ —	\$ 293,269	\$ —	\$ 293,269	\$ —	\$ —	\$ —	\$ —
Capped Call Transactions ⁽¹⁾⁽²⁾	\$ —	\$ 83,597	\$ —	\$ 83,597	\$ —	\$ —	\$ —	\$ —
Venture investments ⁽¹⁾⁽³⁾	\$ —	\$ —	\$ 8,345	\$ 8,345	\$ —	\$ —	\$ 4,871	\$ 4,871

(1) Included in other long-term assets.

(2) See "Note 10. Debt" for additional information.

(3) Investments in privately-held companies.

Change in venture investments:

<i>(in thousands)</i>	2020	2019
January 1,	\$ 4,871	\$ 3,390
New investments	3,306	1,444
Sales of investments	(1,424)	—
Changes in foreign exchange rates	118	37
Fair value adjustment	1,474	—
December 31,	\$ 8,345	\$ 4,871

The carrying value of certain other financial instruments, including receivables and accounts payable, approximates fair value due to these items' relatively short maturity.

Fair value of the Notes

The fair value of the Company's Notes was recorded at \$515.9 million upon issuance, which reflected the principal amount of the Notes less the fair value of the conversion feature. The fair value of the debt component was determined based on a discounted cash flow model. The discount rate used reflected both the time value of money and credit risk inherent in the Notes. The carrying value of the Notes will be accreted, over the remaining term to maturity, to their principal value of \$600 million.

The Notes' fair value (inclusive of the conversion feature embedded in the Notes) was \$706.5 million as of December 31, 2020. 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. See "Note 10. Debt" for additional information.

Credit risk

In addition to receivables, the Company is potentially subject to concentrations of credit risk from the Company's cash, cash equivalents, and marketable securities. The Company's cash and cash equivalents are generally held with large, diverse financial institutions worldwide to reduce the Company's credit risk exposure. Investment policies have been implemented that limit purchases of marketable debt securities to investment-grade securities.

13. REVENUE

Geographic revenue

<i>(Dollars in thousands)</i>	2020		2019		2018	
U.S.	\$ 613,844	61 %	\$ 525,191	57 %	\$ 469,987	52 %
Other Americas	49,441	5 %	60,536	7 %	53,239	6 %
United Kingdom ("U.K.")	91,517	9 %	87,382	10 %	95,628	11 %
Europe (excluding U.K.), Middle East, and Africa	156,056	15 %	137,946	15 %	147,248	17 %
Asia-Pacific	106,659	10 %	100,328	11 %	125,479	14 %
	\$ 1,017,517	100 %	\$ 911,383	100 %	\$ 891,581	100 %

Revenue streams

(in thousands)	2020	2019	2018
Perpetual license	\$ 28,558	\$ 80,015	\$ 109,863
Term license	266,352	199,433	178,256
Revenue recognized at a point in time	294,910	279,448	288,119
Maintenance	296,709	280,580	263,875
Pega Cloud	208,268	133,746	82,627
Consulting	217,630	217,609	256,960
Revenue recognized over time	722,607	631,935	603,462
	<u>\$ 1,017,517</u>	<u>\$ 911,383</u>	<u>\$ 891,581</u>

(in thousands)	2020	2019	2018
Pega Cloud	208,268	133,746	82,627
Maintenance	296,709	280,580	263,875
Term license	<u>\$ 266,352</u>	<u>\$ 199,433</u>	<u>\$ 178,256</u>
Subscription ⁽¹⁾	771,329	613,759	524,758
Perpetual license	28,558	80,015	109,863
Consulting	217,630	217,609	256,960
Total revenue	<u>\$ 1,017,517</u>	<u>\$ 911,383</u>	<u>\$ 891,581</u>

⁽¹⁾Reflects client arrangements subject to renewal (Pega Cloud, maintenance, and term license).

Remaining performance obligations ("Backlog")

Expected future revenue on existing contracts:

(Dollars in thousands)	December 31, 2020						Total	
	Perpetual license	Term license	Maintenance	Pega Cloud	Consulting			
1 year or less	\$ 11,514	\$ 105,920	\$ 227,803	\$ 248,223	\$ 19,226	\$ 612,686	57 %	
1-2 years	395	7,962	54,509	193,064	346	256,276	24 %	
2-3 years	—	4,928	28,320	104,542	851	138,641	13 %	
Greater than 3 years	—	4	19,283	44,308	1,189	64,784	6 %	
	<u>\$ 11,909</u>	<u>\$ 118,814</u>	<u>\$ 329,915</u>	<u>\$ 590,137</u>	<u>\$ 21,612</u>	<u>\$ 1,072,387</u>	100 %	

(Dollars in thousands)	December 31, 2019						Total	
	Perpetual license	Term license	Maintenance	Pega Cloud	Consulting			
1 year or less	\$ 2,305	\$ 97,826	\$ 206,882	\$ 165,571	\$ 20,798	\$ 493,382	58 %	
1-2 years	2,179	12,014	30,291	128,109	1,439	174,032	21 %	
2-3 years	—	3,132	17,844	84,788	132	105,896	13 %	
Greater than 3 years	—	3,861	13,277	43,702	1,993	62,833	8 %	
	<u>\$ 4,484</u>	<u>\$ 116,833</u>	<u>\$ 268,294</u>	<u>\$ 422,170</u>	<u>\$ 24,362</u>	<u>\$ 836,143</u>	100 %	

14. STOCK-BASED COMPENSATION

The following table presents the stock-based compensation expense included in the Company's consolidated statements of operations:

(in thousands)	2020	2019	2018
Cost of revenue	\$ 20,796	\$ 18,822	\$ 16,862
Selling and marketing	46,283	32,665	23,237
Research and development	22,885	18,938	15,274
General and administrative	13,104	10,484	8,489
	<u>\$ 103,068</u>	<u>\$ 80,909</u>	<u>\$ 63,862</u>
Income tax benefit	\$ (20,464)	\$ (16,392)	\$ (13,383)

The Company periodically grants stock options and restricted stock units ("RSUs") for a fixed number of shares upon vesting to employees and non-employee Directors. Beginning in 2019, the Company granted Directors awards in the form of common stock and stock options.

Most of the Company's stock-based compensation arrangements vest over five years, with 20% vesting after one year and the remaining 80% vesting in equal quarterly installments over the remaining four years. The Company's stock options have a term of ten years. The Company recognizes stock-based compensation using the accelerated attribution method, treating each vesting tranche as if it were an individual grant. The stock-based compensation expense recognized during a period is based on the value of the awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Ultimately, the Company recognizes the actual expense over the vesting period only for the shares that vest.

Employees may 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. If elected by an employee, the equity amount is equal in value on the date of grant to 50% of the employee's target incentive opportunity, based on the employee's base salary. The number of RSUs granted is determined by dividing 50% of the employee's target incentive opportunity by 85% of the closing price of the Company's common stock on the grant date, less the present value of expected dividends during the vesting period. If elected, the award vests 100% on the following year's CICP payout date. Vesting is conditioned upon the performance conditions of the CICP and on continued employment; if threshold funding does not occur, the RSUs will not vest. The Company considers vesting to be probable on the grant date and recognizes the associated stock-based compensation expense over the requisite service period beginning on the grant date and ending on the vesting date.

The Company grants awards that allow for the settlement of vested stock options and RSUs on a net share basis ("net settled awards"). With net settled awards, the employee does not surrender any cash or shares upon exercise. Instead, the Company withholds the number of shares to cover the exercise price (in the case of stock options) and the minimum statutory tax withholding obligations (in the case of stock options and RSUs) from the shares that would otherwise be issued upon exercise or settlement. The exercise of stock options and settlement of RSUs on a net share basis results in fewer shares issued by the Company.

Share-based compensation plans

2004 Long-Term Incentive Plan (as amended and restated)

In 2004, the Company adopted the 2004 Long-Term Incentive Plan (as amended and restated, the "2004 Plan") to provide employees, non-employee Directors, and consultants with opportunities to purchase stock through incentive stock options and non-qualified stock options. Subsequent amendments to the plan increased the number of shares authorized for issuance under the plan to 36 million, extended the term of the plan to 2030, and limited annual compensation to any non-employee Director to \$0.5 million.

As of December 31, 2020, 9.9 million shares were subject to outstanding options and stock-based awards under the 2004 Plan.

2006 Employee Stock Purchase Plan

In 2006, the Company adopted the 2006 Employee Stock Purchase Plan (the "2006 ESPP") under which the Company's employees are entitled to purchase up to an aggregate of one million shares of common stock, at a price equal to at least 85% of the fair market value of the Company's common stock on the lesser of the commencement date or completion date for offerings under the plan, or such higher price as the Company's Board of Directors may establish from time to time. Until the Company's Board of Directors determines otherwise, the Board has set the purchase price at 95% of the fair market value on the completion date of the offering period. As a result, the 2006 ESPP is non-compensatory and is tax-qualified. Therefore, as of December 31, 2020, no compensation expense related to the plan had been recognized. In October 2012, the Company's Board of Directors amended the term of the 2006 ESPP such that it will continue until there are no shares remaining under the plan or until the plan is terminated by the Board of Directors, whichever occurs first.

As of December 31, 2020, 0.5 million shares had been issued thereunder.

Shares issued and available for issuance

During 2020, the Company issued 1.6 million shares to its employees and directors under the Company's share-based compensation plans.

As of December 31, 2020, there were 11.1 million shares available for issuance for future equity grants under the Company's stock plans, consisting of 10.6 million shares under the 2004 Plan and 0.5 million shares under the 2006 ESPP.

Grant activity

Stock options

The Company estimates the fair value of stock options using a Black-Scholes option-pricing model. Key inputs used to estimate the fair value of stock options include the exercise price of the award, expected term of the option, expected volatility of the Company's common stock over the option's expected term, risk-free interest rate over the option's expected term, and the Company's expected annual dividend yield. The exercise price for stock options is greater than or equal to the shares' fair market value at the grant date.

The following table summarizes the Company's fair value assumptions for stock options:

	2020	2019	2018
Weighted-average grant-date fair value	\$ 24.16	\$ 19.10	\$ 18.03
Assumptions used in the Black-Scholes option-pricing model:			
Expected annual volatility ⁽¹⁾	31 %	32 %	34 %
Expected term in years ⁽²⁾	4.5	4.5	4.5
Risk-free interest rate ⁽³⁾	0.7 %	2.4 %	2.6 %
Expected annual dividend yield ⁽⁴⁾	0.2 %	0.3 %	0.4 %

(1) The expected annual volatility for each grant is determined based on the average of historic daily price changes of the Company's common stock over a period, which approximates the expected option term.

(2) The expected option term for each grant is determined based on the historical exercise behavior of employees and post-vesting employment termination behavior.

(3) The risk-free interest rate is based on the yield of U.S. Treasury securities with a commensurate maturity with the expected option term at the time of grant.

(4) The expected annual dividend yield is based on the weighted-average dividend yield assumptions used for options granted during the applicable period.

The following table summarizes the combined stock option activity under the Company's stock option plans for 2020:

	Shares (in thousands)	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding as of January 1, 2020	7,436	\$ 44.76		
Granted	2,018	92.81		
Exercised	(1,777)	33.52		
Forfeited	(286)	62.86		
Options outstanding as of December 31, 2020	7,391	\$ 59.88		
Vested and expected to vest as of December 31, 2020	6,225	\$ 57.85	7.1	\$ 469,374
Exercisable as of December 31, 2020	2,935	\$ 38.73	5.6	\$ 277,450

The aggregate intrinsic value of stock options exercised (i.e., the difference between the market price at exercise and the price paid by the employee at exercise) in 2020, 2019, and 2018 was \$126.8 million, \$63.3 million, and \$56.8 million, respectively. The aggregate intrinsic value of stock options outstanding and exercisable as of December 31, 2020 is based on the difference between the closing price of the Company's stock of \$133.26 and the exercise price of the applicable stock options.

As of December 31, 2020, the Company had unrecognized stock-based compensation expense related to the unvested portion of stock options of \$35.9 million that is expected to be recognized as expense over a weighted-average period of 2.3 years.

RSUs

RSUs deliver to the recipient a right to receive a specified number of shares of the Company's common stock upon vesting. The Company values its RSUs at the fair value of its common stock on the grant date, which is the closing price of its common stock on the grant date less the present value of expected dividends during the vesting period, as the recipient is not entitled to dividends during the requisite service period.

The weighted-average grant-date fair value for RSUs granted in 2020, 2019, and 2018 was \$93.68, \$66.21, and \$58.52, respectively.

The following table summarizes the combined RSU activity for all grants, including the CICP, under the 2004 Plan for 2020:

	Shares (in thousands)	Weighted- Average Grant-Date Fair Value	Aggregate Intrinsic Value (in thousands)
Nonvested as of January 1, 2020	2,565	\$ 55.61	
Granted	1,168	93.68	
Vested	(1,059)	51.11	
Forfeited	(212)	65.17	
Nonvested as of December 31, 2020	2,462	\$ 74.78	\$ 328,023
Expected to vest as of December 31, 2020	1,841	\$ 76.05	\$ 245,339

The fair value of RSUs vested in 2020, 2019, and 2018 was \$108.4 million, \$77.0 million, and \$66.5 million, respectively. The aggregate intrinsic value of RSUs outstanding and expected to vest as of December 31, 2020 is based on the closing price of the Company's stock of \$133.26 on December 31, 2020.

As of December 31, 2020, the Company had \$68.6 million of unrecognized stock-based compensation expense related to all unvested RSUs that is expected to be recognized as expense over a weighted-average period of 2.1 years.

Common stock

In 2020, the Company granted 0.01 million shares of common stock to Directors with a weighted-average grant-date fair value of \$117.47 per share.

15. EMPLOYEE BENEFIT PLANS

The Company sponsors defined contribution plans for qualifying employees, including a 401(k) plan in the United States to which the Company makes discretionary matching contributions.

The following expenses related to defined contribution plans were recorded in the Company's consolidated statements of operations:

<i>(in thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
U.S. 401(k) Plan	\$ 8,109	\$ 6,676	\$ 5,506
International plans	16,132	13,021	11,101
	<u>\$ 24,241</u>	<u>\$ 19,697</u>	<u>\$ 16,607</u>

16. INCOME TAXES

The components of (loss) before (benefit from) income taxes are:

<i>(in thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Domestic	\$ (59,281)	\$ (51,396)	\$ (27,494)
Foreign	(65,608)	(83,450)	15,951
	<u>\$ (124,889)</u>	<u>\$ (134,846)</u>	<u>\$ (11,543)</u>

The components of (benefit from) income taxes are:

<i>(in thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current:			
Federal	\$ (11,251)	\$ 1,050	\$ (1,862)
State	399	405	287
Foreign	7,113	3,449	10,313
Total current (benefit from) provision for	<u>(3,739)</u>	<u>4,904</u>	<u>8,738</u>
Deferred:			
Federal	(34,573)	(25,356)	(18,939)
State	(8,119)	(5,143)	(3,702)
Foreign	(17,085)	(18,818)	(8,257)
Total deferred (benefit)	<u>(59,777)</u>	<u>(49,317)</u>	<u>(30,898)</u>
	<u>\$ (63,516)</u>	<u>\$ (44,413)</u>	<u>\$ (22,160)</u>

A reconciliation of the U.S federal statutory tax rate and the Company's effective tax rate, is as follows:

<i>(in thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
U.S. federal income taxes at statutory rates	\$ (26,227)	\$ (28,318)	\$ (2,424)
Valuation allowance	(5,881)	727	510
State income taxes, net of federal benefit and tax credits	(6,994)	(4,450)	(3,329)
Permanent differences	1,773	2,606	1,302
GILTI, FDII, and BEAT ⁽¹⁾	—	—	399
Federal research and experimentation credits	(5,716)	(4,295)	(6,991)
Tax effects of foreign activities	3,050	3,056	(399)
Tax-exempt income	—	(91)	(137)
Provision to return adjustments	3,416	(5,460)	253
Non-deductible compensation	1,806	1,716	1,025
Expiration of statutes and changes in estimates	55	2,420	(516)
Excess tax benefits related to share-based compensation	(25,797)	(14,291)	(13,541)
Cares Act	(10,576)	—	—
Impact of change in tax law	7,489	1,908	1,636
Other	86	59	52
	<u>\$ (63,516)</u>	<u>\$ (44,413)</u>	<u>\$ (22,160)</u>

(1) Global Intangible Low Taxed Income ("GILTI"), Foreign-Derived Intangible Income ("FDII"), and Base Erosion and Anti-abuse Tax ("BEAT")

Cares Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“Cares Act”) was enacted to address the economic impact of the COVID-19 pandemic in the United States. Among other things, the Cares Act allows a five-year carryback period for tax losses generated in 2019 through 2021.

The Company carried back net operating losses generated in 2019, resulting in an income tax benefit of \$5.7 million. The \$5.7 million income tax benefit represents the Federal rate differential between 35% and 21%. In addition, the Company applied the carryback provisions of the Cares Act to its net operating losses generated in 2020, which resulted in the reclassification of \$4.8 million net operating losses from a deferred income tax asset to refundable income taxes. The Company does not expect the other income tax provisions of the Cares Act to have a material impact on its financial statements.

Deferred income taxes

Significant components of net deferred tax assets and liabilities are:

<i>(in thousands)</i>	December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	\$ 88,129	\$ 70,960
Accruals and reserves	26,309	24,902
Interest expense carryforward	3,464	—
Depreciation	4,795	2,493
Tax credit carryforwards	31,556	15,307
Other	370	199
Total deferred tax assets	154,623	113,861
Valuation allowances	(23,409)	(28,007)
Total net deferred tax assets	131,214	85,854
Deferred tax liabilities:		
Capped call transactions	(20,858)	—
Convertible senior notes	(6,473)	—
Software revenue	(11,477)	(23,859)
Intangibles	(4,338)	(6,103)
Total deferred tax liabilities	(43,146)	(29,962)
	<u>\$ 88,068</u>	<u>\$ 55,892</u>

The Company regularly assesses the need for a valuation allowance against its deferred tax assets. In making that assessment, the Company considers both positive and negative evidence related to the likelihood of realizing the deferred tax assets to determine, based on the weight of available evidence, whether it is more-likely-than-not that some or all of the deferred tax assets will not be realized. This determination requires significant judgment, including assumptions about future taxable income based on historical and projected information. In 2020, the change in valuation allowances was primarily due to the expiration of \$5.9 million in acquisition-related net operating losses. There were no material changes in valuation allowances in 2019.

As of December 31, 2020, the Company’s net operating losses and credit carryforwards are:

<i>(in thousands)</i>	Federal	State
Net operating losses ⁽¹⁾	\$ 124,115	\$ 9,149
Net operating losses due to acquisitions ⁽¹⁾	\$ 76,826	\$ 1,466
Credit carryforwards ⁽²⁾	\$ 24,372	\$ 1,895
Credit carryforwards due to acquisitions	\$ 640	\$ 60

(1) Excludes federal and state net operating losses of \$29.5 million and \$0.8 million, respectively, from prior acquisitions that the Company expects will expire unutilized.

(2) Excludes federal and state tax credits of \$0.1 million and \$9.0 million, respectively, that the Company expects will expire unutilized.

Carryforward losses and credits expire between 2021 and 2038, except for the 2020 federal net operating loss of \$47.3 million and \$1.2 million of state credits, which both have unlimited carryforward periods.

The Company’s India subsidiary is primarily located in Special Economic Zones (“SEZs”) and is entitled to a tax holiday in India. The tax holiday reduces or eliminates income tax in India. The tax holiday in the Hyderabad SEZ is scheduled to expire in 2024. The tax holiday in the Bangalore SEZ is scheduled to expire in 2022. For 2020, 2019, and 2018, the income tax holiday reduced the Company’s provision for income taxes by \$1.7 million, \$1.9 million, and \$1.3 million, respectively.

Uncertain tax benefits

A rollforward of the Company's gross unrecognized tax benefits is:

<i>(in thousands)</i>	2020	2019	2018
Balance as of January 1,	\$ 23,271	\$ 18,157	\$ 19,150
Additions for tax positions related to the current year	653	510	978
Additions for tax positions of prior years	962	4,917	174
Reductions for tax positions of prior years	(1,085)	(313)	(2,145)
Balance as of December 31,	<u>\$ 23,801</u>	<u>\$ 23,271</u>	<u>\$ 18,157</u>

As of December 31, 2020, the Company had \$23.8 million of total unrecognized tax benefits, which would decrease the Company's effective tax rate if recognized.

As of December 31, 2020 and December 31, 2019, the Company's income tax receivable was \$44.1 million and \$25.9 million, respectively.

Tax examinations

The Company files federal and state income tax returns in the U.S. and in various foreign jurisdictions. In the ordinary course of business, the Company and its subsidiaries are examined by various tax authorities, including the Internal Revenue Service in the U.S. As of December 31, 2020, the Company's U.S. federal tax returns for the years 2014 through 2017 were under examination by the Internal Revenue Service. In addition, certain foreign jurisdictions are auditing the Company's income tax returns for periods ranging from 2010 through 2018. The Company does not expect the results of these audits to have a material effect on the Company's financial condition, results of operations, or cash flows. With few exceptions, the statute of limitations remains open in all jurisdictions for the tax years 2014 to the present.

17. (LOSS) EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the applicable period. Diluted earnings per share is calculated using the weighted-average number of common shares outstanding during the applicable period, plus the dilutive effect of outstanding stock options and RSUs, using the treasury stock method. In periods of loss, all stock options and RSUs are excluded from the weighted-average number of common shares, as their inclusion would be anti-dilutive.

<i>(in thousands, except per share amounts)</i>	2020	2019	2018
Net (loss) income	\$ (61,373)	\$ (90,433)	\$ 10,617
Weighted-average common shares outstanding	80,336	79,055	78,564
(Loss) earnings per share, basic	\$ (0.76)	\$ (1.14)	\$ 0.14
Net (loss) income	\$ (61,373)	\$ (90,433)	\$ 10,617
Stock options	—	—	2,891
RSUs	—	—	1,609
Effect of dilutive securities	—	—	4,500
Weighted-average common shares outstanding, assuming dilution	80,336	79,055	83,064
(Loss) earnings per share, diluted	\$ (0.76)	\$ (1.14)	\$ 0.13
Outstanding anti-dilutive stock options and RSUs ⁽¹⁾	6,278	5,911	188

(1) Certain outstanding stock options and RSUs were excluded from the computation of diluted earnings per share because they were anti-dilutive in the period presented. These awards may be dilutive in the future.

18. COMMITMENTS AND CONTINGENCIES

Commitments

See "Note 9. Leases" for additional information.

Contingencies

The Company is a party in various contractual disputes, litigation, and potential claims arising in the ordinary course of business. The Company does not believe that the resolution of these matters will have a material adverse effect on its financial position or results of operations.

19. SUBSEQUENT EVENTS

Relocation of Corporate Headquarters

On February 12, 2021, the Company executed the Lease Termination Agreement with Charles Park Owner LLC to accelerate the lease termination date for the Company's corporate headquarters in Cambridge, Massachusetts to October 1, 2021. Under the terms of the Lease Termination Agreement, the Company will receive a payment of \$18 million. The Company is obligated to make rent payments outlined in the existing lease agreements until October 1, 2021, the new lease termination date.

Qurious.io acquisition

In January 2021, the Company acquired Qurious.io, Inc., a cloud-based real time speech analytics solution for customer service teams. The acquisition was immaterial.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

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) as of December 31, 2020. 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 December 31, 2020.

Management’s report on and changes in internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the framework in the updated *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) on May 14, 2013.

Based on this evaluation, management has concluded that (i) our internal control over financial reporting was effective as of December 31, 2020 and (ii) no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during the quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Deloitte & Touche LLP, our independent registered public accounting firm which also audited our consolidated financial statements, has issued an attestation report on our internal control over financial reporting, which is included in Item 8 “Financial Statements and Supplementary Data”.

ITEM 9B. OTHER INFORMATION

On February 12, 2021, Pegasystems Inc. (the “Company”) executed the Lease Termination Agreement with Charles Park Owner LLC to accelerate the lease termination date for the Company’s corporate headquarters in Cambridge, Massachusetts to October 1, 2021. Under the terms of the Lease Termination Agreement, the Company will receive a payment of \$18 million. The Company is obligated to make rent payments outlined in the existing lease agreements until October 1, 2021, the new lease termination date.

The foregoing description of the Lease Termination Agreement does not purport to be complete and is qualified in its entirety by reference to the Lease Termination Agreement, a copy of which is attached as Exhibit 10.17 hereto.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Except as set forth below, information required by this item is incorporated herein by reference from the information contained in our proxy statement for our 2021 annual stockholders meeting (the “2021 proxy statement”) under the headings Executive Compensation, Election of Directors, Corporate Governance, Executive Officers, and Delinquent Section 16(a) Reports, which will be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year.

We have adopted a written code of conduct that applies to our Board of Directors and employees, including our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. A copy of our code of conduct can be found on our website, www.pega.com. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K and the applicable the NASDAQ Global Select Market rules by posting such information on our website in accordance with such requirements.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference from the information contained in the 2021 proxy statement under the headings “Director Compensation”, “Compensation Discussion and Analysis”, and “Executive Compensation” and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference from the information contained in the 2021 proxy statement under the headings “Executive Compensation”, “Equity Compensation Plan Information”, and “Security Ownership of Certain Beneficial Owners and Management”, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference from the information contained in the 2021 proxy statement under the headings “Certain Relationships and Related Transactions” and “Determination of Independence” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference from the information contained in the 2021 proxy statement under the heading “Independent Registered Public Accounting Firm Fees and Services” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following are filed as part of this Annual Report:

(1) *Financial Statements*

The following consolidated financial statements are included in Item 8:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	35
Consolidated Balance Sheets as of December 31, 2020 and 2019	37
Consolidated Statements of Operations for the years ended December 31, 2020, 2019, and 2018	38
Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2020, 2019, and 2018	39
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2020, 2019, and 2018	40
Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019, and 2018	41

(b) **Exhibits**

Exhibit No.	Description
3.1	Restated Articles of Organization of the Registrant and Amendments thereto. (Filed as Exhibit 3.1 to the Registrant's September 30, 2014 Form 10-Q and incorporated herein by reference.)
3.2	Amended and Restated Bylaws of Pegasystems Inc. (Filed as Exhibit 3.2 to the Registrant's June 15, 2020 Form 8-K and incorporated herein by reference.)
4.1	Specimen Certificate Representing the Common Stock. (Filed as Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-03807) or an amendment thereto and incorporated herein by reference.)
4.2	Indenture, dated as of February 24, 2020, between Pegasystems Inc. and U.S. Bank National Association, as trustee. (Filed as Exhibit 4.1 to the Registrant's February 24, 2020 Form 8-K and incorporated herein by reference.)
4.3	Form of certificate representing the 0.75% Convertible Senior Notes due 2025 (included as Exhibit A to Exhibit 4.1 to the Registrant's Form 8-K filed February 24, 2020 and incorporated herein by reference.)
4.4	Description of Common Stock (Filed as Exhibit 4.2 to the Registrant's 2019 Form 10-K and incorporated herein by reference.)
10.1++	2004 Long-Term Incentive Plan (as amended and restated) (Filed as Exhibit 10.1 to the Registrant's June 24, 2020 Form 8-K and incorporated herein by reference.)
10.2++	Restricted Stock Unit Sub-Plan of the Registrant's 2004 Long-Term Incentive Plan for French Participants (Filed as Appendix B within the Registrant's 2016 Proxy Statement, filed April 18, 2016 and incorporated herein by reference.)
+10.3++	2006 Employee Stock Purchase Plan, as amended on October 29, 2020.
10.4++	Form of Employee Stock Option Agreement, as amended. (Filed as Exhibit 10.3 to the Registrant's March 31, 2017 Form 10-Q and incorporated herein by reference.)
+10.5++	Form of Global Stock Option Agreement
10.6++	Form of Restricted Stock Unit Agreement, as amended. (Filed as Exhibit 10.4 to the Registrant's March 31, 2017 Form 10-Q and incorporated herein by reference.)
+10.7++	Form of Global Restricted Stock Unit Agreement
10.8++	Form of Non-Employee Director Stock Option Agreement. (Filed as Exhibit 10.2 to the Registrant's September 30, 2004 Form 10-Q and incorporated herein by reference.)
10.9++	Form of Director Indemnification Agreement. (Filed as Exhibit 99.1 to the Registrant's April 11, 2005 Form 8-K and incorporated herein by reference.)
10.10++	Offer Letter between the Registrant and Douglas I. Kra dated October 19, 2004. (Filed as Exhibit 10.20 to the Registrant's 2004 Form 10-K and incorporated herein by reference.)
10.11++	Offer Letter, dated April 27, 2020, between Pegasystems Inc. and Hayden Stafford. (Filed as Exhibit 10.3 to the Registrant's June 30, 2020 Form 10-Q and incorporated herein by reference.)
10.12++	Offer Letter between the Registrant and Kenneth Stillwell dated June 1, 2016. (Filed as Exhibit 99.1 to the Registrant's June 14, 2016 Form 8-K and incorporated herein by reference.)
10.13++	Compensation program for non-employee members of the Registrant's Board of Directors, effective August 5, 2019 (Filed as Item 1.01 of the Registrant's August 9, 2019 Form 8-K and incorporated herein by reference.)
10.14++	2020 Section 16 Officer/FLT Member Corporate Incentive Compensation Plan. (Filed as Exhibit 99.1 to the Registrant's February 7, 2020 Form 8-K and incorporated herein by reference.)
10.15	2020 Section 16 Officers/FLT Member Executive Officers Base Salaries and Target Bonus Payments (Filed as Exhibit 99.1 to the Registrant's March 9, 2020 Form 8-K and incorporated herein by reference.)
10.16	2021 Section 16 Officers/FLT Member Corporate Incentive Compensation Plan (Filed as Exhibit 99.1 to the Registrant's February 8, 2021 Form 8-K and incorporated herein by reference.)
10.17	Lease Agreement dated June 29, 2011 between Charles Park One, LLC and Pegasystems Inc. for premises at One Charles Park (Filed as Exhibit 99.1 to the Registrant's Form 8-K/A filed on July 6, 2011 and incorporated herein by reference.)
10.18	First Amendment to Lease Agreement dated November 11, 2014 between Charles Park One, LLC and Pegasystems Inc. (Filed as Exhibit 10.2 to the Registrant's September 30, 2015 Form 10-Q and incorporated herein by reference.)

Exhibit No.	Description
+10.18	Lease Termination Agreement, dated February 12, 2021, between Charles Park One, LLC and Pegasystems Inc.
10.19	Credit Agreement dated as of November 5, 2019 with PNC Bank, National Association (Filed as Exhibit 10.1 to the Registrant's September 30, 2019 Form 10-Q and incorporated herein by reference.)
10.20	Amendment to Loan Documents, dated February 18, 2020, between Pegasystems Inc. and PNC Bank, National Association. (Filed as Exhibit 10.3 to the Registrant's Form 8-K filed February 24, 2020 and incorporated herein by reference)
10.21	Amendment 2 to Loan Documents, dated July 22, 2020, between Pegasystems Inc. and PNC Bank, National Association. (Filed as Exhibit 10.2 to the Registrant's June 30, 2020 Form 10-Q and incorporated herein by reference.)
10.22	Amendment to Loan Documents, dated as of September 30, 2020, between Pegasystems Inc. and PNC Bank, National Association (Filed as Exhibit 10.3 to the Registrant's September 30, 2020 Form 10-Q and incorporated herein by reference.)
10.23	Form of Side Letter to Base Call Option Transaction (Filed as Exhibit 10.1 to the Registrant's September 30, 2014 Form 10-Q and incorporated herein by reference.)
10.24	Form of Side Letter to Additional Call Option Transaction (Filed as Exhibit 10.2 to the Registrant's September 30, 2020 Form 10-Q and incorporated herein by reference.)
10.25	Form of Confirmation of Base Call Option Transaction. (Filed as Exhibit 10.1 to the Registrant's Form 8-K filed February 24, 2020 and incorporated herein by reference)
10.26	Form of Confirmation of Additional Call Option Transaction. (Filed as Exhibit 10.2 to the Registrant's Form 8-K filed February 24, 2020 and incorporated herein by reference)
+21.1	Subsidiaries of the Registrant.
+23.1	Consent of Independent Registered Public Accounting Firm—Deloitte & Touche LLP.
+31.1	Certification pursuant to Exchange Act Rules 13a-14 and 15d-14 of the Chief Executive Officer.
+31.2	Certification pursuant to Exchange Act Rules 13a-14 and 15d-14 of the Chief Financial Officer.
+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.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

+ Filed herewith

++ Management contracts and compensatory plan or arrangements required to be filed pursuant to Item 15(b) of Form 10-K.

(c) Financial Statement Schedules

All financial statement schedules are omitted because the required information is not present or not present in sufficient amounts to require submission of the schedule or because the information is reflected in the consolidated financial statements or notes thereto.

ITEM 16. FORM 10-K SUMMARY

Omitted at Registrant's option.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 17, 2021

Pegasystems Inc.

By: _____ /s/ KENNETH STILLWELL

Kenneth Stillwell
Chief Financial Officer and Chief Administrative Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below on February 17, 2021 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title
_____ /s/ ALAN TREFLER Alan Trefler	Chairman and Chief Executive Officer (Principal Executive Officer)
_____ /s/ KENNETH STILLWELL Kenneth Stillwell	Chief Financial Officer and Chief Administrative Officer (Principal Financial Officer)
_____ /s/ EFSTATHIOS KOUNINIS Efstathios Kouninis	Chief Accounting Officer, Vice President of Finance, and Treasurer (Principal Accounting Officer)
_____ /s/ PETER GYENES Peter Gyenes	Director
_____ /s/ RONALD HOVSEPIAN Ronald Hovsepian	Director
_____ /s/ RICHARD JONES Richard Jones	Director
_____ /s/ CHRISTOPHER LAFOND Christopher Lafond	Director
_____ /s/ DIANNE LEDINGHAM Dianne Ledingham	Director
_____ /s/ SHARON ROWLANDS Sharon Rowlands	Director
_____ /s/ LARRY WEBER Larry Weber	Director

PEGASYSTEMS INC.
2006 EMPLOYEE STOCK PURCHASE PLAN ¹

1. **PURPOSE.** The purpose of this 2006 Employee Stock Purchase Plan (the “Plan”) is to provide employees of Pegasystems Inc., a Massachusetts corporation (the “Company”), and its subsidiary corporations, who wish to become stockholders of the Company an opportunity to purchase shares of the Common Stock, \$.01 par value per share, of the Company (the “Shares”). The Plan is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”).
2. **ELIGIBLE EMPLOYEES.** Subject to provisions of Sections 7, 8 and 9 below, any individual who is in the full-time employment (as defined below) of the Company, or any of its subsidiary corporations (as defined in Section 424(f) of the Code) (the “subsidiaries”) the employees of which are designated by the Board of Directors of the Company (the “Board”) as eligible to participate in the Plan, is eligible to participate in any Offering of Shares (as defined in Section 3 below) made by the Company hereunder. Full-time employment shall include all employees whose customary employment is:
 - a. in excess of 20 hours per week; and
 - b. more than five months in the relevant calendar year.
3. **OFFERING DATES.** From time to time the Company, by action of the Board, will grant rights to purchase Shares to employees eligible to participate in the Plan pursuant to one or more offerings (each of which is an “Offering”) on a date or series of dates (each of which is an “Offering Date”) designated for this purpose by the Board. Offerings may be consecutive or overlapping, and the terms of each Offering need not be identical provided that the terms of the Plan and the Offering together satisfy the requirements of Section 423 of the Code.
4. **PRICES.** The price per share for each grant of rights hereunder shall be equal to the lesser of (a) eighty-five percent (85%) of the fair market value of a share of Common Stock on the Offering Date on which such purchase right is granted or (b) eighty-five percent (85%) of the fair market value of a share of Common Stock on the date such purchase right is exercised, or such higher price as may be set by the Board of Directors from time to time.

At its discretion, the Board of Directors may determine a higher price for a grant of rights with respect to any Offering.

For purposes of this Plan, the term “fair market value” means, as of any date, the value of a share of Common Stock determined as follows: (i) if the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or the Nasdaq SmallCap Market of the Nasdaq Stock Market, its fair market value shall be the closing price (excluding “after hours” trading) for a share of such stock on that day (or, if the Common Stock is not traded on that day, on the last trading day preceding such date) as reported in The Wall Street Journal or such other source as the Administrator deems reliable; (ii) if the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its fair market value shall be the mean between the highest bid and lowest asked prices (excluding “after hours” trading) for a share of the Common Stock on that day (or, if there are no quotes for that day, on the last day preceding such date for which quotes were available); or (iii) in the absence of an established market for the Common Stock, the fair market value thereof shall be determined in good faith by the Board.
5. **EXERCISE OF RIGHTS AND METHOD OF PAYMENT.**
 - a. Rights granted under the Plan will be exercisable periodically on specified dates as determined by the Board.
 - b. The method of payment for Shares purchased upon exercise of rights granted hereunder shall be through regular payroll deductions or by lump sum cash payment, or both, as determined by the Board. No interest shall be paid upon payroll deductions unless specifically provided for by the Board.
 - c. Any payments received by the Company from a participating employee and not utilized for the purchase of Shares upon exercise of a right granted hereunder shall be promptly returned to such employee by the Company after termination of the right to which the payment relates.
6. **TERM OF RIGHTS.** Rights granted on any Offering Date shall be exercisable upon the expiration of such period (“Offering Period”) as shall be determined by the Board when it authorizes the Offering, provided that such Offering Period shall in no event be longer than twenty-seven (27) months.

¹ This Plan has been restated to reflect amendments to the Plan adopted by the Company’s Board of Directors on February 14, 2008, January 8, 2010, October 25, 2012 and October 29, 2020.

7. SHARES SUBJECT TO THE PLAN. No more than 500,000 Shares may be sold pursuant to rights granted under the Plan; provided, however, that appropriate adjustment shall be made in such number, in the number of Shares covered by outstanding rights granted hereunder, in the exercise price of the rights and in the maximum number of Shares which an employee may purchase (pursuant to Section 8 below) to give effect to any mergers, consolidations, reorganizations, recapitalizations, stock splits, stock dividends or other relevant changes in the capitalization of the Company occurring after the effective date of the Plan, provided that no fractional Shares shall be subject to a right and each right shall be adjusted downward to the nearest full Share. Any agreement of merger or consolidation will include provisions for protection of the then existing rights of participating employees under the Plan. Either authorized and unissued Shares or issued Shares heretofore or hereafter reacquired by the Company may be made subject to rights under the Plan. If for any reason any right under the Plan terminates in whole or in part, Shares subject to such terminated right may again be subjected to a right under the Plan.
8. LIMITATIONS ON GRANTS.
- a. No employee shall be granted a right hereunder if such employee, immediately after the right is granted, would own stock or rights to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company, or of any subsidiary, computed in accordance with Sections 423(b)(3) and 424(d) of the Code.
 - b. No employee shall be granted a right which permits his right to purchase shares under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate which exceeds twenty-five thousand dollars (\$25,000) (or such other maximum as may be prescribed from time to time by the Code) of the fair market value of such Shares (determined at the time such right is granted) for each calendar year in which such right is outstanding at any time in accordance with the provisions of Section 423(b)(8) of the Code.
 - c. Subject to adjustment in accordance with Section 7 above, no right granted to any participating employee under a single Offering shall cover more shares than may be purchased at an exercise price (using for this purpose 85% of the fair market value of a Share on the first day of the Offering) equal to 10% of the base salary payable to the employee during the Offering not taking into consideration any changes in the employee's rate of compensation after the first day of the Offering, or such other percentage as determined by the Board from time to time prior to the commencement of the Offering. When determining the base salary payable to the employee during the Offering, for any employee that receives base salary in a currency other than the US dollar, the exchange rate in effect at the close of business on the last business day of the Offering will be used. This provision shall be construed to meet the requirements set forth in Section 423(b)(5) of the Code.
9. LIMIT ON PARTICIPATION. Participation in an Offering shall be limited to eligible employees who elect to participate in such Offering in the manner, and within the time limitation, established by the Board when it authorizes the offering.
10. CANCELLATION OF ELECTION TO PARTICIPATE. An employee who has elected to participate in an Offering may, unless the employee has waived this cancellation right at the time of such election in a manner established by the Board, cancel such election as to all (but not part) of the rights granted under such Offering by giving written notice of such cancellation to the Company before the expiration of the Offering Period. Any amounts paid by the employee for the Shares or withheld for the purchase of Shares from the employee's compensation through payroll deductions shall be paid to the employee, without interest, upon such cancellation.
11. TERMINATION OF EMPLOYMENT. Upon termination of employment for any reason, including the death of the employee, before the date on which any rights granted under the Plan are exercisable, all such rights shall immediately terminate and amounts paid by the employee for the Shares or withheld for the purchase of Shares from the employee's compensation through payroll deductions shall be paid to the employee or to the employee's estate, without interest.
12. EMPLOYEE'S RIGHTS AS STOCKHOLDER. No participating employee shall have any rights as a stockholder in the Shares covered by a right granted hereunder until such right has been exercised, full payment has been made for the corresponding Shares and a certificate for the Shares is actually issued.
13. RIGHTS NOT TRANSFERABLE. Rights under the Plan are not assignable or transferable by a participating employee and are exercisable only by the employee.
14. LIMITS ON SALE OF STOCK PURCHASED UNDER THE PLAN. The Plan is intended to provide shares of Common Stock for investment and not for resale. Unless the Board provides otherwise, an employee may not sell, exchange, assign, encumber, alienate, transfer, pledge or otherwise dispose of any shares of Common Stock acquired upon exercise of the applicable right at the end of an Offering Period that commences on or subsequent to January 1, 2021 until the one-year anniversary of the end of such Offering Period. Thereafter, an employee may sell stock purchased under the Plan at any time the employee chooses, subject to the terms and conditions of the Company's Insider Trading Policy and open and closed trading windows, and compliance with any applicable federal or state securities laws; provided, however, that because of certain federal tax requirements, each employee agrees by entering the Plan, promptly to give the Company notice of any such stock disposed of within two years after the date of grant or within one year of the date of exercise of the applicable right, such notice to set forth the number of such shares disposed of. THE EMPLOYEE ASSUMES THE RISK OF ANY MARKET FLUCTUATIONS IN THE PRICE OF THE STOCK.
15. AMENDMENTS TO OR DISCONTINUANCE OF THE PLAN. The Board may at any time terminate or amend the Plan without notice and without further action on the part of stockholders of the Company, provided:
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- a. that no such termination or amendment shall materially and adversely affect the then existing rights of any participating employee; and
 - b. that any such amendment which:
 - i. increases the number of Shares subject to the Plan (subject to the provisions of Section 7);
 - ii. changes the class of persons eligible to participate under the Plan; or
 - iii. materially increases the benefits accruing to participants under the Plan shall be subject to approval of the stockholders of the Company.
16. EFFECTIVE DATE AND APPROVALS. The Plan was adopted by the Board on March 30, 2006 to become effective as of said date. The Company's obligation to offer, sell and deliver its Shares under the Plan is subject to the approval of its stockholders not later than June 30, 2006 and of any governmental authority required in connection with the authorized issuance or sale of such Shares and is further subject to the Company receiving the opinion of its counsel that all applicable securities laws have been complied with.
17. TERM OF PLAN. The Plan will continue until there are no Shares remaining to be issued under the Plan or until the Plan is terminated by the Board, whichever occurs first.
18. ADMINISTRATION OF THE PLAN. The Board or any committee or persons to whom it delegates its authority (the "Administrator") shall administer, interpret and apply all provisions of the Plan. The Administrator may waive such provisions of the Plan as it deems necessary to meet special circumstances not anticipated or covered expressly by the Plan. Nothing contained in this Section shall be deemed to authorize the Administrator to alter or administer the provisions of the Plan in a manner inconsistent with the provisions of Section 423 of the Code. No member of the Administrator shall be liable for any action or determination made in good faith with respect to the Plan or any right granted under it.

Date approved by the Board of Directors of the Company: March 30, 2006 (as further amended on February 14, 2008, January 8, 2010, October 25, 2012 and October 29, 2020)

Date approved by the stockholders of the Company: May 30, 2006



Notice of Grant of Stock Option and Option Agreement

You have been granted an award of Nonstatutory Stock Options pursuant to the terms of the Pegasystems Inc. Amended and Restated 2004 Long-Term Incentive Plan (the "Plan").

If you have not yet completed the acceptance process for any of your awards, you may complete the acceptance process by (A) reviewing your award details, (B) reviewing your award documents listed in Section B of your Online Award Acceptance (the "Award Documents"), and (C) confirming your acceptance of your award.

By accepting this award, you agree that this award is granted and governed by the terms and conditions of the Plan, this notice and all your Award Documents listed herein, including Exhibit A to this Notice of Stock Option and Option Agreement, and incorporated by reference. This notice, together with your Award Documents and your electronic acceptance, collectively compromise your total agreement (the "Award Agreement").

Pegasystems Inc.

/s/ Alan Trefler

By:

Alan Trefler, Chairman and Chief Executive Officer



Pegasystems Inc.
One Rogers Street
Cambridge, MA
02142-1590 USA

Phone 617.374.9600

Fax 617.374.9620

Pega.com

Exhibit A
Notice of Grant of Stock Option and Option Agreement

1. **Exercise Price.** The Exercise Price is equal to Fair Market Value, as defined in Section 2(n) of the Plan, of a share of the Company's Common Stock on the date of the Notice of Grant of Stock Option and Option Agreement (of which this Exhibit A is a part and including any special terms and conditions for the Optionee's country set forth in Exhibit B attached hereto) (collectively, the "Option Agreement").
2. **Vesting.** The Option will vest on the dates listed in the Option Agreement if the Optionee is actively providing Service and is in good standing from the date of grant through the applicable vesting date. The Option will cease to vest immediately upon the cessation of the Optionee's active Service, for any reason.
3. **Option Exercise.** Once vested, and subject to the other provisions of this Option Agreement, the Option shall remain exercisable in whole or in part at any time through and including the day immediately preceding the date set forth under the heading "Expiration" on the Option Agreement (the "Expiration Date"), after which the Option shall expire and no longer be exercisable.

The Option shall be exercisable by notice to the Company or the Company's designated stock option administrator, which shall:

- a. state the election to exercise the Option, the number of shares of Common Stock with respect to which it is being exercised, and, if different than the Optionee, the person in whose name the stock certificate or certificates for such shares of Common Stock are to be registered, and the address and Social Security number (if applicable) of such person;
- b. be signed by the person or persons entitled to exercise the Option, and if the Option is being exercised by a person or persons other than the Optionee, be accompanied by proof satisfactory to the Company's legal counsel of the right of such person or persons to exercise the Option; and
- c. if to the Company, be in writing and delivered in person or by certified mail to the Chief Financial Officer of the Company or, if to the Company's designated stock option administrator, be in the manner and form specified by such stock option administrator.

Payment of the full purchase price of any shares of Common Stock, with respect to which the Option is being exercised, shall accompany the notice of exercise of the Option and such payment may be made in cash or check payable to the Company. Alternatively, the Optionee may elect to pay the full purchase price of any shares of Common Stock, with respect to which the Option is being exercised, by having the Company withhold, such number of shares of Common Stock as are equal in value to the full purchase price. Notwithstanding the foregoing, the Company, in its sole discretion, may (i) suspend or eliminate the above methods of exercise, or (ii) require the exercise of the Option by an alternate method of exercise identified in Section 8(c) of the Plan. Unless the Company has elected to have shares recorded in book entry form, the certificate or certificates for shares of Common Stock as to which the Option is exercised shall be registered in the name of the person or persons exercising the Option.

4. **Termination of Service.** If the Optionee terminates Service other than by reason of the Optionee's death, Disability or Retirement, the Optionee may exercise his or her Option for three months following such termination to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option).
 5. **Retirement of Optionee.** If the Optionee terminates Service as a result of Retirement, the Optionee may exercise his or her Option for 24 months following such termination to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option).
 6. **Disability of Optionee.** If the Optionee terminates Service as a result of the Optionee's Disability, the Optionee may exercise his or her Option for 24 months following such termination to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of the Option).
 7. **Death of Optionee.** If the Optionee dies while a Service Provider, the Option may be exercised by the Optionee's estate or by a person who acquires the right to exercise the Option by bequest or inheritance for 12 months following the Optionee's termination of Service because of death.
 8. **Optionee's Agreement.** The Optionee agrees to all the terms stated in the Option Agreement (of which this Exhibit is a part), as well as to the terms of the Plan (which shall control in case of conflict with the Option Agreement), a copy of which is attached and of which the Optionee acknowledges receipt.
 9. **Withholding.** Regardless of any action the Company and/or the Optionee's employer ("Employer") take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Optionee's participation in the Plan ("Tax-Related Items"), the Optionee acknowledges that the ultimate liability for all Tax-Related Items legally due by the Optionee is and remains the Optionee's responsibility and that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option, including the grant of the Option, the vesting or exercise of the Option, the delivery of shares of Common Stock, the subsequent sale of any shares of Common Stock acquired at exercise and the receipt of any dividends; and (ii) do not commit to structure the terms of the grant or any aspect of the Option to reduce or eliminate the Optionee's liability for Tax-Related Items. Further, if the Optionee is subject to Tax-Related Items in more than one jurisdiction, the Optionee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.
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Prior to any relevant taxable event or tax withholding event, as applicable, the Optionee shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the Optionee authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by the Optionee by withholding otherwise deliverable shares of Common Stock, if permissible under local law. Alternatively, or in addition, if permissible under local law, the Optionee authorizes the Company and/or the Employer, at its discretion and pursuant to such procedures as it may specify from time to time, to satisfy the obligations with regard to all Tax-Related Items legally payable by the Optionee by one or a combination of the following: (i) withholding from any wages or other cash compensation paid to the Optionee by the Company and/or the Employer; (ii) arranging for the sale of shares of Common Stock otherwise deliverable to the Optionee (on the Optionee's behalf and at the Optionee's direction pursuant to this authorization); or (iii) withholding from the proceeds of the sale of shares of Common Stock acquired upon exercise of the Option.

Depending on the withholding method, the Company may withhold or account for the Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates in the Optionee's jurisdiction. If the obligation for Tax-Related Items is satisfied by withholding a number of shares of Common Stock as described herein, for tax purposes, the Optionee is deemed to have been issued the full number of shares of Common Stock subject to the Option, notwithstanding that a number of the shares of Common Stock are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Option. The Optionee shall pay to the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold as a result of the Optionee's participation in the Plan that cannot be satisfied by the means previously described.

The Company may refuse to deliver to the Optionee any shares of Common Stock pursuant to the Option or the proceeds from the sale of shares of Common Stock if the Optionee fails to comply with the Optionee's obligations in connection with the Tax-Related Items as described in this section.

10. **Rights as Shareholders.** The Optionee shall have no rights as a shareholder of the Company with respect to any of the shares of Common Stock covered by the Option until the issuance of a stock certificate or certificates upon the exercise of the Option, and then only with respect to the shares of Common Stock represented by such certificate or certificates.
 11. **No-Transferability.** The Option may not be transferred in any manner other than by will or by the laws of descent and distribution. The terms of the Option shall be binding upon the executors, administrators, heirs and successors of the Optionee.
 12. **Compliance with Securities, Tax and Other Law.** The Option may not be exercised if the issuance of shares of Common Stock upon such exercise would constitute a violation of any applicable U.S. federal or state or non-U.S. securities law or any other law or valid regulation. As a condition to the exercise of the Option, the Company may require the Optionee, or any person acquiring the right to exercise the Option, to make any representation or warranty that the Company deems to be necessary under any applicable securities, tax, or other law or regulation.
 13. **Adjustments upon Changes in Capitalization.** In the event of any change in the shares subject to the Plan or to any Option granted under the Plan by reason of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination or exchange of shares of Common Stock, or other change in the structure of the Company, the number of shares of Common Stock subject to each outstanding Option and/or the Option price with respect to the shares of Common Stock shall be appropriately adjusted by the Company and such adjustment shall be final, binding and conclusive.
 14. **No Right to Employment.** The granting of the Option does not confer upon the Optionee the right to continue in the Service of the Company and/or the Employer, or affect in any way the right and power of the Company and/or the Employer to terminate the Service of the Optionee at any time with or without assigning a reason therefor, to the same extent as the Company and/or the Employer might have done if the Option had not been granted.
 15. **No Guarantee.** The Company offers no guarantee or assurance that the Company's stock has any value at the time of this grant or will have any value or liquidity at any future time.
 16. **Employment Agreement.** In consideration for this Option, the Optionee reaffirms the terms of the Optionee's Employment Agreement with the Employer, including but not limited to the provisions (if any) related to competition and solicitation. The Optionee further agrees that to the extent the nature of the Employer's business has evolved since the date of the Employment Agreement the covenants shall also apply to the business as evolved.
 17. **Acknowledgment of Nature of Plan and Option.** In accepting the Option, the Optionee acknowledges that:
 - a. the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Option Agreement;
 - b. the Option is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of Options, or benefits in lieu of Options, even if Options have been granted repeatedly in the past;
 - c. all decisions with respect to future Option or other grants, if any, will be at the sole discretion of the Company;
 - d. the Optionee's participation in the Plan is voluntary;
 - e. the Option is an extraordinary item that does not constitute compensation for services of any kind rendered to the Company or any Related Company, and which is outside the scope of the employment contract, if any;
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- f. the Option and the shares of Common Stock subject to the Option, and the income and value of the same, are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end-of-service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Related Company;
 - g. in the event that the Optionee is not an Employee of the Company or any Related Company, the Option and the Optionee's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Related Company;
 - h. unless otherwise agreed with the Company, the Option and the shares of Common Stock subject to the Option, and the income and value of the same, are not granted as consideration for, or in connection with, the service the Optionee may provide as a director of a Subsidiary.
 - i. the future value of the underlying shares of Common Stock is unknown and cannot be predicted with any certainty;
 - j. if the Optionee exercises the Option and acquires shares of Common Stock, the value of such shares of Common Stock acquired upon exercise of the Option may increase or decrease in value, even below the Exercise Price;
 - k. in consideration of the Option, no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from termination of the Optionee's employment or other service relationship (for any reason whatsoever and whether or not in breach of employment laws in the jurisdiction where the Optionee is employed or the terms of the Optionee's employment agreement, if any);
 - l. for purposes of the Option, the Optionee's Service will be considered terminated as of the date the Optionee is no longer actively providing services to the Company, the Employer or any Related Company (regardless for the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Optionee is employed or the terms of the Optionee's employment agreement, if any) and, unless otherwise expressly provided in the Option Agreement or determined by the Company, (i) the Optionee's right to vest in the Option under the Plan (if any) will terminate, and (ii) the period (if any) during which the Optionee may exercise the Option after such termination will commence, as of such date and will not be extended by any notice period (e.g., the Optionee's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Optionee is employed or the terms of the Optionee's employment agreement, if any); the Committee or its delegate shall have the exclusive discretion to determine when the Optionee is no longer actively employed for purposes of the Option (including whether the Optionee may still be considered to be providing services while on a leave of absence);
 - m. neither the Company, the Employer nor any Subsidiary shall be liable for any foreign exchange rate fluctuation between the Optionee's local currency and the United States Dollar that may affect the value of the Option or of any amounts due to the Optionee pursuant to the exercise of the Option or the subsequent sale of any shares of Common Stock acquired upon exercise;
 - n. the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Optionee's participation in the Plan or the Optionee's acquisition or sale of the underlying shares of Common Stock; and
 - o. the Optionee understands and agrees that the Optionee should consult with the Optionee's personal tax, legal and financial advisors regarding the Optionee's participation in the Plan before taking any action related to the Plan.
18. **Data Privacy Notice and Consent.** *The Optionee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Optionee's personal data as described in this Option Agreement and any other Option grant materials by and among, as applicable, the Employer, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing the Optionee's participation in the Plan.*

The Optionee understands that the Company and the Employer may hold certain personal information about the Optionee, including, but not limited to, the Optionee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all Options or any other entitlement to shares of stock granted, exercised, canceled, vested, unvested or outstanding in the Optionee's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Optionee understands that Data will be transferred to a third party stock plan service provider(s) as may be selected by the Company, which is assisting the Company with the implementation, administration and management of the Plan. The Optionee understands the recipients of the Data may be located in the Optionee's country, in the United States or elsewhere, and that the data recipients' country may have different data privacy laws and protections than the Optionee's country. The Optionee understands that the Optionee may request details of any potential recipients of the Data by contacting privacy@pega.com. The Optionee authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Optionee's participation in the Plan. The Optionee understands that Data will be held only as long as is necessary to implement, administer and manage the Optionee's participation in the Plan. The Optionee understands that the Optionee may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting privacy@pega.com. The Optionee understands, however, that refusing or withdrawing the Optionee's consent may affect the Optionee's ability to participate in the Plan. For more information on the consequences of the Optionee's refusal to consent or withdrawal of consent, the Optionee understands that the Optionee may contact privacy@pega.com.

19. **Amendment and Termination of Option.** The Company may amend, modify or terminate any outstanding Option, provided that the Optionee's consent to such action shall be required unless it occurs pursuant to a Sale of the Company or the Committee determines that the action would not materially and adversely affect the Optionee.
 20. **Language.** The Optionee acknowledges and agrees that he or she is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, so as to enable him or her to understand the terms and conditions of this Option Agreement. If the Optionee has received this Option Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different from the English version, the English version will control.
 21. **Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to the Option or future grants made under the Plan by electronic means or request that the Optionee consent to participate in the Plan by electronic means. The Optionee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
 22. **Insider Trading Restrictions/Market Abuse Laws.** The Optionee acknowledges that, depending on the Optionee's country, the broker's country or the country in which the shares of Common Stock are listed, the Optionee may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the United States and the Optionee's country, which may affect the Optionee's ability to accept, acquire, sell, attempt to sell or otherwise dispose of shares of Common Stock, rights to shares of Common Stock (e.g., Options) or rights linked to the value of shares of Common Stock during such times as the Optionee is considered to have "inside information" regarding the Company, as defined by the laws or regulations in the applicable jurisdictions. Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Optionee placed before he or she possessed inside information. Furthermore, the Optionee could be prohibited from (i) disclosing the inside information to any third party (other than on a "need to know" basis) and (ii) "tipping" third parties or causing them otherwise to buy or sell securities, where third parties include fellow employees. The insider trading and/or market abuse laws may be different from any Company Insider Trading Policy. The Optionee is responsible for ensuring compliance with any applicable restrictions and should consult his or her personal legal advisor on this matter.
 23. **Foreign Asset/Account and Exchange Control Reporting.** The Optionee's country may have certain exchange controls and foreign asset and/or account reporting requirements that may affect his or her ability to purchase or hold shares of Common Stock under the Plan or receive cash from his or her participation in the Plan (including from any dividends received or sale proceeds arising from the sale of shares of Common Stock) in a brokerage or bank account outside the Optionee's country. The Optionee may be required to report such accounts, assets or transactions to the tax or other authorities in his or her country. Further, the Optionee may be required to repatriate shares of Common Stock or proceeds acquired as a result of participating in the Plan to his or her country through a designated bank/broker and/or within a certain time. The Optionee acknowledges and agrees that it is his or her responsibility to be compliant with such regulations and understands that the Optionee should speak with his or her personal legal advisor for any details regarding any foreign asset/account reporting or exchange control reporting requirements in the Optionee's country arising out of his or her participation in the Plan.
 24. **Option Subject to Company Clawback or Recoupment.** The Option shall be subject to clawback or recoupment pursuant to any compensation clawback or recoupment policy adopted by the Board or required by law during the term of the Optionee's employment or other service with the Company that is applicable to executive officers, employees, directors or other service providers of the Company, and in addition to any other remedies available under such policy and applicable law may require the cancellation of the Option and the recoupment of any gains realized with respect to the Option.
 25. **Governing Law and Venue.** The Option Agreement shall be governed by and interpreted in accordance with the laws of The Commonwealth of Massachusetts (U.S.A.), without regard to any applicable conflicts of law provisions thereof.
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For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this Option or this Option Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of The Commonwealth of Massachusetts (U.S.A.) and agree that such litigation shall be conducted only in the courts of Middlesex County, Massachusetts (U.S.A.), or the federal courts for the United States for the district of Massachusetts, and no other courts, where this Option grant is made and/or to be performed.

26. **Severability.** In the event any one or more of the provisions of the Option Agreement shall for any reason be held to be invalid, illegal or unenforceable, the remaining provisions of the Option Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision shall be replaced by a mutually acceptable provision, which being valid, legal and enforceable, comes closest to the intention of the parties underlying the invalid, illegal or unenforceable provision.
 27. **Waiver.** The Optionee acknowledges that a waiver by the Company of a breach of any provision of the Option Agreement shall not operate or be construed as a waiver of any other provision of the Option Agreement, or of any subsequent breach by the Optionee or any other Optionee.
 28. **Definitions.** All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Plan.
 29. **Exhibit B.** Notwithstanding any provision herein, the Option and the Optionee's participation in the Plan shall be subject to any special terms and conditions as set forth in Exhibit B for the Optionee's country, if any. Moreover, if the Optionee relocates to one of the countries included in Exhibit B, the country-specific terms for such country will apply to the Optionee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. Exhibit B constitutes part of this Option Agreement.
 30. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on the Optionee's participation in the Plan, on this Option and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Optionee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
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Exhibit B
To Notice of Grant of Option and Option Agreement
Country-Specific Provisions for Optionees Outside the U.S.

Capitalized terms used but not defined in this Exhibit B shall have the same meanings assigned to them in the Notice of Grant, the Option Agreement and the Plan. This Exhibit B forms part of the Option Agreement.

Terms and Conditions

This Exhibit B includes additional terms and conditions that govern the Option granted to the Optionee under the Plan if the Optionee works and/or resides in one of the countries listed below. If the Optionee is a citizen or resident of a country other than the one in which the Optionee is currently working (or is considered as such for local law purposes), or if the Optionee transfers employment or residency to a different country after the date of grant, the Company will, in its discretion, determine the extent to which the terms and conditions contained herein will be applicable to the Optionee.

Notifications

This Exhibit B also includes information regarding securities laws and certain other considerations of which the Optionee should be aware with respect to participating in the Plan. The information is based on the securities and other laws in effect in the respective countries as of July 2020. Such laws are often complex and change frequently. As a result, the Optionee should not rely on the information noted herein as the only source of information relating to the consequences of participating in the Plan because the information may be out of date at the time the Optionee acquires shares of Common Stock under the Plan or subsequently sells such shares of Common Stock.

In addition, the information contained in this Exhibit B is general in nature and may not apply to the Optionee's particular situation, and the Company is not in a position to assure the Optionee of any particular result. Accordingly, the Optionee should seek appropriate professional advice as to how the relevant laws in the Optionee's country may apply to the Optionee's situation.

If the Optionee is a citizen or resident of a country other than the one in which the Optionee is currently working or residing (or is considered as such for local law purposes), or the Optionee transfers employment or residency to a different country after the date of grant, the notifications contained in this Exhibit B may not be applicable to the Optionee in the same manner.

EUROPEAN UNION ("EU") / EUROPEAN ECONOMIC AREA ("EEA") MEMBER STATES / SWITZERLAND / UNITED KINGDOM

Data Privacy

If the Optionee resides and/or works in the EU/EEA, Switzerland or the United Kingdom, Section 18 (Data Privacy Notice and Consent) of Exhibit A to the Option Agreement shall be replaced with the following:

The Company, located at One Rogers Street, Cambridge, MA 02142-1209, U.S.A. is the controller for the processing of the Optionee's personal data by the Company and the third parties noted below.

- a. **Data Collection, Processing and Usage.** Pursuant to applicable data protection laws, the Optionee is hereby notified that the Company collects, processes and uses certain personal information about the Optionee for the legitimate purpose of implementing, administering and managing the Plan and generally administering awards; specifically: the Optionee's name, home address, email address, date of birth, plan or benefit enrollment forms and elections, award or benefit statements, any shares of Common Stock, details of all awards or any other entitlements to shares of Common Stock awarded, canceled, purchased, vested, unvested or outstanding ("Personal Data"). In granting the Option under the Plan, the Company will collect, process, use, disclose and transfer (collectively, "Processing") Personal Data for purposes of implementing, administering and managing the Plan. The Company's legal basis for the Processing of Personal Data is the Company's legitimate business interests of managing the Plan, administering awards and complying with its contractual and statutory obligations, as well as the necessity of the Processing for the Company to perform its contractual obligations under the Option and the Plan. The Optionee's refusal to provide Personal Data would make it impossible for the Company to perform its contractual obligations and may affect the Optionee's ability to participate in the Plan. As such, by participating in the Plan, the Optionee voluntarily acknowledges the Processing of the Optionee's Personal Data as described herein.
 - b. **Stock Plan Administration Service Providers.** The Company may transfer Personal Data to Morgan Stanley Smith Barney ("MSSB") (or any successor Plan broker), an independent service provider based, in relevant part, in the United States, which may assist the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Personal Data with another company that serves in a similar manner. The Company's service provider will open an account for the Optionee to receive and trade shares of Common Stock under the Plan. The Processing of Personal Data will take place through both electronic and non-electronic means. Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating the Plan. When receiving the Optionee's Personal Data, if applicable, MSSB provides appropriate safeguards in accordance with the EU Standard Contractual Clauses or other appropriate cross-border transfer solutions. By participating in the Plan, the Optionee understands that the service provider will Process the Optionee's Personal Data for the purposes of implementing, administering and managing his or her participation in the Plan.
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- c. **International Data Transfers.** The Company and its service providers are based in the United States. The Optionee's country or jurisdiction may have different data privacy laws and protections than the United States. For example, an appropriate level of protection can be achieved by implementing safeguards such as the Standard Contractual Clauses adopted by the EU Commission. Personal Data will be transferred from the EU/EEA, Switzerland and/or the United Kingdom to the Company and onward from the Company to any of its service providers based on the Standard Contractual Clauses. The Optionee may request a copy of such appropriate safeguards by contacting privacy@pega.com.
- d. **Data Retention.** The Company will use Personal Data only as long as is necessary to implement, administer and manage the Optionee's participation in the Plan or as required to comply with legal or regulatory obligations, including tax and securities laws. When the Company no longer needs Personal Data, the Company will remove it from its systems. If the Company keeps Personal Data longer, it would be to satisfy legal or regulatory obligations and the Company's legal basis would be for compliance with relevant laws or regulations.
- e. **Data Subject Rights.** To the extent provided by law, the Optionee has the right to (i) subject to certain exceptions, request access or copies of Personal Data the Company Processes, (ii) request rectification of incorrect Personal Data, (iii) request deletion of Personal Data, (iv) place restrictions on Processing of Personal Data, (v) lodge complaints with competent authorities in the Optionee's country, and/or (vi) request a list with the names and addresses of any potential recipients of Personal Data. To receive clarification regarding the Optionee's rights or to exercise his or her rights, the Optionee may contact privacy@pega.com. The Optionee also has the right to object, on grounds related to a particular situation, to the Processing of Personal Data, as well as opt-out of the Plan herein, in any case without cost, by contacting his or her local human resources department in writing. The Optionee's provision of Personal Data is a contractual requirement. The Optionee understands, however, that the only consequence of refusing to provide Personal Data is that the Company may not be able to administer the Option, or grant other awards or administer or maintain such awards. For more information on the consequences of the refusal to provide Personal Data, the Optionee may contact his or her human resources representative in writing. The Optionee may also have the right to lodge a complaint with the relevant data protection supervisory authority.

AUSTRALIA

Offer Document

The Company is pleased to provide the Optionee with this offer to participate in the Plan. This offer document sets out information regarding the offer of Options to Australian resident employees of the Company and its Subsidiaries. The Company is providing this information to ensure the Plan's compliance with Australian Securities and Investments Commission ("ASIC") Class Order 14/1000 and relevant provisions of the Corporations Act 2001.

Additional Documents

In addition to the information set out in the Option Agreement and this Exhibit B, the Optionee is also being provided with copies of the following documents:

- a. the Plan; and
- b. the Information Statement for Participants in the Pegasystems Inc. 2004 Long-Term Incentive Plan (the "Information Statement"); (collectively, the "Additional Documents").

The Additional Documents provide further information to help the Optionee to make an informed investment decision about participating in the Plan. Neither the Plan nor the Information Statement is a prospectus for the purposes of the Corporations Act 2001.

The Optionee should not rely upon any oral statements made in relation to this offer. The Optionee should rely only upon the statements contained in the Option Agreement, including this Exhibit B, and the Additional Documents when considering participation in the Plan.

General Information Only

The information herein is general information only. It is not advice or information that takes into account the Optionee's objectives, financial situation and needs. The Optionee should consider obtaining his or her own financial product advice from a person who is licensed by ASIC to give such advice.

Risk Factors

Investment in shares of Common Stock involves a degree of risk. The Optionee should monitor his or her participation and consider all risk factors relevant to the acquisition of shares of Common Stock under the Plan as set forth below and in the Additional Documents.

The Optionee should have regard to risk factors relevant to investment in securities generally and, in particular, to holding shares of Common Stock. For example, the price at which an individual share of Common Stock is quoted on the Nasdaq Global Select Market ("Nasdaq") may increase or decrease due to a number of factors. There is no guarantee that the price of a share of Common Stock will increase. Factors that may affect the price of an individual share of Common Stock include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the nature of the markets in which the Company operates and general operational and business risks.

More information about potential factors that could affect the Company's business and financial results will be included in the Company's most recent Annual Report on Form 10-K and the Company's Quarterly Report on Form 10-Q. Copies of these reports are available at <http://www.sec.gov/>, on the Company's "Investor Relations" page at <https://www.pegacom/about/investors>, and upon request to the Company.

In addition, the Optionee should be aware that the Australian dollar ("AUD") value of any shares of Common Stock acquired under the Plan will be affected by the USD/AUD exchange rate. Participation in the Plan involves certain risks related to fluctuations in this rate of exchange.

Common Stock in a U.S. Corporation

Common stock of a U.S. corporation is analogous to ordinary shares of an Australian corporation. Each holder of a share of Common Stock is entitled to one vote. Further, shares of Common Stock are not liable to any further calls for payment of capital or for other assessment by the Company and have no sinking fund provisions, pre-emptive rights, conversion rights or redemption provisions.

Ascertaining the Market Price of a Share of Common Stock

The Optionee may ascertain the current market price of an individual share of Common Stock as traded on the Nasdaq under the symbol "PEGA" at: <https://www.nasdaq.com/market-activity/stocks/pegacom>. The AUD equivalent of that price can be obtained at: <https://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

This will not be a prediction of the market price of an individual share of Common Stock when such shares of Common Stock are acquired under the Plan or of the applicable exchange rate on the date of acquisition.

Ascertaining the Exercise Price

The Exercise Price of the Option is determined by the Committee in accordance with the terms of the Plan. The Exercise Price will be no less than 100% of the Fair Market Value of a share of Common Stock on the date the Option is granted.

The Exercise Price is denominated in USD. The AUD equivalent of the Exercise Price will change with fluctuations in the USD/AUD exchange rate. As noted in above, indicative USD/AUD exchange rates can be obtained at: <http://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

Tax Notification

The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) (the "Act") applies (subject to the conditions in that Act).

AUSTRIA

There are no country-specific provisions.

BRAZIL

Compliance with Law

By accepting the Option, the Optionee agrees to comply with all applicable Brazilian laws and pay any and all applicable Tax-Related Items associated with the Option, the receipt of any dividends paid on shares of Common Stock and the sale of shares of Common Stock acquired under the Plan.

Labor Law Acknowledgment and Policy Statement

This provision supplements Section 17 (Acknowledgment of Nature of Plan and Option) of Exhibit A to the Option Agreement:

The Optionee acknowledges and agrees that (i) the Optionee is making an investment decision, and (ii) the value of the underlying shares of Common Stock is not fixed and may increase or decrease, without compensation to the Optionee.

Further, the Optionee acknowledges and agrees that, for all legal purposes, (i) any benefits provided to the Optionee under the Plan are unrelated to the Optionee's employment or service; (ii) the Plan is not a part of the terms and conditions of the Optionee's employment or service; and (iii) the income from the Optionee's participation in the Plan, if any, is not part of the Optionee's remuneration from employment or service.

CANADA

Resale Restriction

The Optionee is permitted to sell shares of Common Stock acquired under the Plan through the designated broker appointed under the Plan, if any, provided the resale of shares of Common Stock takes place outside of Canada through the facilities of the stock exchange on which the shares of Common Stock are listed. The shares of Common Stock are currently traded on the Nasdaq Global Select Market, which is located outside of Canada, and may be sold through this exchange.

Cessation of Service

In the event of the termination of the Optionee's Service (whether or not later found to be invalid or unlawful for any reason, including for breaching either applicable employment laws or the Optionee's employment or service agreement, if any), unless otherwise set forth in the Option Agreement, the Optionee's right to vest in the Option under the Plan, if any, will terminate and the period (if any) during which the Optionee may exercise the Option after such termination will commence effective on the earliest of: (a) the date on which the Optionee's active employment terminates, (b) the date the Optionee receives notice of termination, and (c) the date the Optionee no longer actively provides service to the Company or any Related Company, regardless of any period during which notice, pay in lieu of notice or related payments or damages are provided or required to be provided under local law. The Optionee will not earn or be entitled to any pro-rated vesting for that portion of time before the date on which the Optionee's right to vest terminates, nor will the Optionee be entitled to any compensation for lost vesting. The Committee or its delegate shall have the exclusive discretion to determine when the Optionee is no longer providing Service for purposes of the Option Agreement (including whether the Optionee may still be considered to be providing Service while on a leave of absence). Notwithstanding the foregoing, if applicable employment standards legislation explicitly requires continued entitlement to vesting during a statutory notice period, the Optionee's right to vest in the Option under the Plan, if any, will terminate and the period (if any) during which the Optionee may exercise the Option will commence effective as of the last day of the Optionee's minimum statutory notice period, but the Optionee will not earn or be entitled to pro-rated vesting if the vesting date falls after the end of the Optionee's statutory notice period, nor will the Optionee be entitled to any compensation for lost vesting.

The following provisions apply if the Optionee is a resident of Quebec:

Consent to Receive Information in English for Quebec Optionees

The parties acknowledge that it is their express wish that the Option Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais du Contrat d'Attribution, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.

GERMANY

There are no country-specific provisions.

HONG KONG

Securities Law Notification

WARNING: The Option and the shares of Common Stock issued upon exercise of the Option do not constitute a public offering of securities under Hong Kong law and are available only to certain eligible employees. The Notice of Grant, the Option Agreement, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable securities legislation in Hong Kong. In addition, the documents have not been reviewed by any regulatory authority in Hong Kong. The Option is intended only for the personal use of the Optionee, and may not be distributed to any other person. If the Optionee is in any doubt about any of the contents of the Notice of Grant, the Option Agreement or the Plan, the Optionee should obtain independent professional advice.

Restriction on Sale of Shares of Common Stock

Shares of Common Stock received pursuant to the Option are accepted as a personal investment. To facilitate compliance with securities laws in Hong Kong, the Optionee agrees not to sell the shares of Common Stock acquired upon exercise of the Option within six months after the date of grant.

Award Is Not Wages

The Option and the shares of Common Stock underlying the Option do not form part of the Optionee's wages for purposes of calculating any statutory or contractual payments under applicable law in Hong Kong.

INDIA

Exercise Method

Due to regulatory requirements, the Optionee will be restricted to paying the Option Exercise Price by having the Company withhold such number of shares of Common Stock as are equal in value to the full Exercise Price. Paying the Exercise Price in cash or by check is prohibited. In the event of changes in the regulatory requirements, the Company reserves the right to eliminate the net exercise method restriction and, in its sole discretion, to permit alternate exercise methods.

ITALY

Plan Document Acknowledgment

In accepting the grant of the Option, the Optionee acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Option Agreement in their entirety and fully understands and accepts all provisions of the Plan and the Option Agreement.

The Optionee further acknowledges that he or she has read and specifically and expressly approves the following clauses in Exhibit A to the Option Agreement: Section 2: Vesting; Section 3: Option Exercise; Section 9: Withholding; Section 11: Non-Transferability; Section 17: Acknowledgment of Nature of Plan and Option; Section 21: Electronic Delivery and Acceptance; Section 25: Governing Law and Venue; and the “Data Privacy” provision for European Union / European Economic Area Member States / Switzerland / United Kingdom, included in this Exhibit B.

JAPAN

There are no country-specific provisions.

NETHERLANDS

There are no country-specific provisions.

NEW ZEALAND

Securities Law Notification

WARNING: The Optionee is being offered an Option that allows him/her to acquire shares of Common Stock in accordance with the terms of the Plan and the Option Agreement. The shares of Common Stock, if issued, give the Optionee a stake in the ownership of the Company. The Optionee may receive a return if dividends are paid.

If the Company runs into financial difficulties and is wound up, the Optionee will be paid only after all creditors have been paid. The Optionee may lose some or all of his/her investment.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision. The usual rules do not apply to this offer because it is made under an employee share purchase scheme. As a result, the Optionee may not be given all the information usually required. The Optionee will also have fewer other legal protections for this investment.

The Optionee should ask questions, read all documents carefully, and seek independent financial advice before committing to participate in the Plan.

Prior to the exercise of the Option, the Optionee will not have any rights of ownership (e.g., voting or dividend rights) with respect to the underlying shares of Common Stock.

No interest in any Options may be transferred (legally or beneficially), assigned, mortgaged, charged or encumbered.

The shares of Common Stock are quoted on the Nasdaq Global Select Market (“Nasdaq”). This means that, if the Optionee acquires shares of Common Stock under the Plan, the Optionee may be able to sell any shares of Common Stock acquired on the Nasdaq if there are interested buyers. The Optionee may get less than his/her investment. The price will depend on the demand for the shares of Common Stock.

For information on risk factors impacting the Company’s business that may affect the value of the shares of Common Stock, the Optionee should refer to the risk factors discussion in the Company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, and the auditor’s reports on those financial statements, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov, as well as on the Company’s website at <https://www.pega.com/about/investors>.

POLAND

There are no country-specific provisions.

SINGAPORE

Securities Law Notification

The grant of the Option is being made pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”) and is not made to the Optionee with a view to the underlying shares of Common Stock being subsequently offered for sale to any other party. The Plan has not been, and will not be, lodged or registered as a prospectus with the Monetary Authority of Singapore. The Optionee should note that the Option is subject to section 257 of the SFA and the Optionee should not make (a) any subsequent sale of the shares of Common Stock in Singapore or (b) any offer of such subsequent sale of the shares of Common Stock subject to the Option in Singapore, unless such sale or offer is made after six months from the date of grant or pursuant to the exemptions under Part XIII Division 1 Subdivision (4) (other than section 280) of the SFA. The shares of Common Stock are currently traded on the Nasdaq Global Select Market, which is located outside of Singapore, and may be sold through this exchange.

SPAIN

Securities Law Notification

No “offer of securities to the public,” as defined under Spanish law, has taken place or will take place in the Spanish territory. The Option Agreement (including this Exhibit B) and the Plan have not been, nor will they be, registered with the *Comisión Nacional del Mercado de Valores* (the Spanish securities regulator) and do not constitute a public offering prospectus.

Labor Law Acknowledgement

The following provisions supplement Section 17 (Acknowledgment of Nature of Plan and Option) of Exhibit A to the Option Agreement:

In accepting the Option, the Optionee consents to participation in the Plan and acknowledges that he or she has received a copy of the Plan.

The Optionee understands that the Company has unilaterally, gratuitously and in its sole discretion decided to grant Options under the Plan to individuals who may be employees of the Company or a Subsidiary. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any Subsidiary on an ongoing basis, over and above the specific terms of the Plan. Consequently, the Optionee understands that the Option is granted on the assumption and condition that the Option and the shares of Common Stock underlying the Option shall not become a part of any employment or service agreement (either with the Company, the Employer or any Subsidiary) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever.

The Optionee understands and agrees that, unless otherwise provided by the Company, the termination of the Optionee's Service for any reason will automatically result in the forfeiture of the Option that may have been granted to the Optionee and has not vested as of the Optionee's Service termination date. In particular, and without limitation to the provisions of the Plan, the Optionee understands and agrees that any unvested portion of the Option as of the date the Optionee's Service terminates will be cancelled without entitlement to the underlying shares of Common Stock or to any amount as indemnification if the Optionee terminates for any reason, including, but not limited to, resignation, retirement, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause (*i.e.*, subject to a "despido improcedente"), individual or collective dismissal on objective grounds, whether adjudged or recognized to be with or without cause, material modification of the terms of employment under Article 41 of the Workers' Statute, relocation under Article 40 of the Workers' Statute, and/or Article 50 of the Workers' Statute, unilateral withdrawal by the Employer and under Article 10.3 of the Royal Decree 1382/1985.

Finally, the Optionee understands that the grant of the Option would not be made to the Optionee but for the assumptions and conditions referred to above. Thus, the Optionee acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then the grant of the Option shall be null and void.

SWEDEN

Withholding of Tax-Related Items

The paragraph below supplements Section 9 (Withholding) of Exhibit A to the Option Agreement:

Without limiting the Company's and the Employer's authority to satisfy their withholding obligations for Tax-Related Items as set forth in Section 9 of Exhibit A to the Option Agreement, in accepting the grant of the Option, the Optionee authorizes the Company and/or the Employer to withhold shares of Common Stock or to sell shares of Common Stock otherwise deliverable to the Optionee upon exercise to satisfy Tax-Related Items, regardless of whether the Company and/or the Employer have an obligation to withhold such Tax-Related Items.

SWITZERLAND

Securities Law Notification

Neither the Option Agreement, this Exhibit B nor any other materials relating to the Option (a) constitutes a prospectus according to article 35 et seq. of the Swiss Federal Act on Financial Services ("FinSA"), (b) may be publicly distributed nor otherwise made publicly available in Switzerland to any person other than an employee of the Company, or (c) has been or will be filed with, approved or supervised by any Swiss reviewing body according to article 51 of FinSA or any Swiss regulatory authority, including the Swiss Financial Market Supervisory Authority (FINMA).

THAILAND

There are no country-specific provisions.

TURKEY

Securities Law Notification

In certain circumstances, the Optionee is permitted to acquire and sell securities on a non-Turkish stock exchange only through a financial intermediary licensed in Turkey. Therefore, the Optionee may be required to appoint a Turkish broker to assist with the sale of the shares of Common Stock acquired under the Plan. *The Optionee should consult his or her personal legal advisor before selling any shares of Common Stock acquired under the Plan to confirm the applicability of this requirement.*

UNITED KINGDOM

Responsibility for Tax-Related Items

The paragraphs below supplement Section 9 (Withholding) of Exhibit A to the Option Agreement:

Without limitation to Section 9 (Withholding) of Exhibit A to the Option Agreement, the Optionee agrees that the Optionee is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items as and when requested by the Company or, if different, the Employer or by Her Majesty's Revenue and Customs ("HMRC") (or any other tax authority or any other relevant authority). The Optionee also agrees to indemnify and keep indemnified the Company or the Employer against any Tax-Related Items that it is required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Optionee's behalf.

Notwithstanding the foregoing, if the Optionee is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the terms of the immediately foregoing provision will not apply. In such case, if any amount of income tax is not collected from or paid by Optionee within 90 days after the end of the U.K. tax year in which an event giving rise to the indemnification described above occurs, the amount of any uncollected income tax may constitute a benefit to Optionee on which additional income tax and National Insurance contributions (“NICs”) may be payable. The Optionee acknowledges that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to the HMRC under the self-assessment regime and for paying the Company or the Employer, as applicable, for the value of any employee NICs due on this additional benefit, which the Company or the Employer may collect by any of the means set forth in Section 9 (Withholding) of Exhibit A to the Option Agreement.

Joint Election

As a condition of the Optionee’s participation in the Plan and the vesting of the Option, the Optionee agrees to accept any liability for secondary Class 1 NICs (the “Employer’s Liability”) that may be payable by the Company and/or the Employer in connection with the Option and any event giving rise to Tax-Related Items. To accomplish the foregoing, the Optionee agrees to execute a joint election with the Company or the Employer (the “Election”), the form of such Election being formally approved by HMRC, and any other consent or elections required to accomplish the transfer of the Employer’s Liability to the Optionee. The Optionee further agrees to execute such other joint elections as may be required between the Optionee and any successor to the Company and/or the Employer. If the Optionee does not enter into the Election when the Optionee accepts the Option Agreement or when otherwise requested by the Company and/or Employer, or if the Election is revoked at any time by HMRC, the Option will cease vesting and become null and void, and no shares of Common Stock will be acquired under the Plan, unless the Optionee agrees to pay an amount equal to the Employer’s Liability to the Company, the Employer and/or any Related Company. The Optionee further agrees that the Company and/or the Employer may collect the Employer’s Liability by any of the means set forth in Section 9 (Withholding) of Exhibit A to the Option Agreement.



Notice of Grant of Award and Award Agreement

You have been granted an award of Restricted Stock Units pursuant to the terms of the Pegasystems Inc. Amended and Restated 2004 Long-Term Incentive Plan (the "Plan").

If you have not yet completed the acceptance process for any of your awards, you may complete the acceptance process by (A) reviewing your award details, (B) reviewing your award documents listed in Section B of your Online Award Acceptance (the "Award Documents"), and (C) confirming your acceptance of your award.

By accepting this award, you agree that this award is granted and governed by the terms and conditions of the Plan, this notice and all your Award Documents listed herein, and incorporated by reference. This notice, together with your Award Documents and your electronic acceptance, collectively compromise your total agreement (the "Award Agreement").

Pegasystems Inc.

/s/ Alan Trefler

By:

Alan Trefler, Chairman and Chief Executive Officer



Pegasystems Inc.
One Rogers Street
Cambridge, MA
02142-1590 USA

Phone 617.374.9600

Fax 617.374.9620

Pega.com

Exhibit A
Notice of Grant of Award and Award Agreement

1. **Conversion of Restricted Stock Units to Common Stock.** Each restricted stock unit (“RSU”) granted in the Notice of Grant of Award and Award Agreement (of which this Exhibit A is a part and including any special terms and conditions for the Recipient’s country set forth in Exhibit B attached hereto) (collectively, the “Award Agreement”) represents the right of the person receiving such grant (the “Recipient”) to receive one share of the common stock (“Common Stock”) of Pegasystems Inc. (the “Company”) subject to the vesting requirements listed in the Award Agreement and to the other terms and conditions of this Award Agreement. On each vesting date listed in the Award Agreement, the Company will issue such number of shares of Common Stock as are equal to the applicable number of RSUs vesting on such date, less such number of shares of Common Stock as are required to be withheld to satisfy Recipient’s tax withholding obligations. The Recipient shall not be entitled to receive any dividends declared on shares of Common Stock for any periods prior to the relevant vesting date, nor shall the Recipient be entitled to any dividend equivalent payouts.
 2. **Vesting.** RSUs will vest on the dates listed in the Award Agreement if the Recipient remains in the active employment of the Company and/or a Related Company in good standing from the date of grant through the applicable vesting date. RSUs will cease to vest immediately upon the cessation of the Recipient’s active employment, for any reason.
 3. **Recipient’s Agreement.** The Recipient agrees to all the terms stated in the Award Agreement, as well as to the terms of the Plan (which shall control in case of conflict with the Award Agreement), a copy of which is attached and of which the Recipient acknowledges receipt.
 4. **Withholding.** Regardless of any action the Company and/or the Recipient’s employer (“Employer”) take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account or other tax-related items related to the Recipient’s participation in the Plan (“Tax-Related Items”), the Recipient acknowledges that the ultimate liability for all Tax-Related Items legally due by the Recipient is and remains the Recipient’s responsibility and that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the RSUs, the vesting of the RSUs, the delivery of shares of Common Stock, the subsequent sale of any shares of Common Stock acquired at vesting and the receipt of any dividends; and (ii) do not commit to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Recipient’s liability for Tax-Related Items. Further, if the Recipient is subject to Tax-Related Items in more than one jurisdiction, the Recipient acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.
Prior to any relevant taxable event or tax withholding event, as applicable, the Recipient shall pay or make arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the Recipient authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by the Recipient by withholding otherwise deliverable shares of Common Stock, if permissible under local law. Alternatively, or in addition, if permissible under local law, the Recipient authorizes the Company and/or the Employer, at its discretion and pursuant to such procedures as it may specify from time to time, to satisfy the obligations with regard to all Tax-Related Items legally payable by the Recipient by one or a combination of the following: (i) withholding from any wages or other cash compensation paid to the Recipient by the Company and/or the Employer; (ii) arranging for the sale of shares of Common Stock otherwise deliverable to the Recipient (on the Recipient’s behalf and at the Recipient’s direction pursuant to this authorization); or (iii) withholding from the proceeds of the sale of shares of Common Stock acquired upon vesting of the Award.
Depending on the withholding method, the Company may withhold or account for the Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates in the Recipient’s jurisdiction. If the obligation for Tax-Related Items is satisfied by withholding a number of shares of Common Stock as described herein, for tax purposes, the Recipient is deemed to have been issued the full number of shares of Common Stock subject to the Award, notwithstanding that a number of the shares of Common Stock are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award. The Recipient shall pay to the Company and/or the Employer any amount of Tax-Related Items that the Company and/or the Employer may be required to withhold as a result of the Recipient’s participation in the Plan that cannot be satisfied by the means previously described.
The Company may refuse to deliver to the Recipient any shares of Common Stock pursuant to the Award or the proceeds from the sale of shares of Common Stock if the Recipient fails to comply with the Recipient’s obligations in connection with the Tax-Related Items as described in this section.
 5. **Rights as Shareholders.** The Recipient shall have no rights as a shareholder of the Company with respect to any of the RSUs until the issuance of shares of Common Stock at the time of vesting, and then only with respect to those shares of Common Stock issued.
 6. **Non-Transferability.** The Award may not be transferred in any manner other than by will or by the laws of descent and distribution. The terms of the Award shall be binding upon the executors, administrators, heirs and successors of the Recipient.
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7. **Compliance with Securities, Tax and Other Law.** No shares of Common Stock may be issued if the issuance of shares would constitute a violation of any applicable U.S. federal, state or non-U.S. securities law or any other law or valid regulation. As a condition to issuance of Common Stock, the Company may require the Recipient, or any person acquiring the right to receive the Common Stock, to make any representation or warranty that the Company deems to be necessary under any applicable securities, tax, or other law or regulation.
 8. **Adjustments upon Changes in Capitalization.** In the event of any change in the shares subject to the Plan or to any Award granted under the Plan by reason of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination or exchange of shares of Common Stock, or other change in the structure of the Company, the number of RSUs and the number of shares of Common Stock shall be appropriately adjusted by the Company and such adjustment shall be final, binding and conclusive.
 9. **No Right to Employment.** The granting of the Award does not confer upon the Recipient the right to continue in the service of the Company and/or the Employer, or affect in any way the right and power of the Company and/or the Employer to terminate the service of the Recipient at any time with or without assigning a reason therefor, to the same extent as the Company and/or the Employer might have done if the Award had not been granted.
 10. **No Guarantee.** The Company offers no guarantee or assurance that the Company's stock has any value at the time of this grant or will have any value or liquidity at any future time.
 11. **Employment Agreement.** In consideration for this Award, the Recipient reaffirms the terms of the Recipient's Employment Agreement with the Employer, including but not limited to the provisions (if any) related to competition and solicitation. The Recipient further agrees that to the extent the nature of the Employer's business has evolved since the date of the Employment Agreement the covenants shall also apply to the business as evolved.
 12. **Acknowledgment of Nature of Plan and Award.** In accepting the Award, the Recipient acknowledges, understands and agrees that:
 - a. the Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Award Agreement;
 - b. the Award is exceptional, voluntary and occasional and does not create any contractual or other right to receive future awards of RSUs, or benefits in lieu of RSUs, even if RSUs have been awarded repeatedly in the past;
 - c. all decisions with respect to future awards, if any, will be at the sole discretion of the Company;
 - d. the Recipient's participation in the Plan is voluntary;
 - e. the Award is an extraordinary item that does not constitute compensation for services of any kind rendered to the Company or any Related Company, and which is outside the scope of the service or employment contract, if any;
 - f. the Award and the shares of Common Stock subject to the RSUs, and the income and value of the same, are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end-of-service payments, bonuses, holiday pay, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Related Company;
 - g. in the event that the Recipient is not an Employee of the Company or any Related Company, the Award and the Recipient's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any Related Company;
 - h. unless otherwise agreed with the Company, the RSUs and the shares of Common Stock subject to the RSUs, and the income and value of the same, are not granted as consideration for, or in connection with, the service the Recipient may provide as a director of a Subsidiary.
 - i. the future value of the underlying shares of Common Stock is unknown and cannot be predicted with any certainty;
 - j. if the Recipient receives shares of Common Stock upon vesting, the value of such shares of Common Stock acquired on vesting of RSUs may increase or decrease;
 - k. in consideration of the Award, no claim or entitlement to compensation or damages shall arise from forfeiture of the Award resulting from termination of the Recipient's employment or other service relationship (for any reason whatsoever and whether or not in breach of employment laws in the jurisdiction where the Recipient is employed or the terms of the Recipient's employment agreement, if any);
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- I. for purposes of the RSUs, the Recipient's employment relationship will be considered terminated as of the date the Recipient is no longer providing services to the Company, the Employer or any Related Company (regardless for the reason for such termination and whether or not later found to be invalid or in breach of employment laws in the jurisdiction where the Recipient is employed or the terms of the Recipient's employment agreement, if any) and, unless otherwise expressly provided in the Agreement or determined by the Company, the Recipient's right to receive an Award and vest in the Award under the Plan, if any, will terminate as of such date and will not be extended by any notice period (e.g., the Recipient's period of service would not include any contractual notice period or any period of "garden leave" or similar period mandated under employment laws in the jurisdiction where the Recipient is employed or the terms of the Recipient's employment agreement, if any); the Committee or its delegate shall have the exclusive discretion to determine when the Recipient is no longer actively employed for purposes of the Award (including whether the Recipient may still be considered to be providing services while on a leave of absence);
 - m. neither the Company, the Employer nor any Subsidiary shall be liable for any foreign exchange rate fluctuation between the Recipient's local currency and the United States Dollar that may affect the value of the RSUs or of any amounts due to the Recipient pursuant to the settlement of the RSUs or the subsequent sale of any shares of Common Stock acquired upon settlement;
 - n. the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Recipient's participation in the Plan or the Recipient's acquisition or sale of the underlying shares of Common Stock; and
 - o. the Recipient understands and agrees that the Recipient should consult with the Recipient's personal tax, legal and financial advisors regarding the Recipient's participation in the Plan before taking any action related to the Plan.
 13. **Data Privacy Notice and Consent.** *The Recipient hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the Recipient's personal data as described in this Award Agreement and any other RSU grant materials by and among, as applicable, the Employer, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing the Recipient's participation in the Plan.*
The Recipient understands that the Company and the Employer may hold certain personal information about the Recipient, including, but not limited to, the Recipient's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all RSUs or any other entitlement to shares of stock awarded, granted, canceled, vested, exercised, unvested or outstanding in the Recipient's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").
The Recipient understands that Data will be transferred to a third party stock plan service provider(s) as may be selected by the Company, which is assisting the Company with the implementation, administration and management of the Plan. The Recipient understands the recipients of the Data may be located in the Recipient's country, in the United States or elsewhere, and that the data recipients' country may have different data privacy laws and protections than the Recipient's country. The Recipient understands that the Recipient may request details of any potential recipients of the Data by contacting privacy@pega.com. The Recipient authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Recipient's participation in the Plan. The Recipient understands that Data will be held only as long as is necessary to implement, administer and manage the Recipient's participation in the Plan. The Recipient understands that the Recipient may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting privacy@pega.com. The Recipient understands, however, that refusing or withdrawing the Recipient's consent may affect the Recipient's ability to participate in the Plan. For more information on the consequences of the Recipient's refusal to consent or withdrawal of consent, the Recipient understands that the Recipient may contact privacy@pega.com.
 14. **Amendment and Termination of Award.** The Company may amend, modify or terminate any outstanding Award, provided that the Recipient's consent to such action shall be required unless it occurs pursuant to a Sale of the Company or the Committee determines that the action would not materially and adversely affect the Recipient.
 15. **Language.** The Recipient acknowledges and agrees that he or she is sufficiently proficient in English, or has consulted with an advisor who is sufficiently proficient in English, so as to enable him or her to understand the terms and conditions of this Award Agreement. If the Recipient has received this Award Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different from the English version, the English version will control.
 16. **Electronic Delivery and Acceptance.** The Company may, in its sole discretion, decide to deliver any documents related to the Award or future awards made under the Plan by electronic means or request that the Recipient consent to participate in the Plan by electronic means. The Recipient hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.
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17. **Insider Trading Restrictions/Market Abuse Laws.** The Recipient acknowledges that, depending on the Recipient's country, the broker's country or the country in which the shares of Common Stock are listed, the Recipient may be subject to insider trading restrictions and/or market abuse laws in applicable jurisdictions, including the United States and the Recipient's country, which may affect the Recipient's ability to accept, acquire, sell, attempt to sell or otherwise dispose of shares of Common Stock, rights to shares of Common Stock (e.g., RSUs) or rights linked to the value of shares of Common Stock during such times as the Recipient is considered to have "inside information" regarding the Company, as defined by the laws or regulations in the applicable jurisdictions. Local insider trading laws and regulations may prohibit the cancellation or amendment of orders the Recipient placed before he or she possessed inside information. Furthermore, the Recipient could be prohibited from (i) disclosing the inside information to any third party (other than on a "need to know" basis) and (ii) "tipping" third parties or causing them otherwise to buy or sell securities, where third parties include fellow employees. The insider trading and/or market abuse laws may be different from any Company Insider Trading Policy. The Recipient is responsible for ensuring compliance with any applicable restrictions and should consult his or her personal legal advisor on this matter.
 18. **Foreign Asset/Account and Exchange Control Reporting.** The Recipient's country may have certain exchange controls and foreign asset and/or account reporting requirements that may affect his or her ability to purchase or hold shares of Common Stock under the Plan or receive cash from his or her participation in the Plan (including from any dividends received or sale proceeds arising from the sale of Shares) in a brokerage or bank account outside the Recipient's country. The Recipient may be required to report such accounts, assets or transactions to the tax or other authorities in his or her country. Further, the Recipient may be required to repatriate shares of Common Stock or proceeds acquired as a result of participating in the Plan to his or her country through a designated bank/broker and/or within a certain time. The Recipient acknowledges and agrees that it is his or her responsibility to be compliant with such regulations and understands that the Recipient should speak with his or her personal legal advisor for any details regarding any foreign asset/account reporting or exchange control reporting requirements in the Recipient's country arising out of his or her participation in the Plan.
 19. **Award Subject to Company Clawback or Recoupment.** The RSUs shall be subject to clawback or recoupment pursuant to any compensation clawback or recoupment policy adopted by the Board or required by law during the term of the Recipient's employment or other service with the Company that is applicable to executive officers, employees, directors or other service providers of the Company, and in addition to any other remedies available under such policy and applicable law may require the cancellation of the Recipient's RSUs (whether vested or unvested) and the recoupment of any gains realized with respect to the Recipient's RSUs.
 20. **Governing Law and Venue.** The Award Agreement shall be governed by and interpreted in accordance with the laws of The Commonwealth of Massachusetts (U.S.A.), without regard to any applicable conflicts of law provisions thereof.

For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this Award or this Award Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of The Commonwealth of Massachusetts (U.S.A.) and agree that such litigation shall be conducted only in the courts of Middlesex County, Massachusetts (U.S.A.), or the federal courts for the United States for the district of Massachusetts, and no other courts, where this Award of RSUs is made and/or to be performed.
 21. **Severability.** In the event any one or more of the provisions of the Award Agreement shall for any reason be held to be invalid, illegal or unenforceable, the remaining provisions of the Award Agreement shall be unimpaired, and the invalid, illegal or unenforceable provision shall be replaced by a mutually acceptable provision, which being valid, legal and enforceable, comes closest to the intention of the parties underlying the invalid, illegal or unenforceable provision.
 22. **Waiver.** The Recipient acknowledges that a waiver by the Company of a breach of any provision of the Award Agreement shall not operate or be construed as a waiver of any other provision of the Award Agreement, or of any subsequent breach by the Recipient or any other Recipient.
 23. **Definitions.** All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Plan.
 24. **Exhibit B.** Notwithstanding any provision herein, the Award and the Recipient's participation in the Plan shall be subject to any special terms and conditions as set forth in Exhibit B for the Recipient's country, if any. Moreover, if the Recipient relocates to one of the countries included in Exhibit B, the country-specific terms for such country will apply to the Recipient, to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. Exhibit B constitutes part of this Award Agreement.
 25. **Imposition of Other Requirements.** The Company reserves the right to impose other requirements on the Recipient's participation in the Plan, on this Award and on any shares of Common Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Recipient to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.
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Exhibit B
To Notice of Grant of Award and Award Agreement

Country-Specific Provisions for Recipients Outside the U.S.

Capitalized terms used but not defined in this Exhibit B shall have the same meanings assigned to them in the Notice of Grant, the Award Agreement and the Plan. This Exhibit B forms part of the Award Agreement.

Terms and Conditions

This Exhibit B includes additional terms and conditions that govern the RSUs granted to the Recipient under the Plan if the Recipient works and/or resides in one of the countries listed below. If the Recipient is a citizen or resident of a country other than the one in which the Recipient is currently working (or is considered as such for local law purposes), or if the Recipient transfers employment or residency to a different country after the date of grant, the Company will, in its discretion, determine the extent to which the terms and conditions contained herein will be applicable to the Recipient.

Notifications

This Exhibit B also includes information regarding securities laws and certain other considerations of which the Recipient should be aware with respect to participating in the Plan. The information is based on the securities and other laws in effect in the respective countries as of July 2020. Such laws are often complex and change frequently. As a result, the Recipient should not rely on the information noted herein as the only source of information relating to the consequences of participating in the Plan because the information may be out of date at the time the Recipient acquires shares of Common Stock under the Plan or subsequently sells such shares of Common Stock.

In addition, the information contained in this Exhibit B is general in nature and may not apply to the Recipient's particular situation, and the Company is not in a position to assure the Recipient of any particular result. Accordingly, the Recipient should seek appropriate professional advice as to how the relevant laws in the Recipient's country may apply to the Recipient's situation.

If the Recipient is a citizen or resident of a country other than the one in which the Recipient is currently working or residing (or is considered as such for local law purposes), or the Recipient transfers employment or residency to a different country after the date of grant, the notifications contained in this Exhibit B may not be applicable to the Recipient in the same manner.

EUROPEAN UNION ("EU") / EUROPEAN ECONOMIC AREA ("EEA") MEMBER STATES / SWITZERLAND / UNITED KINGDOM

Data Privacy

If the Recipient resides and/or works in the EU/EEA, Switzerland or the United Kingdom, Section 13 (Data Privacy Notice and Consent) of Exhibit A to the Award Agreement shall be replaced with the following:

The Company, located at One Rogers Street, Cambridge, MA 02142-1209, U.S.A. is the controller for the processing of the Recipient's personal data by the Company and the third parties noted below.

- a. **Data Collection, Processing and Usage.** Pursuant to applicable data protection laws, the Recipient is hereby notified that the Company collects, processes and uses certain personal information about the Recipient for the legitimate purpose of implementing, administering and managing the Plan and generally administering awards; specifically: the Recipient's name, home address, email address, date of birth, plan or benefit enrollment forms and elections, award or benefit statements, any shares of Common Stock, details of all awards or any other entitlements to shares of Common Stock awarded, canceled, purchased, vested, unvested or outstanding ("Personal Data"). In granting the RSUs under the Plan, the Company will collect, process, use, disclose and transfer (collectively, "Processing") Personal Data for purposes of implementing, administering and managing the Plan. The Company's legal basis for the Processing of Personal Data is the Company's legitimate business interests of managing the Plan, administering awards and complying with its contractual and statutory obligations, as well as the necessity of the Processing for the Company to perform its contractual obligations under the RSUs and the Plan. The Recipient's refusal to provide Personal Data would make it impossible for the Company to perform its contractual obligations and may affect the Recipient's ability to participate in the Plan. As such, by participating in the Plan, the Recipient voluntarily acknowledges the Processing of the Recipient's Personal Data as described herein.
 - b. **Stock Plan Administration Service Providers.** The Company may transfer Personal Data to Morgan Stanley Smith Barney ("MSSB") (or any successor Plan broker), an independent service provider based, in relevant part, in the United States, which may assist the Company with the implementation, administration and management of the Plan. In the future, the Company may select a different service provider and share Personal Data with another company that serves in a similar manner. The Company's service provider will open an account for the Recipient to receive and trade shares of Common Stock under the Plan. The Processing of Personal Data will take place through both electronic and non-electronic means. Personal Data will only be accessible by those individuals requiring access to it for purposes of implementing, administering and operating the Plan. When receiving the Recipient's Personal Data, if applicable, MSSB provides appropriate safeguards in accordance with the EU Standard Contractual Clauses or other appropriate cross-border transfer solutions. By participating in the Plan, the Recipient understands that the service provider will Process the Recipient's Personal Data for the purposes of implementing, administering and managing his or her participation in the Plan.
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- c. **International Data Transfers.** The Company and its service providers are based in the United States. The Recipient's country or jurisdiction may have different data privacy laws and protections than the United States. For example, an appropriate level of protection can be achieved by implementing safeguards such as the Standard Contractual Clauses adopted by the EU Commission. Personal Data will be transferred from the EU/EEA, Switzerland and/or the United Kingdom to the Company and onward from the Company to any of its service providers based on the Standard Contractual Clauses. The Recipient may request a copy of such appropriate safeguards by contacting privacy@pega.com.
- d. **Data Retention.** The Company will use Personal Data only as long as is necessary to implement, administer and manage the Recipient's participation in the Plan or as required to comply with legal or regulatory obligations, including tax and securities laws. When the Company no longer needs Personal Data, the Company will remove it from its systems. If the Company keeps Personal Data longer, it would be to satisfy legal or regulatory obligations and the Company's legal basis would be for compliance with relevant laws or regulations.
- e. **Data Subject Rights.** To the extent provided by law, the Recipient has the right to (i) subject to certain exceptions, request access or copies of Personal Data the Company Processes, (ii) request rectification of incorrect Personal Data, (iii) request deletion of Personal Data, (iv) place restrictions on Processing of Personal Data, (v) lodge complaints with competent authorities in the Recipient's country, and/or (vi) request a list with the names and addresses of any potential recipients of Personal Data. To receive clarification regarding the Recipient's rights or to exercise his or her rights, the Recipient may contact privacy@pega.com. The Recipient also has the right to object, on grounds related to a particular situation, to the Processing of Personal Data, as well as opt-out of the Plan herein, in any case without cost, by contacting his or her local human resources department in writing. The Recipient's provision of Personal Data is a contractual requirement. The Recipient understands, however, that the only consequence of refusing to provide Personal Data is that the Company may not be able to administer the RSUs, or grant other awards or administer or maintain such awards. For more information on the consequences of the refusal to provide Personal Data, the Recipient may contact his or her human resources representative in writing. The Recipient may also have the right to lodge a complaint with the relevant data protection supervisory authority.

AUSTRALIA

Offer Document

The Company is pleased to provide the Recipient with this offer to participate in the Plan. This offer document sets out information regarding the offer of RSUs to Australian resident employees of the Company and its Subsidiaries. The Company is providing this information to ensure the Plan's compliance with Australian Securities and Investments Commission ("ASIC") Class Order 14/1000 and relevant provisions of the Corporations Act 2001.

Additional Documents

In addition to the information set out in the Award Agreement and this Exhibit B, the Recipient is also being provided with copies of the following documents:

- a. the Plan; and
- b. the Information Statement for Participants in the Pegasystems Inc. 2004 Long-Term Incentive Plan (the "Information Statement") (collectively, the "Additional Documents").

The Additional Documents provide further information to help the Recipient to make an informed investment decision about participating in the Plan. Neither the Plan nor the Information Statement is a prospectus for the purposes of the Corporations Act 2001.

The Recipient should not rely upon any oral statements made in relation to this offer. The Recipient should rely only upon the statements contained in the Award Agreement, including this Exhibit B, and the Additional Documents when considering participation in the Plan.

General Information Only

The information herein is general information only. It is not advice or information that takes into account the Recipient's objectives, financial situation and needs. The Recipient should consider obtaining his or her own financial product advice from a person who is licensed by ASIC to give such advice.

Risk Factors

Investment in shares of Common Stock involves a degree of risk. The Recipient should monitor his or her participation and consider all risk factors relevant to the acquisition of shares of Common Stock under the Plan as set forth below and in the Additional Documents.

The Recipient should have regard to risk factors relevant to investment in securities generally and, in particular, to holding shares of Common Stock. For example, the price at which an individual share of Common Stock is quoted on the Nasdaq Global Select Market ("Nasdaq") may increase or decrease due to a number of factors. There is no guarantee that the price of a share of Common Stock will increase. Factors that may affect the price of an individual share of Common Stock include fluctuations in the domestic and international market for listed stocks, general economic conditions, including interest rates, inflation rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation, the nature of the markets in which the Company operates and general operational and business risks.

More information about potential factors that could affect the Company's business and financial results will be included in the Company's most recent Annual Report on Form 10-K and the Company's Quarterly Report on Form 10-Q. Copies of these reports are available at <http://www.sec.gov/>, on the Company's "Investor Relations" page at <https://www.pegacom/about/investors>, and upon request to the Company.

In addition, the Recipient should be aware that the Australian dollar ("AUD") value of any shares of Common Stock acquired under the Plan will be affected by the USD/AUD exchange rate. Participation in the Plan involves certain risks related to fluctuations in this rate of exchange.

Common Stock in a U.S. Corporation

Common stock of a U.S. corporation is analogous to ordinary shares of an Australian corporation. Each holder of a share of Common Stock is entitled to one vote. Further, shares of Common Stock are not liable to any further calls for payment of capital or for other assessment by the Company and have no sinking fund provisions, pre-emptive rights, conversion rights or redemption provisions.

Ascertaining the Market Price of a Share of Common Stock

The Recipient may ascertain the current market price of an individual share of Common Stock as traded on the Nasdaq under the symbol "PEGA" at: <https://www.nasdaq.com/market-activity/stocks/pegacom>. The AUD equivalent of that price can be obtained at: <https://www.rba.gov.au/statistics/frequency/exchange-rates.html>.

This will not be a prediction of the market price of an individual share of Common Stock when such shares of Common Stock are acquired under the Plan or of the applicable exchange rate on the date of acquisition.

Tax Notification

The Plan is a plan to which Subdivision 83A-C of the Income Tax Assessment Act 1997 (Cth) (the "Act") applies (subject to the conditions in that Act).

AUSTRIA

There are no country-specific provisions.

BRAZIL

Compliance with Law

By accepting the RSUs, the Recipient agrees to comply with all applicable Brazilian laws and pay any and all applicable Tax-Related Items associated with the vesting and settlement of the RSUs, the receipt of any dividends paid on shares of Common Stock and the sale of shares of Common Stock acquired under the Plan.

Labor Law Acknowledgment and Policy Statement

This provision supplements Section 12 (Acknowledgment of Nature of Plan and Award) of Exhibit A to the Award Agreement:

The Recipient acknowledges and agrees that (i) the Recipient is making an investment decision, and (ii) the value of the underlying shares of Common Stock is not fixed and may increase or decrease over the vesting period, without compensation to the Recipient.

Further, the Recipient acknowledges and agrees that, for all legal purposes, (i) any benefits provided to the Recipient under the Plan are unrelated to the Recipient's employment or service; (ii) the Plan is not a part of the terms and conditions of the Recipient's employment or service; and (iii) the income from the Recipient's participation in the Plan, if any, is not part of the Recipient's remuneration from employment or service.

CANADA

Resale Restriction

The Recipient is permitted to sell shares of Common Stock acquired under the Plan through the designated broker appointed under the Plan, if any, provided the resale of shares of Common Stock takes place outside of Canada through the facilities of the stock exchange on which the shares of Common Stock are listed. The shares of Common Stock are currently traded on the Nasdaq Global Select Market, which is located outside of Canada, and may be sold through this exchange.

Cessation of Employment

In the event of the termination of the Recipient's employment (whether or not later found to be invalid or unlawful for any reason, including for breaching either applicable employment laws or the Recipient's employment agreement, if any), unless otherwise set forth in the Award Agreement, the Recipient's right to vest in the RSUs under the Plan, if any, will terminate effective on the earliest of: (a) the date on which the Recipient's active employment terminates, (b) the date the Recipient receives notice of termination, and (c) the date the Recipient no longer actively provides service to the Company or any Related Company, regardless of any period during which notice, pay in lieu of notice or related payments or damages are provided or required to be provided under local law. The Recipient will not earn or be entitled to any pro-rated vesting for that portion of time before the date on which the Recipient's right to vest terminates, nor will the Recipient be entitled to any compensation for lost vesting. The Committee or its delegate shall have the exclusive discretion to determine when the Recipient is no longer employed for purposes of the Award Agreement (including whether the Recipient may still be considered to be providing service while on a leave of absence). Notwithstanding the foregoing, if applicable employment standards legislation explicitly requires continued entitlement to vesting during a statutory notice period, the Recipient's right to vest in the RSUs under the Plan, if any, will terminate effective as of the last day of the Recipient's minimum statutory notice period, but the Recipient will not earn or be entitled to pro-rated vesting if the vesting date falls after the end of the Recipient's statutory notice period, nor will the Recipient be entitled to any compensation for lost vesting.

The following provisions apply if the Recipient is a resident of Quebec:

Consent to Receive Information in English for Quebec Recipients

The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English.

Les parties reconnaissent avoir exigé la rédaction en anglais du Contrat d'Attribution, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à ou suite à la présente convention.

FRANCE

French-Qualified RSUs

The RSUs are granted under and subject to the terms of the Pegasystems Inc. Restricted Stock Unit Sub-Plan of the Pegasystems Inc. 2004 Long-Term Incentive Plan for French Participants, as may be amended from time to time (the "French Sub-Plan"). RSUs granted under the French Sub-Plan are intended to qualify for the specific tax and social security treatment available pursuant to Sections L. 225-197-1 to L. 225-197-6 of the French Commercial Code.

Notwithstanding any provision in the Award Agreement to the contrary, in the event of the Recipient's Disability (as defined in the French Sub-Plan) or death, the terms of the French Sub-Plan shall govern.

The Recipient acknowledges and agrees that the shares of Common Stock issued and delivered in settlement of the RSUs may not be sold, transferred, or otherwise disposed of during a "closed period". The term "closed period" means the specific period as set forth by Section L. 225-197-1 of the French Commercial Code, as amended from time to time, which includes: (a) 30 calendar days before the announcement of an intermediary financial report or end-of-year report that the Company is required to make public and (b) any period during which the Chief Executive Officer (directeur général), any deputy chief executive officer (directeur général délégué), or any member of the Board of Directors (conseil d'administration), the supervisory board (conseil de surveillance) or the executive board (directoire) of the Company, or any employee possesses knowledge of inside information (within the meaning of Article 7 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (Market Abuse Regulation) and cancelling the Directive 2003/6/UE and Directives 2003/124/CE Parliament and 2004/72/CE of the Commission) which has not been disclosed to the public. If French law or regulations are amended to modify the definition and/or applicability of the closed periods to French-qualified RSUs, such amendments shall become applicable to any RSUs granted under the French Sub-Plan, to the extent permitted or required under French law.

Consent to Receive Information in English

The parties acknowledge that it is their express wish that the Award Agreement, as well as all documents, notices and legal proceedings entered into, given or instituted pursuant hereto or relating directly or indirectly hereto, be drawn up in English. By accepting the RSUs, the Recipient confirms having read and understood the Plan and the Award Agreement, including all terms and conditions included therein, which were provided in the English language. The Recipient accepts the terms of those documents accordingly.

Les parties reconnaissent avoir exigé la rédaction en anglais du Contrat d'Attribution, ainsi que de tous documents exécutés, avis donnés et procédures judiciaires intentées, directement ou indirectement, relativement à, ou suite au, présent Contrat d'Attribution. En acceptant cette des droits sur des actions assujettis à restrictions (« restricted stock units » ou « RSUs »), le Bénéficiaire confirme avoir lu et compris le Plan et le Contrat y relatifs, incluant tous leurs termes et conditions, qui ont été transmis en langue anglaise. Le Bénéficiaire accepte les dispositions de ces documents en connaissance de cause.

GERMANY

There are no country-specific provisions.

HONG KONG

Securities Law Notification

WARNING: The RSUs and the shares of Common Stock issued upon settlement of the RSUs do not constitute a public offering of securities under Hong Kong law and are available only to certain eligible employees. The Notice of Grant, the Award Agreement, the Plan and other incidental communication materials have not been prepared in accordance with and are not intended to constitute a "prospectus" for a public offering of securities under the applicable securities legislation in Hong Kong. In addition, the documents have not been reviewed by any regulatory authority in Hong Kong. The RSUs are intended only for the personal use of the Recipient, and may not be distributed to any other person. If the Recipient is in any doubt about any of the contents of the Notice of Grant, the Award Agreement or the Plan, the Recipient should obtain independent professional advice.

Restriction on Sale of Shares of Common Stock

Shares of Common Stock received pursuant to the RSU are accepted as a personal investment. To facilitate compliance with securities laws in Hong Kong, the Recipient agrees not to sell the shares of Common Stock issued in settlement of the RSUs within six months after the date of grant.

Award Is Not Wages

The RSUs and the shares of Common Stock underlying the RSUs do not form part of the Recipient's wages for purposes of calculating any statutory or contractual payments under applicable law in Hong Kong.

INDIA

There are no country-specific provisions.

ITALY

Plan Document Acknowledgment

In accepting the grant of RSUs, the Recipient acknowledges that he or she has received a copy of the Plan, has reviewed the Plan and the Award Agreement in their entirety and fully understands and accepts all provisions of the Plan and the Award Agreement.

The Recipient further acknowledges that he or she has read and specifically and expressly approves the following clauses in Exhibit A to the Award Agreement: Section 2: Vesting; Section 4: Withholding; Section 6: Non-Transferability; Section 12: Acknowledgment of Nature of Plan and Award; Section 16: Electronic Delivery and Acceptance; Section 20: Governing Law and Venue; and the "Data Privacy" provision for European Union / European Economic Area Member States / Switzerland / United Kingdom, included in this Exhibit B.

JAPAN

There are no country-specific provisions.

NETHERLANDS

There are no country-specific provisions.

NEW ZEALAND

Securities Law Notification

WARNING: The Recipient is being offered an Award that allows him/her to acquire shares of Common Stock in accordance with the terms of the Plan and the Award Agreement. The shares of Common Stock, if issued, give the Recipient a stake in the ownership of the Company. The Recipient may receive a return if dividends are paid.

If the Company runs into financial difficulties and is wound up, the Recipient will be paid only after all creditors have been paid. The Recipient may lose some or all of his/her investment.

New Zealand law normally requires people who offer financial products to give information to investors before they invest. This information is designed to help investors to make an informed decision. The usual rules do not apply to this offer because it is made under an employee share purchase scheme. As a result, the Recipient may not be given all the information usually required. The Recipient will also have fewer other legal protections for this investment.

The Recipient should ask questions, read all documents carefully, and seek independent financial advice before committing to participate in the Plan.

Prior to the settlement of the RSUs, the Recipient will not have any rights of ownership (e.g., voting or dividend rights) with respect to the underlying shares of Common Stock.

No interest in any RSUs may be transferred (legally or beneficially), assigned, mortgaged, charged or encumbered.

The shares of Common Stock are quoted on the Nasdaq Global Select Market ("Nasdaq"). This means that, if the Recipient acquires shares of Common Stock under the Plan, the Recipient may be able to sell any shares of Common Stock acquired on the Nasdaq if there are interested buyers. The Recipient may get less than his/her investment. The price will depend on the demand for the shares of Common Stock.

For information on risk factors impacting the Company's business that may affect the value of the shares of Common Stock, the Recipient should refer to the risk factors discussion in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, and the auditor's reports on those financial statements, which are filed with the U.S. Securities and Exchange Commission and are available online at www.sec.gov, as well as on the Company's website at <https://www.pega.com/about/investors>.

POLAND

There are no country-specific provisions.

SINGAPORE

Securities Law Notification

The grant of the RSUs is being made pursuant to the “Qualifying Person” exemption under section 273(1)(f) of the Securities and Futures Act (Chapter 289, 2006 Ed.) (“SFA”) and is not made to the Recipient with a view to the underlying shares of Common Stock being subsequently offered for sale to any other party. The Plan has not been, and will not be, lodged or registered as a prospectus with the Monetary Authority of Singapore. The Recipient should note that the RSUs are subject to section 257 of the SFA and the Recipient should not make (a) any subsequent sale of the shares of Common Stock in Singapore or (b) any offer of such subsequent sale of the shares of Common Stock subject to the RSU in Singapore, unless such sale or offer is made after six months from the date of grant or pursuant to the exemptions under Part XIII Division 1 Subdivision (4) (other than section 280) of the SFA. The shares of Common Stock are currently traded on the Nasdaq Global Select Market, which is located outside of Singapore, and may be sold through this exchange.

SPAIN

Securities Law Notification

No “offer of securities to the public,” as defined under Spanish law, has taken place or will take place in the Spanish territory. The Award Agreement (including this Exhibit B) and the Plan have not been, nor will they be, registered with the *Comisión Nacional del Mercado de Valores* (the Spanish securities regulator) and do not constitute a public offering prospectus.

Labor Law Acknowledgement

The following provisions supplement Section 12 (Acknowledgment of Nature of Plan and Award) of Exhibit A to the Award Agreement:

In accepting the RSUs, the Recipient consents to participation in the Plan and acknowledges that he or she has received a copy of the Plan.

The Recipient understands that the Company has unilaterally, gratuitously and in its sole discretion decided to grant the RSUs under the Plan to individuals who may be employees of the Company or a Subsidiary. The decision is a limited decision that is entered into upon the express assumption and condition that any grant will not economically or otherwise bind the Company or any Subsidiary on an ongoing basis, over and above the specific terms of the Plan. Consequently, the Recipient understands that the RSUs are granted on the assumption and condition that the RSUs and the shares of Common Stock underlying the RSUs shall not become a part of any employment or service agreement (either with the Company, the Employer or any Subsidiary) and shall not be considered a mandatory benefit, salary for any purposes (including severance compensation) or any other right whatsoever.

The Recipient understands and agrees that, unless otherwise provided by the Company, the termination of the Recipient’s active employment for any reason will automatically result in the forfeiture of the RSUs that may have been granted to the Recipient and have not vested as of the Recipient’s termination date. In particular, and without limitation to the provisions of the Plan, the Recipient understands and agrees that any unvested portion of the RSUs as of the date the Recipient’s active employment terminates will be cancelled without entitlement to the underlying shares of Common Stock or to any amount as indemnification if the Recipient terminates for any reason, including, but not limited to, resignation, retirement, disciplinary dismissal adjudged to be with cause, disciplinary dismissal adjudged or recognized to be without cause (*i.e.*, subject to a “despido improcedente”), individual or collective dismissal on objective grounds, whether adjudged or recognized to be with or without cause, material modification of the terms of employment under Article 41 of the Workers’ Statute, relocation under Article 40 of the Workers’ Statute, and/or Article 50 of the Workers’ Statute, unilateral withdrawal by the Employer and under Article 10.3 of the Royal Decree 1382/1985.

Finally, the Recipient understands that the grant of the RSUs would not be made to the Recipient but for the assumptions and conditions referred to above. Thus, the Recipient acknowledges and freely accepts that should any or all of the assumptions be mistaken or should any of the conditions not be met for any reason, then the grant of the RSUs shall be null and void.

SWEDEN

Withholding of Tax-Related Items

The paragraph below supplements Section 4 (Withholding) of Exhibit A to the Award Agreement:

Without limiting the Company’s and the Employer’s authority to satisfy their withholding obligations for Tax-Related Items as set forth in Section 4 of Exhibit A to the Award Agreement, in accepting the grant of RSUs, the Recipient authorizes the Company and/or the Employer to withhold shares of Common Stock or to sell shares of Common Stock otherwise deliverable to the Recipient upon vesting to satisfy Tax-Related Items, regardless of whether the Company and/or the Employer have an obligation to withhold such Tax-Related Items.

SWITZERLAND

Securities Law Notification

Neither the Award Agreement, this Exhibit B nor any other materials relating to the RSUs (a) constitutes a prospectus according to article 35 et seq. of the Swiss Federal Act on Financial Services (“FinSA”), (b) may be publicly distributed nor otherwise made publicly available in Switzerland to any person other than an employee of the Company, or (c) has been or will be filed with, approved or supervised by any Swiss reviewing body according to article 51 of FinSA or any Swiss regulatory authority, including the Swiss Financial Market Supervisory Authority (FINMA).

THAILAND

There are no country-specific provisions.

TURKEY

Securities Law Notification

In certain circumstances, the Recipient is permitted to acquire and sell securities on a non-Turkish stock exchange only through a financial intermediary licensed in Turkey. Therefore, the Recipient may be required to appoint a Turkish broker to assist with the sale of the shares of Common Stock acquired under the Plan. *The Recipient should consult his or her personal legal advisor before selling any shares of Common Stock acquired under the Plan to confirm the applicability of this requirement.*

UNITED KINGDOM

Responsibility for Tax-Related Items

The paragraphs below supplement Section 4 (Withholding) of Exhibit A to the Award Agreement:

Without limitation to Section 4 (Withholding) of Exhibit A to the Award Agreement, the Recipient agrees that the Recipient is liable for all Tax-Related Items and hereby covenants to pay all such Tax-Related Items as and when requested by the Company or, if different, the Employer or by Her Majesty's Revenue and Customs ("HMRC") (or any other tax authority or any other relevant authority). The Recipient also agrees to indemnify and keep indemnified the Company or the Employer against any Tax-Related Items that it is required to pay or withhold or have paid or will pay to HMRC (or any other tax authority or any other relevant authority) on the Recipient's behalf.

Notwithstanding the foregoing, if the Recipient is a director or executive officer of the Company (within the meaning of Section 13(k) of the Exchange Act), the terms of the immediately foregoing provision will not apply. In such case, if any amount of income tax is not collected from or paid by Recipient within 90 days after the end of the U.K. tax year in which an event giving rise to the indemnification described above occurs, the amount of any uncollected income tax may constitute a benefit to Recipient on which additional income tax and National Insurance contributions ("NICs") may be payable. The Recipient acknowledges that he or she will be responsible for reporting and paying any income tax due on this additional benefit directly to the HMRC under the self-assessment regime and for paying the Company or the Employer, as applicable, for the value of any employee NICs due on this additional benefit, which the Company or the Employer may collect by any of the means set forth in Section 4 (Withholding) of Exhibit A to the Award Agreement.

Joint Election

As a condition of the Recipient's participation in the Plan and the vesting of the RSUs, the Recipient agrees to accept any liability for secondary Class 1 NICs (the "Employer's Liability") that may be payable by the Company and/or the Employer in connection with the RSUs and any event giving rise to Tax-Related Items. To accomplish the foregoing, the Recipient agrees to execute a joint election with the Company or the Employer (the "Election"), the form of such Election being formally approved by HMRC, and any other consent or elections required to accomplish the transfer of the Employer's Liability to the Recipient. The Recipient further agrees to execute such other joint elections as may be required between the Recipient and any successor to the Company and/or the Employer. If the Recipient does not enter into the Election when the Recipient accepts the Award Agreement or when otherwise requested by the Company and/or Employer, or if the Election is revoked at any time by HMRC, the RSUs will cease vesting and become null and void, and no shares of Common Stock will be acquired under the Plan, unless the Recipient agrees to pay an amount equal to the Employer's Liability to the Company, the Employer and/or any Related Company. The Recipient further agrees that the Company and/or the Employer may collect the Employer's Liability by any of the means set forth in Section 4 (Withholding) of Exhibit A to the Award Agreement.

LEASE TERMINATION AGREEMENT

This LEASE TERMINATION AGREEMENT (this “**Agreement**”) is dated and effective as of February 12, 2021 (the “**Effective Date**”), by and between CHARLES PARK OWNER LLC, a Delaware limited liability company (“**New Venture**” or “**Landlord**”), and PEGASYSTEMS INC., a Massachusetts corporation (“**Tenant**”).

WHEREAS, Charles Park One, LLC (“**One Charles Landlord**”, as predecessor in interest to New Venture) and Tenant are parties to a certain Lease, dated as of June 29, 2011 (as amended and assigned, if any, the “**One Charles Lease**”) pursuant to which One Charles Landlord leased to Tenant, and Tenant leased from One Charles Landlord, a certain premises (the “**One Charles Premises**”) located at One Charles Park, Cambridge, Massachusetts (the “**One Charles Property**”).

WHEREAS, Charles Park Two, LLC (“**One Rogers Landlord**”, as predecessor in interest to New Venture) and Tenant are parties to a certain Lease, dated as of June 29, 2011 (as amended and assigned, if any, the “**One Rogers Lease**”) pursuant to which One Rogers Landlord leased to Tenant, and Tenant leased from One Rogers Landlord, a certain premises (the “**One Rogers Premises**”) located at One Rogers Street, Cambridge, Massachusetts (the “**One Rogers Property**”).

WHEREAS, the One Charles Lease and the One Rogers Lease are referred to herein collectively as the “**Lease**”, and the One Charles Premises and the One Rogers Premises are referred to herein collectively as the “**Premises**”. Capitalized terms not defined herein shall have the meaning ascribed thereto in the Lease.

WHEREAS, (i) the term of the One Charles Lease is scheduled to expire on December 31, 2023, and (ii) the term of the One Rogers Lease is scheduled to expire on December 31, 2023.

WHEREAS, Principal Real Estate Investors, LLC (“**Principal**”), as beneficial owner of One Charles Landlord and One Rogers Landlord, consummated a joint venture with affiliates of The Davis Companies pursuant to which, among other things, (i) Principal contributed the One Charles Property and the One Rogers Property to New Venture, and (ii) New Venture succeeded to the interest of Landlord under the Lease.

WHEREAS, subject to the terms of this Agreement, Landlord and Tenant wish to set forth the terms and conditions upon which the One Charles Lease and the One Rogers Lease would terminate.

NOW, THEREFORE, for good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, Landlord and Tenant agree as follows:

1. Recitals Incorporated. The foregoing recitals are incorporated by reference into this Agreement as if fully set forth herein.
2. Early Termination. The term of the Lease shall expire and the Lease shall be deemed terminated effective as of 11:59 p.m. on the date (the “**Termination Date**”) upon which

Tenant and all parties claiming under Tenant have vacated the Premises and Tenant has surrendered the Premises to Landlord in its current condition (reasonable wear and tear and damage by Landlord, Davis and/or New Venture and casualty excepted) and notwithstanding anything to the contrary contained in the Lease, Tenant shall have no obligation to remove and restore Specialty Alterations or Designated Fixtures and Tenant may remove and/or leave in the Premises any of the cabling, wires, furniture, fixtures and/or equipment it so elects without any obligation to replace the furniture, fixtures and/or equipment and/or repair the area and/or areas from where the same was removed (collectively, “**Surrender Condition**”). By way of example only, if Tenant elects to remove any and all of the soundproof doors in the Premises, Tenant may remove the same and have no responsibility to replace the door and/or doors. The Surrender Condition set forth in this Agreement shall govern and control over any provisions in the Lease with respect to the condition of the Premises at the expiration date of the Lease. Tenant shall cause the Termination Date to occur on (and not before or after) October 1, 2021 (the “**Outside Termination Date**”). Termination of the Lease on the Termination Date shall have the same force and effect as if the Termination Date is the expiration date set forth in the Lease. In the event that Tenant fails to surrender the Premises to Landlord in Surrender Condition on the Outside Termination Date, Tenant shall immediately be treated as a holdover tenant and Landlord shall have all remedies available to Landlord under the Lease, at law and in equity. As of the Termination Date, neither party shall have any rights, liabilities, obligations, claims, actions or damages arising under the Lease for the period accruing after the Termination Date (and Landlord and Tenant each hereby releases the other therefrom), except those which, by the provisions of the Lease, expressly survive the termination of the Lease.

3. Compliance with Obligations. Prior to the Termination Date, Tenant and Landlord shall continue to be responsible for their respective payment of all amounts due under the Lease and the satisfaction of all of their respective obligations under the Lease and under this Agreement, it being the intent of Landlord and Tenant that, except as modified herein, the Lease shall continue unmodified and in full force and effect through the Termination Date.
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4. **Termination Payment.** Subject to the terms hereof, Landlord and Tenant agree that Landlord shall pay to Tenant by wire transfer made not later than two (2) business days after the Termination Date, the sum of Eighteen Million and No/100 Dollars (\$18,000,000.00) (the "Termination Payment") as valuable and fair consideration for Tenant's agreement to terminate the Lease in accordance with the terms of this Agreement. Landlord's performance under this Agreement is expressly conditioned upon (i) the Termination Date occurring not later than the Outside Termination Date, and (ii) no then uncured Event of Default under the Lease and under this Agreement. Tenant's performance under this Agreement and the continuing effectiveness of this Agreement is expressly conditioned upon Landlord's timely performance in all material respects of its obligations under the Lease and under this Agreement.
 5. **Release.** Effective as of the Termination Date, Tenant and Landlord each hereby releases the other from all obligations, agreements and covenants under the Lease with respect to the Premises and all claims, actions, liabilities, losses, damages, costs and expenses, known or unknown, which each party (and its successors and assigns) ever had, now have or hereinafter may have against the other arising out of or under or relating, directly or indirectly, to the terms and conditions of the Lease, except those which, by the provisions of the Lease, expressly survive the termination of the Lease.
 6. **Representations and Covenants.**
 - a. Tenant hereby represents and covenants to Landlord as follows:
 - i. **Authority.** Tenant has the full right and authority to enter into this Agreement and the transactions contemplated herein; and the person signing this Agreement and any other document or instrument contemplated hereby on behalf of Tenant is duly authorized to do so. This Agreement and all other documents to be executed by Tenant in connection herewith are legal, valid, and binding obligations of Tenant and are enforceable against Tenant in accordance with their respective terms.
 - ii. **Performance of Obligations.** The execution, delivery, and performance of Tenant's obligations under this Agreement and the consummation of the transactions contemplated hereby (a) will not result in a breach or violation of, or result in an acceleration of, any indebtedness under (or adverse change in) any contract, agreement, or instrument to which Tenant is a party or which affects the Premises or any portion thereof, and (b) do not require any consents, approvals, or authorizations not previously obtained by Tenant.
 - iii. **Ownership of Leasehold.** Tenant covenants that, as of the Termination Date, it will be sole owner of the Tenant's interest in the Lease, and that it will not have made any assignment, sublease, transfer, conveyance, hypothecation, or other disposition of the Lease or any interest therein.
 - iv. **Liens.** Tenant has not done or suffered, and will not do or suffer, anything whereby the Lease or the Premises have (or will) become encumbered by any mechanics' or materialmen's liens or in any other manner whatsoever.
 - b. Landlord hereby represents and warrants to Tenant as follows:
 - i. **Authority.** Landlord has the full right and authority to enter into this Agreement and the transactions contemplated herein; and the persons signing this Agreement and any other document or instrument contemplated hereby on behalf of Landlord are duly authorized to do so. This Agreement and all other documents to be executed by Landlord in connection herewith are legal, valid, and binding obligations of Landlord and are enforceable against Landlord in accordance with their respective terms.
 - ii. **Performance of Obligations.** The execution, delivery, and performance of Landlord's obligations under this Agreement and the consummation of the transactions contemplated hereby (a) will not result in a breach or violation of, or result in an acceleration of, any indebtedness under (or adverse change in) any contract, agreement, or instrument to which Landlord is a party, and (b) do not require any consents, approvals, or authorizations not previously obtained by Landlord.
 - iii. **Fee Simple Ownership.** Landlord is the fee simple owner of the One Charles Property and the One Rogers Property.
 7. **Letter of Credit.** In order to secure Landlord's obligation to make the Termination Payment pursuant to the terms of this Agreement, Landlord shall deliver to Tenant, not more than forty-five (45) days after the Effective Date (i.e., March 29, 2021), an irrevocable letter of credit issued by First Republic Bank in the amount of the Termination Payment, and in the form attached hereto as Exhibit A and made a part hereof, and which is binding and available to be drawn upon by Tenant for the period ending one (1) month after the Outside Termination Date (the "**Letter of Credit**"). In the event that Landlord has not timely delivered the Letter of Credit to Tenant as aforesaid, Tenant shall have the right to deliver to Landlord a reminder notice with the following legend prominently at the top: "TENANT WILL HAVE THE RIGHT TO VOID THE TERMINATION AGREEMENT IF LANDLORD FAILS TO TIMELY DELIVER THE LETTER OF CREDIT." In the event that Landlord has not delivered the Letter of Credit within five (5) business days after receipt of Tenant's reminder notice, Tenant shall have the right to terminate this Agreement immediately by notice delivered to Landlord.
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8. Landlord's Access. Tenant hereby grants to Landlord and its engineers, architects, contractors, representatives, consultants, advisors and other employees and agents (collectively, "**Representatives**") a temporary, nonexclusive license and permission to enter upon the Premises at reasonable times on a business day or days for the purpose of conducting a noninvasive exploratory examination of chase ways, mechanical systems, and structural elements of the Building or Premises, provided Landlord shall: (i) in all events give at least seventy-two (72) hours' telephonic advance notice to Tenant so that Tenant shall have a reasonable opportunity to have a representative present; (ii) not unreasonably interfere with Tenant's ability to achieve the Surrender Condition and/or the use or operation of the Premises; (iii) comply with Tenant's security requirements; and (iv) provide Tenant with insurance certificate(s) for each of the Representatives naming Tenant as loss payee and additional insured. While at the Premises, Landlord shall comply and will cause any of its Representatives to comply with all applicable governmental laws and regulations. In furtherance of the foregoing, all entry shall be conducted outside of Tenant's business hours and all such entry shall be limited to no more than two (2) hours on the date of entry. Landlord shall immediately restore and/or clean any damage to the Premises caused by Landlord or its Representatives to substantially the same condition as existed prior to its access and Landlord shall indemnify, defend and hold harmless Tenant of and from any and all claims and/or liabilities which Tenant may suffer or be subject by reason of or in any manner relating to Landlord's access; *provided, however*, that Tenant shall not be entitled to indemnification hereunder because of, and Landlord shall not be liable or responsible for, (a) the discovery of any pre-existing condition or other fact or circumstance during its inspections of the Premises not caused or exacerbated by Landlord or its Representatives, or (b) the gross negligence or intentional misconduct of Tenant.
 9. Memorandum for Recording. On or before the Termination Date, Tenant shall deliver to Landlord one (1) executed and notarized counterpart of each Memorandum of Lease Termination in a commercially reasonable form approved by Landlord and Tenant. Thereafter, Landlord, at its sole cost and expense, shall cause each Memorandum of Lease Termination to be recorded with the Middlesex South Registry of Deeds and filed with the Middlesex South Registry District of the Land Court.
 10. Attorney's Fees. If there is any final, unappealable legal action or proceeding between the parties to enforce or interpret any provisions of this Agreement or to protect or establish any right or remedy of any of them hereunder, the unsuccessful party to such final, unappealable action or proceeding shall pay to the prevailing party all costs and expenses (including, but not limited to, reasonable attorneys' fees and disbursements) incurred by such prevailing party in pursuing such final, unappealable action or proceeding. If any party secures a judgment or award in any such final, unappealable action or proceeding, then any costs and expenses (including, but not limited to, reasonable attorneys' fees and disbursements) incurred by the prevailing party in enforcing such final, unappealable judgment, or any costs and expenses (including, but not limited to, reasonable attorneys' fees and disbursements) incurred by the prevailing party in any final, unappealable appeal from such judgment in connection with such appeal shall be recoverable separately from and in addition to any other amount included in such judgment or award. The preceding sentence is intended to be severable from the other provisions of this Agreement, and shall survive and not be merged into any such final, unappealable judgment or award.
 11. Successors and Assigns. The terms, provisions, covenants and conditions contained in this Agreement shall bind and inure to the benefit of Landlord and Tenant and their respective heirs, legal representatives, successors and assigns.
 12. Brokerage. Landlord and Tenant each represents and warrants to the other that it has dealt with no broker or agent in connection with this Agreement, and Landlord and Tenant each agrees to indemnify the other party for its own breach of such representation and warranty.
 13. Final and Complete Expression. The Lease, as amended hereby, is hereby ratified, confirmed and approved in all respects by Landlord and Tenant. This Agreement is the final and complete expression of the parties with respect to the subject matter hereof. This Agreement may not be modified, interpreted, amended, waived or revoked orally, but only by a writing signed by Landlord and Tenant.
 14. Confidentiality. Landlord and Tenant each agrees: (a) to treat the terms of this Agreement (the "**Confidential Information**") as confidential and (b) not to disclose, directly or indirectly, to any third party nor permit any third party to have access to any or all of such Confidential Information, including, without limitation, any tenants of the property of which the Premises is a part and any brokers. Notwithstanding the foregoing, Landlord and Tenant shall each have the right to disclose the Confidential Information if required by law, including securities law, and to their respective constituent owners, employees, legal counsel, consultants, advisors, and actual and potential sources of debt and equity, in each case who are directed to treat the Confidential Information in accordance with the terms hereof. This Section 14 shall survive the expiration or earlier termination of the Lease.
 15. Severability. If any provision in this Agreement is deemed invalid, then the remaining provisions thereof will continue in full force and effect and will be construed as if the invalid provision had not been a part of this Agreement.
 16. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Massachusetts without regard to conflicts of laws principles.
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17. Execution by Facsimile or PDF; Counterparts. The parties agree that this Agreement may be transmitted between them by facsimile machine or by an electronic PDF file, and the parties intend that a telecopy of, or an electronic PDF file with, the Agreement containing either the original and/or copies of the signature of all parties shall constitute a binding Agreement. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute one and the same Agreement. This Agreement represents the entire agreement between the parties concerning the subject matter hereof and supersedes all prior discussions, negotiations and agreements between them regarding the subject matter of this Agreement.
18. Time of Essence. Time is of the essence of each and every term and provision hereof.

[NO FURTHER TEXT ON THIS PAGE]

WITNESS the execution of this Agreement as an instrument under seal as of the date first above written.

LANDLORD:

CHARLES PARK OWNER LLC

By: /s/ Jonathan G. Davis
Name: Jonathan G. Davis
Title: Authorized Signatory

TENANT:

PEGASYSTEMS INC.

By: /s/ Kenneth Stillwell
Name: Kenneth Stillwell
Title: CFO

EXHIBIT A
LETTER OF CREDIT

IRREVOCABLE STANDBY LETTER OF CREDIT

Letter of Credit No.: **TBD**

Dated: **February 1, 2021**

PEGASYSTEMS INC. (“Beneficiary”)

1 Rogers Street

Cambridge, MA 02142

Attn: Dan Ryan

Ladies and Gentlemen:

At the request and for the account of **Davis Investment Ventures Fund IV, L.P., Davis Investment Ventures Fund IV-A, L.P., Davis Investment Ventures Fund IV-B, L.P., and DIV REIT IV, LLC** (“Applicant”), we hereby establish in your favor our irrevocable standby letter of credit in an aggregate amount not to exceed **Eighteen Million and 00/100 US Dollars (US \$18,000,000.00)** available for payment by your draft upon presentation to us of the following:

1. This original letter of credit together with all executed written amendments hereto.
2. An original signed and dated drawing certificate from you addressed to us in the form annexed hereto as **Exhibit A** (after complying with all instructions in brackets contained therein).

Drawing certificates shall be drawn on us and presented to us at the Letter of Credit Office (as hereinafter defined) at or before 5:00 p.m., local time of the Letter of Credit Office, on a Business Day (as hereinafter defined) occurring not later than the Expiration Date (as hereinafter defined). As used herein: “**Letter of Credit Office**” means our office located at 160 Federal Street, 8th Floor, Boston, MA 02110, Attn: Business Banking; and “**Business Day**” means any day other than a Saturday, Sunday or other day on which the Letter of Credit Office is not open for business or on which commercial banks are authorized or required to close, or are in fact closed, under the laws of Massachusetts.

Demands for payment may also be made by presentation of drawing certificates and a copy of this Letter of Credit by facsimile transmission of documents to 415-249-2870, Attention: Commercial Loan Servicing. If presentation is made by facsimile transmission, you may contact us at 415-364-4410 to confirm our receipt of the transmission. Your failure to seek such a telephone confirmation does not affect our obligation to honor such a presentation.

All drawing certificates drawn under this letter of credit shall contain the above-referenced letter of credit number. We agree that all drawing certificates drawn on us under and in compliance with the terms of this letter of credit will be duly honored by us not later than three (3) Business Days following presentation to the Letter of Credit Office. Our obligation hereunder is our individual obligation and is not contingent upon reimbursement. We will pay all drawings under this Letter of Credit with our own funds and not with funds derived from Applicant or a subsidiary or affiliate thereof.

This standby letter of credit expires on **October 31, 2021**.

Partial drawings under this letter of credit are not permitted.

This letter of credit may be reduced at the written request of the Beneficiary. Upon our receipt of each reduction certificate in the form annexed hereto as **Exhibit B** (after complying with all instructions in brackets contained therein.) the amount of this letter of credit shall be automatically and permanently reduced, without amendment, by the amount of the reduction requested.

This letter of credit is not transferable.

Standard fees apply for each reduction, transfer, renewal and/or partial draw of this letter of credit (in each of the foregoing circumstances, solely to the extent expressly permitted hereby), which fees are payable by Applicant. Applicant’s failure to pay such fees shall not delay or impede any of the above actions.

We may accept documents which appear on their face to be in order without responsibility for further investigation (even as regards any purported default by Applicant) regardless of any notice or information to the contrary.

This letter of credit is subject to and governed by the International Standby Practices 1998 of the International Chamber of Commerce, Publication 590 or to any subsequent version of such publication as in effect on the date hereof (“ISP98”) and, as to matters not covered therein and not inconsistent therewith, the internal laws of Massachusetts, including, without limitation, the Uniform Commercial Code as from time to time in effect in such jurisdiction.

First Republic Bank

By: _____

Name: _____

Title: _____

Exhibit A to First Republic Bank Irrevocable Standby
Letter of Credit No. __

**[EXHIBIT TO BE TYPED ON BENEFICIARY'S LETTERHEAD]
IRREVOCABLE STANDBY LETTER OF CREDIT DRAWING CERTIFICATE**

First Republic Bank
160 Federal Street, 8th Floor,
Boston, MA 02110,
Attn: Business Banking

Re: Irrevocable Standby Letter of Credit No. **[insert Letter of Credit No.]**, dated **[insert date]**, issued by First Republic Bank (the "**Letter of Credit**") for the account of **[insert name of applicant]** ("**Applicant**")

Ladies and Gentlemen:

The undersigned, being the beneficiary ("Beneficiary") (or a duly authorized representative thereof) of the Letter of Credit, hereby:

- a. demands payment from you in the amount of **[insert amount in words]** US Dollars (US\$**[insert amount in figures]**) under the Letter of Credit, and
- b. certifies to you that the amount demanded represents funds due and owing from Applicant to Beneficiary **on account of a default by Landlord, an affiliate of Applicant, to pay to Beneficiary the "Termination Payment" in accordance with the terms and conditions of Section 4 of a certain Lease Termination Agreement, dated as of February , 2021**. Each capitalized term used but not otherwise defined herein has the meaning ascribed thereto in the Letter of Credit.

IN WITNESS WHEREOF, the undersigned has executed and delivered this original certificate as of **[insert date]**.

Very truly yours,
[insert name of Beneficiary and date of this Drawing Certificate]
By: **[insert signature]**
Name: **[insert name]**
Title: **[insert title]**
Date: **[insert date]**

**[EXHIBIT TO BE TYPED ON BENEFICIARY'S LETTERHEAD]
IRREVOCABLE STANDBY LETTER OF CREDIT REDUCTION CERTIFICATE**

First Republic Bank
160 Federal Street, 8th Floor,
Boston, MA 02110,
Attn: Business Banking

Re: Irrevocable Standby Letter of Credit No. **[insert Letter of Credit No.]**, dated **[insert date]**, issued by First Republic Bank (the "Letter of Credit") for the account of **[insert name of applicant]** ("Applicant"), with the current amount available for drawing thereunder being **[insert in words current amount available for drawing under the Letter of Credit]** US Dollars (US\$**[insert in figures current amount available for drawing under the Letter of Credit]**).

Ladies and Gentlemen:

The undersigned, being the beneficiary ("**Beneficiary**") (or a duly authorized representative thereof) of the Letter of Credit, hereby unconditionally and irrevocably requests that you decrease the amount available for drawing under the Letter of Credit by **[insert amount in words]** US Dollars (US\$**[insert amount in figures]**), resulting in the amount available for drawing under the Letter of Credit to be reduced to **[insert in words reduced amount available for drawing under the Letter of Credit]** US Dollars (US\$**[insert in figures reduced amount available for drawing under the Letter of Credit]**).

IN WITNESS WHEREOF, the undersigned has executed and delivered this original certificate as of the [insert date].

Very truly yours,
[insert name of Beneficiary and date of this Drawing Certificate]
By: **[insert signature]** _____
Name: **[insert name]** _____
Title: **[insert title]** _____
Date: **[insert date]** _____

Requested reduction hereby acknowledged:
FIRST REPUBLIC BANK

By: _____
Name: _____
Title: _____
Date: _____

SUBSIDIARIES OF PEGASYSTEMS INC*

Name of Subsidiary	State or Jurisdiction of Entity
Antenna Software, LLC	Delaware
Pegasystems BV	Netherlands
Pegasystems France	France
Pegasystems GmbH	Germany
Pegasystems Limited	United Kingdom
Pegasystems PTY Limited	Australia
Pegasystems Software Limited sp. z.o.o.	Poland
Pegasystems Worldwide India Private Limited	India

* Omits subsidiaries, which, considered in the aggregate, would not constitute a significant subsidiary.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements Nos. 333-09305, 333-89707, 333-53746, 333-104788, 333-116660, 333-135596, 333-166287, 333-166544, 333-176810, 333-213953, and 333-239889 on Form S-8 of our report dated February 17, 2021, relating to the financial statements of Pegasystems Inc., and the effectiveness of Pegasystems Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Pegasystems Inc. for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

Boston, Massachusetts

February 17, 2021

CERTIFICATION

I, Alan Trefler, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 17, 2021

/s/ ALAN TREFLER

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

CERTIFICATION

I, Kenneth Stillwell, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 17, 2021

/s/ KENNETH STILLWELL

Kenneth Stillwell
Chief Financial Officer and Chief Administrative 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 Annual Report of Pegasystems Inc. (the "Company") on Form 10-K for the year ended December 31, 2020 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 Financial Officer and Chief Administrative 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: February 17, 2021

/s/ ALAN TREFLER

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

/s/ KENNETH STILLWELL

Kenneth Stillwell
Chief Financial Officer and Chief Administrative Officer
(Principal Financial Officer)