

PEGASYSTEMS INC
Form DEF 14A
April 27, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under § 240.14a-12

PEGASYSTEMS INC.

(Name of Registrant as Specified in its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

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

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

Edgar Filing: PEGASYSTEMS INC - Form DEF 14A

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

Table of Contents

Dear Stockholder:

We cordially invite you to attend our 2018 Annual Meeting of Stockholders on Thursday, June 28, 2018 at One Rogers Street, Cambridge, Massachusetts. The Annual Meeting will commence at 10:00 a.m., local time.

At the Annual Meeting, you are being asked to consider and vote on the following matters: to elect to our Board of Directors the seven nominees named in the proxy statement, each for a term of one year; to approve, by a non-binding advisory vote, the compensation of our named executive officers; and to ratify the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.

Please vote your shares by submitting your proxy in the manner described in the proxy statement so that your shares can be voted at the Annual Meeting in accordance with your instructions. Even if you plan to attend the Annual Meeting, we urge you to vote your shares prior to the meeting. You can revoke your proxy at any time before the Annual Meeting, or vote your shares personally if you attend the Annual Meeting.

We look forward to seeing you on June 28, 2018.

Sincerely,

Alan Trefler

Chairman and Chief Executive Officer

May 10, 2018

Table of Contents

PEGASYSTEMS INC.

One Rogers Street

Cambridge, MA 02142

NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

To be held on June 28, 2018

To our Stockholders:

The 2018 Annual Meeting of Stockholders of Pegasystems Inc. will be held at One Rogers Street, Cambridge, Massachusetts, on Thursday, June 28, 2018 beginning at 10:00 a.m., local time. At the meeting, stockholders will consider and vote on the following matters:

1. To elect to our Board of Directors the seven nominees named in the proxy statement, each for a one-year term.
2. To approve, by a non-binding advisory vote, the compensation of our named executive officers.
3. To ratify the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.

Stockholders of record at the close of business on April 20, 2018 are entitled to vote at the meeting. Whether you plan to attend the meeting or not, please vote your shares by submitting your proxy, over the Internet or by telephone or by completing, signing, dating, and returning a proxy card, each in the manner described in the proxy statement. For specific instructions on how to vote your shares, please refer to the Information About the Annual Meeting and Voting section of the attached proxy statement. Your prompt response is necessary to ensure your shares are represented at the meeting. You can change your vote and revoke your proxy at any time before the polls close at the meeting by following the procedures described in the attached proxy statement.

By Order of the Board of Directors,

Matthew J. Cushing

Vice President, Chief Commercial Officer, General Counsel, and Secretary

Cambridge, Massachusetts

May 10, 2018

Table of Contents

TABLE OF CONTENTS

<u>PROXY SUMMARY AND FINANCIAL HIGHLIGHTS</u>	1
<u>INFORMATION ABOUT THE ANNUAL MEETING AND VOTING</u>	5
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	12
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	14
<u>Director Qualifications</u>	14
<u>Nominees for Election for a Term of One Year Expiring in 2019</u>	14
<u>CORPORATE GOVERNANCE</u>	18
<u>General</u>	18
<u>Determination of Independence</u>	18
<u>Board Leadership Structure and Risk Oversight</u>	18
<u>Director Candidates</u>	19
<u>Communications from Stockholders and Other Interested Parties to the Board</u>	20
<u>Board Meetings</u>	20
<u>Board Committees</u>	21
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	22
<u>DIRECTOR COMPENSATION</u>	23
<u>PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	24
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	25
<u>Executive Summary</u>	25
<u>Advisory Vote on Executive Compensation. Say on Pay</u>	25
<u>Oversight of Compensation Programs</u>	26
<u>Objectives of Compensation Programs</u>	27
<u>Elements of Compensation</u>	28
<u>Executive Incentive Plan</u>	31
<u>Chief Executive Officer Compensation</u>	32
<u>Compensation for Other Named Executive Officers</u>	32
<u>Severance, Retention, and Change in Control Benefits</u>	33
<u>Potential Payments Upon Termination or Change in Control</u>	34
<u>CEO Pay Ratio</u>	34
<u>Impact of Regulatory Requirements</u>	35
<u>Compensation Practices Risk Assessment</u>	36
<u>EXECUTIVE COMPENSATION</u>	37
<u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u>	41
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	41

<u>COMMITTEE REPORTS</u>	41
<u>COMPENSATION COMMITTEE REPORT</u>	41
<u>REPORT OF THE AUDIT COMMITTEE</u>	42
<u>PROPOSAL 3 RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	44
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FEES AND SERVICES</u>	44
<u>Audit Committee Pre-Approval Policy and Procedures</u>	44

Table of Contents

PEGASYSTEMS INC.

One Rogers Street

Cambridge, MA 02142

PROXY SUMMARY AND FINANCIAL HIGHLIGHTS

The summary financial highlights information contained in this proxy statement describes the results achieved by Pegasystems for its stockholders in 2017 and recent fiscal years. As it is a summary, it does not contain all the information you should consider. Therefore, you should read this proxy statement in its entirety before voting. Additionally, for more information on financial and operational matters, please review our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, including our audited financial statements and footnotes, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations, which further qualifies the information provided here.

2018 Annual Meeting of Stockholders

Date/Time: Thursday, June 28, 2018, 10:00 a.m. local time

Place: Pegasystems Inc.

One Rogers Street

Cambridge, Massachusetts 02142

Record Date: April 20, 2018

Proposals and Board Recommendations

Proposal	Board Vote Recommendation	Page Number
Proposal 1: To elect to our Board of Directors the seven nominees named in this proxy statement, each for a one year term.	FOR each director nominee	14
Proposal 2: To approve, by a non-binding advisory vote, the compensation of our named executive officers.	FOR	24
Proposal 3: To ratify the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018.	FOR	44

Table of Contents**Compensation Discussion and Analysis Highlights**

Our executive compensation is designed to reward performance by our executives and to align the interests of our executives with our stockholders.

For 2017, our executive compensation program included the following elements of fixed and variable compensation:

Element	Objective	Fixed/Variable
Base Salary	Attract and retain highly qualified leaders with market-competitive compensation structure.	Fixed
Bonus Corporate Incentive Compensation Plan (CICP)	Link pay with our performance. Reward achievement of our financial and strategic goals.	Variable
Additional Individual Incentive Compensation Equity Awards	Link pay with individual, business unit and/or corporate performance. Reward achievement of specific goals.	Variable
(Stock Options and Restricted Stock Units)	Link pay with our long-term performance. Reward stock price appreciation, promote long-term retention and permit executives to accumulate equity ownership.	Variable
Other perquisites	Retain talent by providing financial protection and security.	Fixed

2017 Financial Highlights and Business Results

Our fiscal year ended December 31, 2017 was a year of strong performance for Pegasystems. Previously disclosed 2017 and historical highlights include:

2017 Financial Highlights (all numbers are approximations)

Annual contract value growth of 15% from 2016 to 2017, to \$469 million.

Total GAAP revenue growth of 12% from 2016 to 2017, to \$841 million.

Cloud was the fastest growing revenue stream at 25% from 2016 to 2017.

Annual Contract Value or ACV

Table of Contents

ACV, as of a given date, is the sum of the following two components:

The sum of the annual value of each term and cloud contract in effect on such date, with the annual value of a term or cloud contract being equal to the total value of the contract divided by the total number of years of the contract.

Maintenance revenue reported for the quarter ended on such date multiplied by four.

Revenue

<i>(Dollars in thousands, except per share amounts)</i>	Year Ended December 31,			% Change	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
Total revenue	\$ 840,582	\$ 750,266	\$ 682,695	12%	10%
Operating margin	5%	5%	9%	0%	(44)%
Diluted earnings per share	\$ 0.40	\$ 0.34	\$ 0.46	18%	(26)%
Cash flow provided by operating activities	\$ 158,235	\$ 39,874	\$ 67,803	297%	(41)%

Stockholder Return

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, 2012 in our common stock, the Total Return Index for the NASDAQ Composite, referred to below as the NASDAQ Composite, a broad market index, and the Standard & Poor's North American Technology Sector Software Index, referred to below as the S&P NA Tech Software, a published industry index. The graph lines merely connect measurement dates and do not reflect fluctuations between those dates.

Table of Contents

Total Cash Returned to Stockholders (in millions)

4

Table of Contents

PEGASYSTEMS INC.

One Rogers Street

Cambridge, MA 02142

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To be held on June 28, 2018

This proxy statement contains information about the 2018 Annual Meeting of Stockholders of Pegasystems Inc. The Annual Meeting will be held on Thursday, June 28, 2018, beginning at 10:00 a.m., local time, at One Rogers Street, Cambridge, Massachusetts. Unless the context otherwise requires, references in this proxy statement to Pegasystems, the Company, we, us, or our refer to Pegasystems Inc.

This proxy statement is furnished in connection with the solicitation of proxies by our Board of Directors for use at the Annual Meeting and at any adjournment of that meeting. All proxies will be voted in accordance with the instructions they contain. If you do not specify your voting instructions on the proxy you submit for the meeting, it will be voted in accordance with the recommendation of the Board of Directors. You may change your vote and revoke your proxy at any time before it is exercised at the meeting by giving our Secretary written notice to that effect. We first provided access to our proxy materials over the Internet at www.envisionreports.com/PEGA on or about May 10, 2018.

Pursuant to Rule 14a-16 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, or Annual Report, as filed with the Securities and Exchange Commission, or SEC, is being made available to stockholders on our website, www.pegacom.com, and at the following URL: www.envisionreports.com/PEGA. You may obtain a copy of our Annual Report without charge upon written request to Pegasystems Inc., One Rogers Street, Cambridge, MA 02142-1209, Attention: Secretary.

The Annual Report does not constitute any part of this proxy statement. Certain documents referenced in this proxy statement are available on our website at www.pegacom.com. Information contained on our website is not included as part of, nor incorporated by reference into, this proxy statement.

Important Notice Regarding the Availability of Proxy Materials for the

Annual Meeting of Stockholders to be held on June 28, 2018.

This proxy statement and our Annual Report are available for viewing, printing, and downloading at www.envisionreports.com/PEGA.

INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

What is the purpose of the Annual Meeting?

At the Annual Meeting, stockholders will consider and vote on the following matters:

1. To elect to our Board of Directors the seven nominees named in this proxy statement, each for a one-year term.
2. To approve, by a non-binding advisory vote, the compensation of our named executive officers, also referred to as Say on Pay, as described in the Compensation Discussion and Analysis section and elsewhere in this proxy statement.

Table of Contents

3. To ratify the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018. The stockholders will also act on any other business that may properly come before the Annual Meeting.

How does the Board of Directors recommend that I vote on the Proposals?

The Board of Directors recommends that you vote:

FOR the election to our Board of Directors of each of the seven nominees named in this proxy statement, each to hold office for a term of one year (Proposal 1);

FOR the approval, by a non-binding advisory vote, of the compensation of our named executive officers (Proposal 2); and

FOR the ratification of the selection by the Audit Committee of our Board of Directors of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018 (Proposal 3).

Who can vote?

To be able to vote, you must have been a Pegasystems stockholder of record at the close of business on April 20, 2018. This date is the Record Date for the Annual Meeting. On the Record Date, there were 78,598,637 shares of our common stock outstanding and entitled to vote.

How many votes do I have?

Each share of our common stock that you owned on the Record Date entitles you to one vote on each matter that is before the stockholders at the Annual Meeting.

Is my vote important?

Your vote is important regardless of how many shares you own. Please take the time to vote. Also, please take a moment to read the instructions below.

Why did I receive a notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

We are pleased to comply with the SEC rules that direct companies to distribute their proxy materials over the Internet, as we have done in past years. As a result, we have sent our stockholders and beneficial owners a Notice of Internet Availability of Proxy Materials, or the Availability Notice, instead of paper copies of this proxy statement, our proxy card, and our Annual Report. Detailed instructions on how to access these materials over the Internet may be found in the Availability Notice. This proxy statement and our Annual Report are available for viewing, printing, and downloading at www.envisionreports.com/PEGA.

I prefer to read my proxy materials on paper. How do I get paper copies?

The Availability Notice contains instructions on how to request paper copies by phone, email, or the Internet. You will be sent the materials by first class mail within three business days of your request, at no cost to you. If you receive your proxy materials by mail, you may vote your shares by completing, signing, and dating the proxy card that accompanies this proxy statement and promptly mailing it in the enclosed postage-prepaid envelope. Once you request paper copies, you will continue to receive the materials in paper form until you instruct us otherwise. Please note, however, that the online proxy materials will also be in a format suitable for printing on your own printer.

Table of Contents

How can I vote?

If you are the record holder of your shares, meaning that you own your shares in your own name and not through a bank or brokerage firm, you may vote over the Internet or by telephone or mail, or you may vote in person at the Annual Meeting. If your shares are held in street name by a bank or brokerage firm, please see the first sentence of the Can I vote if my shares are held in street name ? section below for instructions regarding how to vote your shares.

Voting by Internet. You may vote your proxy over the Internet by following the instructions provided in the Availability Notice and on the proxy card.

Voting by telephone. You may vote your proxy over the telephone by following the instructions provided in the Availability Notice and on the proxy card.

Voting by mail. You may vote your proxy by printing, completing, signing, and dating the proxy card that accompanies this proxy statement and promptly mailing it in accordance with the instructions provided on the proxy card. The shares you own will be voted according to the instructions on the proxy card you submit. If you return the proxy card but do not give any instructions on a particular matter described in this proxy statement, the shares you own will be voted in accordance with the recommendations of our Board of Directors. The Board of Directors recommends that you vote *FOR* the director nominees, and *FOR* Proposals 2 and 3.

Voting in person at the Annual Meeting. If you attend the Annual Meeting, you may vote by delivering your completed proxy in person or by completing a ballot. Ballots will be available at the Annual Meeting.

Can I vote my shares by filling out and returning the Availability Notice?

No. The Availability Notice contains instructions on how to vote over the Internet, by telephone, by requesting and returning a paper proxy card, or by submitting a ballot in person at the Annual Meeting.

Can I vote if my shares are held in street name ?

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. To vote your shares, you will need to follow the directions your bank or brokerage firm provides you. Many banks and brokerage firms also offer the option of voting over the Internet or by telephone, instructions for which would be provided by your bank or brokerage firm on your vote instruction form.

Under the applicable rules of the NASDAQ Global Select Market, or Nasdaq, if you do not give instructions to your bank or brokerage firm, it will still be able to vote your shares with respect to certain discretionary items, but it will not be allowed to vote your shares with respect to certain non-discretionary items. The ratification of Deloitte & Touche LLP as our independent registered public accounting firm (Proposal 3) is considered to be a discretionary item under Nasdaq rules, and your bank or brokerage firm will be able to vote on this item even if it does not receive instructions from you, so long as it holds your shares in its name. **The election of directors (Proposal 1) and the advisory vote on executive compensation (Proposal 2) are non-discretionary items. If you do not instruct your broker how to vote with respect to these items, your broker is not permitted to vote with respect to these proposals, and those votes will be counted as broker non-votes.** Broker non-votes are shares that are held in street name by a bank or brokerage firm that indicates on its proxy that it does not have or did not exercise discretionary authority to vote on a particular matter.

Edgar Filing: PEGASYSTEMS INC - Form DEF 14A

If your shares are held in street name, you must bring an account statement or letter from your bank or brokerage firm showing that you are the beneficial owner of the shares as of the Record Date in order to be admitted to the Annual Meeting on June 28, 2018. To be able to vote your shares held in street name in person at the Annual Meeting, you will need to obtain a proxy card from the holder of record.

Table of Contents

Can I change my vote after I have submitted my proxy?

Yes. You can change your vote and revoke your proxy at any time before the polls close for the Annual Meeting by doing any one of the following things:

signing another proxy with a later date;

giving our Secretary a written notice before or at the Annual Meeting that you want to revoke your proxy;

voting over the Internet or telephone by following the instructions provided in the Availability Notice and on the proxy card by 1:00 a.m., Eastern Time, on June 28, 2018; or

voting in person at the Annual Meeting.

Your attendance at the Annual Meeting alone, without also voting, will not revoke your proxy.

What constitutes a quorum?

In order for business to be conducted at the Annual Meeting with respect to a particular matter, a quorum must be present in person or represented by valid proxies for that particular matter. For each of the proposals described in this proxy statement, a quorum consists of the holders of a majority of the shares of common stock issued and outstanding on April 20, 2018, the Record Date, which is approximately 39,299,319 shares of our common stock.

Shares of common stock represented in person or by proxy, including broker non-votes and shares that abstain or do not vote with respect to one or more of the matters to be voted upon, will be counted for the purpose of determining whether a quorum exists. A share once represented for any purpose at the Annual Meeting is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of the meeting unless (1) the stockholder attends solely to object to lack of notice, defective notice, or the conduct of the meeting on other grounds and does not vote the shares or otherwise consent that they are to be deemed present, or (2) in the case of an adjournment, a new Record Date is set for that adjourned meeting.

If a quorum is not present, the meeting will be adjourned until a quorum is obtained.

What vote is required for each item?

Proposal 1 (Election of Directors). Under our Amended and Restated Bylaws, with respect to each of the seven nominees for director, the number of votes cast at the Annual Meeting in favor of such nominee must represent a majority of the votes entitled to be cast in an election of directors by all issued and outstanding shares of common stock on the Record Date. This means that if any nominee is one of the seven nominees receiving the highest number of votes cast at the Annual Meeting, but the number of votes cast for such nominee does not represent a majority of the votes entitled to be cast in an election of directors by all issued and outstanding shares, such nominee will not be elected as a director. **If your shares are held in street name and you do not instruct your broker how to vote with respect to this item, your broker is not permitted to vote your shares with respect to the election of directors.**

Proposal 2 (Advisory Vote on Executive Compensation). Our Board of Directors is seeking a non-binding advisory vote to approve the compensation of our named executive officers. Under our Amended and Restated Bylaws, approval for such non-binding resolution requires that the votes cast in favor exceed the votes cast in opposition. While this vote is non-binding and advisory in nature, our Board of Directors and Compensation Committee will consider the outcome of the vote when determining executive compensation arrangements. **If your shares are held in street name and you do not instruct your broker how to vote with respect to this item, your broker is not permitted to vote your shares with respect to this proposal.**

Table of Contents

Proposal 3 (Ratification of the Independent Registered Public Accounting Firm). The ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018 will be approved if the votes cast in favor exceed the votes cast in opposition. **If your shares are held in street name and you do not instruct your broker how to vote with respect to this item, your broker may vote your shares with respect to this proposal.**

How will votes be counted?

Each share of common stock will be counted as one vote according to the instructions contained on a properly completed proxy card, whether submitted in person, by mail, over the Internet, by telephone, or on a ballot voted in person at the Annual Meeting. Shares will not be voted in favor of a matter, and will not be counted as voting on a matter, if they either (1) indicate that the stockholder abstains from voting on a particular matter or (2) are broker non-votes. Banks and brokers that do not receive instructions with respect to Proposals 1 and 2 will not be allowed to vote these shares, which will then be counted as broker non-votes instead of votes for or against.

Abstentions and broker non-votes will have no effect on the outcome of voting with respect to Proposal 2 (Advisory Vote on Executive Compensation) and Proposal 3 (Ratification of the Independent Registered Public Accounting Firm), because these proposals will be approved if the votes cast at the Annual Meeting in favor of the proposal exceed the votes cast at the Annual Meeting opposing the proposal. Abstentions and broker non-votes, however, will have the effect of negative votes with respect to Proposal 1 (Election of Directors), because, as described above, each nominee must receive the affirmative vote of the holders of shares representing a majority of the votes entitled to be cast at the Annual Meeting by all issued and outstanding shares of common stock on the Record Date in order to be elected to our Board of Directors.

Who will count the votes?

The votes will be counted, tabulated, and certified by our transfer agent and registrar, Computershare. Matthew J. Cushing, our Vice President, Chief Commercial Officer, General Counsel, and Secretary, will serve as the inspector of elections at the Annual Meeting.

Will my vote be kept confidential?

Yes. Your vote will be kept confidential and we will not disclose your vote unless (1) we are required to do so by law, including in connection with the pursuit or defense of a legal or administrative action or proceeding, or (2) there is a contested election for the Board of Directors. The inspector of elections will forward any written comments that you make on the proxy card to management without providing your name, unless you expressly request disclosure of your identity on your proxy card.

Will any other business be conducted at the Annual Meeting or will other matters be voted on?

No. Under the laws of Massachusetts, where we are incorporated, an item may not be brought before our stockholders at a stockholder meeting unless it appears in the notice of the meeting. Our Amended and Restated Bylaws establish the process for a stockholder to bring a matter before a meeting. See the **How and when may I submit a stockholder proposal for the 2019 Annual Meeting?** section below.

Where can I find the voting results?

We will report the voting results in a Current Report on Form 8-K, which will be filed with the SEC within four business days after the Annual Meeting.

Table of Contents

How and when may I submit a stockholder proposal for the 2019 Annual Meeting?

If you are interested in submitting a proposal for inclusion in the proxy statement for the 2019 Annual Meeting, you need to follow the procedures outlined in Rule 14a-8 under the Exchange Act and in our Amended and Restated Bylaws. To be eligible for inclusion, we must receive your stockholder proposal intended for inclusion in the proxy statement for the 2019 Annual Meeting of Stockholders at our principal corporate offices in Cambridge, Massachusetts as set forth below no later than January 10, 2019.

In addition, our Amended and Restated Bylaws require that we be given advance written notice for nominations for election to our Board of Directors and other matters that stockholders wish to present for action at an annual meeting other than those to be included in our proxy statement under Rule 14a-8. The Secretary must receive such notice at the address noted below not less than 120 days or more than 150 days before the first anniversary of the date on which our proxy statement was released to stockholders in connection with the prior year's meeting. However, if the date of our annual meeting is advanced or delayed by more than 30 days from the anniversary date of the prior year's meeting (or no proxy statement was delivered to stockholders in connection with the prior year's meeting), then we must receive such notice at the address noted below not earlier than the 120th day before such annual meeting and not later than the close of business on the later of (1) the 90th day before such annual meeting and (2) the 10th day following the day on which public notice of the meeting date is first made. Assuming that the 2019 Annual Meeting is held between May 29, 2019 and July 28, 2019, you would need to give us appropriate notice at the address noted below no earlier than December 11, 2018 and no later than January 10, 2019. Notwithstanding the foregoing, the postponement or adjournment of any annual meeting for which notice has been provided to stockholders shall not commence a new time period for giving the stockholders' notice. If a stockholder does not provide timely notice of a nomination or other matter to be presented at the 2019 Annual Meeting, under Massachusetts law, it may not be brought before our stockholders at a meeting.

Our Amended and Restated Bylaws also specify requirements relating to the content of the notice that stockholders must provide to the Secretary for any matter, including a stockholder proposal or nomination for director, to be properly presented at a stockholder meeting. A copy of the full text of our Amended and Restated Bylaws is on file with the SEC.

Any proposals or notices should be sent to:

Pegasystems Inc.

One Rogers Street

Cambridge, MA 02142-1209

Attention: Matthew J. Cushing

Who will bear the costs of soliciting these proxies?

We will bear the costs of solicitation of proxies. We will request brokers, custodians, and fiduciaries to forward proxy soliciting material to the owners of shares of our common stock they hold in such stockholders' names. We will reimburse banks and brokers for their reasonable out-of-pocket expenses incurred in connection with the distribution of proxy materials.

How can I obtain an Annual Report on Form 10-K?

Edgar Filing: PEGASYSTEMS INC - Form DEF 14A

Our Annual Report is available in the Investors section of our website at www.pegasystems.com, as well as at the following URL: www.envisionreports.com/PEGA. If you would like a paper copy of our Annual Report on Form 10-K, we will send it to you without charge. Please contact:

Pegasystems Inc.

One Rogers Street

Cambridge, MA 02142-1209

Attention: Matthew J. Cushing

Telephone: (617) 374-9600

Table of Contents

Whom should I contact if I have any questions?

If you have any questions about the Annual Meeting or your ownership of our common stock, please contact Matthew J. Cushing, Vice President, Chief Commercial Officer, General Counsel and Secretary of Pegasystems at the address or telephone number listed above.

Householding of Annual Meeting Materials

Some banks, brokers, and other nominee record holders may be participating in the practice of "householding" proxy statements and annual reports. This means that only one copy of our proxy statement and Annual Report may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you contact us at the address or telephone number listed above.

If you want to receive separate copies of the proxy statement or Annual Report in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the above address or telephone number.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information, which, except as otherwise noted below, is as of January 31, 2018, with respect to the beneficial ownership of our common stock by:

the stockholders we know to beneficially own more than 5% of our outstanding common stock;
each director named in this proxy statement;
each executive officer named in the Summary Compensation Table included in this proxy statement; and
all of our executive officers and directors as a group.

Unless otherwise indicated, the address of each person listed below is c/o Pegasystems Inc., One Rogers Street, Cambridge, MA 02142.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED	SHARES ACQUIRABLE WITHIN 60 DAYS (1)	TOTAL SHARES BENEFICIALLY OWNED (2)	PERCENTAGE OF SHARES BENEFICIALLY OWNED
				(3)
5% Stockholders				
Alan Trefler (4)	39,941,848		39,941,848	51.13%
Directors				
Alan Trefler				
Peter Gyenes	38,519	522	39,041	*
Richard Jones (5)	794,094	522	794,616	1.02%
Steven Kaplan	62,839	522	63,361	*
Dianne Ledingham	4,858	522	5,380	*
James O Halloran	126,555	522	127,077	*
Sharon Rowlands	11,917	522	12,439	*
Larry Weber	2,998	522	3,520	*
William Wyman	20,609	522	21,131	*
Named Executive Officers				
Alan Trefler				
Douglas Kra	24,996	131,414	156,410	*
Michael Pyle	46,524	91,387	137,911	*
Kenneth Stillwell	1,186	51,900	53,086	*
Leon Trefler	6,622	138,450	145,072	*
All executive officers and directors as a group (6)	41,084,106	429,370	41,513,476	52.85%

* Represents beneficial ownership of less than 1% of our outstanding common stock.

See 5% Stockholders above.

- (1) The number of shares of common stock beneficially owned by each person is determined under rules promulgated by the SEC. Under these rules, a person is deemed to have beneficial ownership of any shares over which that person has sole or shared voting or investment power, plus any shares that the person has the right to acquire within 60 days, including through the exercise of stock options or vesting of restricted stock units, or RSUs. Unless otherwise indicated, for each person named in the table, the number in the Shares Acquirable within 60 Days column consists of shares covered by stock options that may be exercised and RSUs that vest within 60 days after January 31, 2018.
- (2) To our knowledge, unless otherwise indicated, all of the persons listed in the table above have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law.
- (3) The percent ownership is calculated by dividing each person's total number of shares beneficially owned by the sum of 78,117,120 shares, which was the number of shares of our common stock outstanding on January 31, 2018, plus any shares that such person has the right to acquire within 60 days of January 31, 2018, including upon the exercise of stock options or the vesting of RSUs.
- (4) As reported in the Schedule 13G, Amendment #17 filed with the SEC on February 13, 2018 by Mr. Trefler, this includes 98,000 shares of common stock held by the Trefler Foundation, of which Mr. Trefler is a trustee. Mr. Trefler has shared voting and dispositive control over such shares, but has no pecuniary interest with respect to such shares. Mr. Trefler maintains margin securities accounts at brokerage firms, and the positions held in such accounts, which may from time to time include shares of our common stock, may be used as collateral security for the repayment of debit balances in those accounts, if any. As of January 31, 2018, Mr. Trefler held 450,000 shares of our common stock in these accounts. Includes 1,000,000 shares of our common stock owned by Mr. Trefler and pledged as security for a personal loan.

Table of Contents

- (5) Includes 61,590 shares held by the Jones Family Foundation for which Mr. Jones has voting and dispositive power over such shares, but has no pecuniary interest in such shares. Includes 513,494 shares held by the Richard D. Jones Revocable Trust for which Mr. Jones has sole voting and investment power over such shares. Includes 200,000 shares held by the Patricia K. Jones GRAT for which Mr. Jones spouse has sole voting and dispositive power over such shares.
- (6) Includes all 14 persons who were directors or executive officers of Pegasystems on January 31, 2018.

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS

This year our Board of Directors has nominated Peter Gyenes, Richard Jones, Dianne Ledingham, James O Halloran, Sharon Rowlands, Alan Trefler, and Larry Weber for election to the Board of Directors. Steven Kaplan and William Wyman, who are currently directors, will not stand for re-election to the Board of Directors when their current terms expire at the Annual Meeting. Messrs. Kaplan and Wyman will continue to serve as members of the Board of Directors and as a member of any committees of the Board of Directors on which they currently serve until the Annual Meeting.

The persons named in the proxy card as proxies will vote to elect each of the nominees, unless you vote against the election of one or more nominees or abstain from voting on the election of one or more nominees, in each case, by otherwise affirmatively marking the proxy card to that effect (or through Internet or telephonic voting). Each of our nominees has indicated their willingness to serve, if elected. However, if any of the nominees shall become unable or unwilling to serve, the proxies, unless authority has been withheld as to such nominee, may be voted for the election of a substitute nominee designated by our Board of Directors, or the Board of Directors may reduce the number of directors. Proxies may not be voted for more than seven persons.

There are no family relationships among any of our executive officers or directors, with the exception of Alan Trefler, our Chairman and Chief Executive Officer, whose brother, Leon Trefler, is Senior Vice President, Global Customer Success. Unless otherwise noted, we refer to Alan Trefler as Mr. Trefler and Leon Trefler as Leon Trefler in this proxy statement.

The Board of Directors recommends that you vote *FOR* the election of the nominees as directors, and proxies solicited by the Board of Directors will be voted in favor thereof unless a stockholder has indicated otherwise on the proxy.

Director Qualifications

The following information is furnished with respect to each of our directors, which information is as of January 31, 2018. The information presented details the characteristics, qualifications, attributes, and skills that led to the Board of Directors' conclusion that each of our directors is qualified to serve on the Board of Directors, including significant professional experience and service on the boards of other companies. It includes information each director has given us about their age, all positions they hold with us, their principal occupation and business experience during at least the past five years, and the names of other publicly-held companies of which they serve as a director. Additionally, it is our view that each director exhibits integrity and high ethical standards, as well as sound business judgment and acumen, which are valued and expected characteristics for our directors. Information about the number of shares of common stock beneficially owned by each director, directly and indirectly, appears above under the heading Security Ownership of Certain Beneficial Owners and Management.

Nominees for Election for a Term of One Year Expiring in 2019

Peter Gyenes, 72, has been a Director of Pegasystems since March 2009. He also serves on our Audit and Nominating Committees. Mr. Gyenes has four decades of experience in global technical, sales, marketing, and general management positions within the software and computer systems industries. Since July 2015 he has served as the Non-Executive Chairman of Sophos plc, a global security software company. From September 2012 to July 2015 he served as Lead Independent Director of Sophos, and from May 2006 to September 2012 as Non-Executive Chairman. He is an active investor and board member focusing on technology market opportunities. Mr. Gyenes also serves on the boards of RealPage, Inc., a provider of web-based property management software; Carbonite, a global provider of

cloud based file backup and recovery solutions; and is a Trustee Emeritus of the Massachusetts Technology Leadership Council. Mr. Gyenes previously served on the boards of IntraLinks, Inc. (until 2017), Epicor (until 2016), EnerNOC Inc. (until 2016), Appfluent Technologies

Table of Contents

(until 2016), and Cimpress NV (until 2015). He served as Chairman and CEO of Ascential Software, as well as of its predecessor companies VMark Software, Ardent Software, and Informix, and led its growth into the data integration market leader from 1996 until it was acquired by IBM in 2005. Previously, Mr. Gyenes served as President and CEO of Racal InterLan, Inc., and in executive positions at Data General Corporation, Encore Computer Corporation, and Prime Computer, Inc. Earlier in his career, he held sales and technical positions at Xerox Data Systems and IBM. He is a graduate of Columbia University where he received both his B.A. in mathematics and his M.B.A. degree. Mr. Gyenes was awarded the 2005 New England Region Ernst & Young Entrepreneur of the Year award in Software. We believe Mr. Gyenes' qualifications to serve on our Board of Directors include his decades of leadership roles for global technology companies, including his positions as a chief executive officer and director, as well as his proven ability to bridge strategy with operational excellence and his experience with mergers and acquisitions.

Richard Jones, 66, joined Pegasystems in October 1999, serving as President and Chief Operating Officer until September 2002. Mr. Jones was a part-time employee of Pegasystems from July 2002 to July 2007. Mr. Jones was elected a Director of Pegasystems in November 2000, and served as Vice Chairman from September 2002 to July 2007. In July 2011, he was elected a member of our Compensation Committee and of our Nominating Committee. Mr. Jones also serves on the Board of Directors of Western Oncolytics LLC, a private company which develops novel therapies for cancer. From 1995 to 1997, Mr. Jones served as a Chief Asset Management Executive and member of the Operating Committee at Barnett Banks, Inc., which at the time was among the nation's 25 largest banks. He served as Chief Executive Officer of Fleet Investment Services, a brokerage and wealth management organization from 1991 to 1995. His prior experience also includes serving as Executive Vice President with Fidelity Investments, an international provider of financial services and investment resources, and as a principal with the consulting firm of Booz, Allen & Hamilton. Since June 1995, Mr. Jones has served as Chairman of Jones Boys Ventures, a retailer. Mr. Jones also serves as a director of Buyers Access, LLC, a purchasing and cost control specialist for the housing market, as well as Colo5, LLC, an independent data center operator, and is currently a Trustee of Episcopal High School Foundation in Jacksonville, Florida. Mr. Jones holds an undergraduate degree from Duke University, with majors in both economics and management science. He also holds an M.B.A. degree from the Wharton School of the University of Pennsylvania. We believe Mr. Jones' qualifications to serve on our Board of Directors include his two decades of executive management, his financial expertise and business acumen, and his experience gained while serving as Pegasystems' President and Chief Operating Officer.

Dianne Ledingham, 55, has been a Director of Pegasystems since September 2016. In January 2017, she was elected a member of the Compensation Committee and the Nominating Committee. Ms. Ledingham is a director in Bain & Company's Boston office, a leader in Bain's Customer Strategy & Marketing practice, and a senior partner in the firm's Telecom, Media and Technology practices. During her more than 25 year tenure at Bain, Ms. Ledingham has built extensive sales effectiveness experience across a range of industries. In addition, Ms. Ledingham has had several governance roles at Bain including serving on Bain's Board of Directors (until 2015), serving on Bain's Global Compensation and Promotion Committee, including as elected Chair, and is currently serving on Bain's Global Nominating Committee. Additionally, Ms. Ledingham is currently serving as the Board Chair of City Year Boston, as well as Treasurer on the board of Ventures for Hope. Ms. Ledingham holds a degree in electrical engineering with honors from Brown University and an M.B.A. degree with distinction from Harvard Business School. We believe Ms. Ledingham's qualifications to serve on our Board of Directors include her significant business and marketing experience, including her experience as the founding global leader for Sales and Channel Effectiveness within Bain's Customer Strategy and Marketing practice.

James O. Halloran, 85, has been a Director of Pegasystems since 1999. In November 2004, he was elected a member of our Audit and Nominating Committees, and in January 2017, he was elected Chair of our Audit Committee. In April 2005, he was elected a member of our Compensation Committee on which he served until January 2017. From June 1999 to August 2001, Mr. O. Halloran was the Senior Vice President, Chief Financial Officer, Treasurer, and

Secretary of Pegasystems. From 1991 to 1999, he served as President of G & J Associates, Ltd., a financial consulting firm. From 1956 to 1990, he was with the international accounting firm of

Table of Contents

Arthur Andersen LLP, serving as an audit partner from 1967 to his retirement in 1990. From August 2002 to February 2004, Mr. O Halloran served as President and Chief Operating Officer of FabTech Industries of Brevard, Inc., a certified supplier of precision components for the aerospace, defense, medical, fuel cell, and high-tech industries. Mr. O Halloran holds degrees in business administration and accounting from Boston College. We believe Mr. O Halloran's qualifications to serve on our Board of Directors include his extensive experience with public and financial accounting matters for global organizations, including his past service as Pegasystems' Chief Financial Officer and as an audit partner for more than two decades with Arthur Andersen LLP.

Sharon Rowlands, 59, has been a Director of Pegasystems since April 2016. In January 2017, she was elected a member of the Nominating Committee and as the Chair of our Compensation Committee. Ms. Rowlands currently serves as President of USA Today Network Marketing Solutions at Gannett Co. since November 2017. Previously, Ms. Rowlands served as the Chief Executive Officer and member of the board of ReachLocal, Inc., an Internet-based advertising and marketing company which specialized in search engine marketing, marketing analytics, and display advertising, beginning in 2014. Ms. Rowlands has more than 20 years of experience serving small to enterprise level businesses in leadership roles. From 2011 to 2013, she was the Chief Executive Officer and member of the board of Altegrity, Inc., which provides security and risk management solutions to government and commercial clients. From 2008 to 2011, Ms. Rowlands was the Chief Executive Officer of Penton Media, Inc., a business-to-business information provider producing more than 110 magazines and associated websites, and about 60 industry events. From 1997 to 2008, Ms. Rowlands held a variety of roles including Chief Executive Officer from 2005 to 2008, at Thomson Financial Inc., a provider of market and securities data and other financial services for brokerages, investment bankers, traders, and other investment professionals. Ms. Rowlands currently serves on the Board of Directors of The Glimpse Group, a virtual and augmented reality software company, as well as the Local Search Association, a not-for-profit industry association of media companies and technology providers. Additionally, Ms. Rowlands previously served on the board of Constant Contact, Inc. (until 2014). Ms. Rowlands holds a B.A. in History from University of Newcastle, Newcastle-Upon-Tyne and a Postgraduate Certificate in Education from Goldsmiths, University of London. We believe Ms. Rowland's qualifications to serve on our Board of Directors include her extensive leadership experience, including positions as Chief Executive Officer and member of the board for ReachLocal, Inc., and as a director for several public and private companies.

Alan Trefler, 61, a founder of Pegasystems, has served as Chief Executive Officer and Chairman of the Board of Directors since Pegasystems was organized in 1983. Prior to 1983, he managed an electronic funds transfer product for TMI Systems Corporation, a software and services company. Mr. Trefler holds a B.A. degree in economics and computer science from Dartmouth College. We believe Mr. Trefler's qualifications to serve on our Board of Directors include his extensive experience in the software industry, including as our founder, Chief Executive Officer, and Chairman of our Board of Directors since our inception in 1983.

Larry Weber, 62, has been a Director of Pegasystems since August 2012. In May 2013, he was elected a member of our Compensation and Nominating Committees, and in January 2015, he was elected Chair of our Nominating Committee. Mr. Weber has served as the Chief Executive Officer and Chairman of the Board of Racepoint Global, Inc., a digital marketing services ecosystem of marketing service companies organized to help chief marketing officers in their role as builders of communities and content aggregators, since he founded the company in September 2004. In 2017, Mr. Weber was elected to the board as well as the Nominating and Corporate Governance Committee of RMG Networks Holding Corporation, a digital signage provider for most of the Fortune 100 companies. From 2011 to 2013, Mr. Weber also served on the board of Avectra, a provider of web-based association management software (AMS) and social CRM software. In 2001, Mr. Weber founded Weber Shandwick, one of the largest public relations agencies in the world. Mr. Weber is also a co-Founder and Chairman of the Board of the Massachusetts Innovation & Technology Exchange (MITX), one of the largest interactive advocacy organizations in the world. Mr. Weber has authored four books: *Marketing to the Social Web: How Digital Customer Communities Build Your Business*;

Everywhere: Comprehensive Digital Business Strategy for the Social Media Era; Sticks and Stones: How Digital Business Reputations are Built Over Time and

Table of Contents

Lost in a Click; and The Provocateur: How a New Generation of Leaders are Building Communities, Not Just Companies. Mr. Weber holds a B.A. in English from Denison University, Ohio and an M.F.A. in Writing and Literature from Antioch College, Oxford. We believe Mr. Weber's qualifications to serve on our Board of Directors include his extensive experience in the global marketing and public relations industry, including positions as founder and Chairman of the Board for Racepoint Global, Inc., and as a director for several companies.

Directors Not Standing for Re-Election

Steven Kaplan, 61, has been a Director of Pegasystems since August 1999. In December 2000, he was elected a member of our Audit Committee, and served as its Chair until January 2017; in April 2004, he was elected a member of our Nominating Committee; and he served on our Compensation Committee from May 2014 to January 2017. Mr. Kaplan has served as a general partner of Riverside Partners, LLC, a private equity firm, since October 2006. He has been President of Kaplan Advisors LLC, a financial and strategy consulting firm, since January 2004. He was a Managing Director of The Audax Group, a private equity and venture capital firm, from January 2000 until December 2003. From 1998 to 2000, Mr. Kaplan was affiliated with Texas Pacific Group, a private equity firm, and he served as President, Chief Operating Officer and Chief Financial Officer of Favorite Brands International Holding Corp., a confectionery company controlled by Texas Pacific Group. From 1996 to 1997, Mr. Kaplan was Executive Vice President and Chief Financial Officer of the Coleman Company, Inc., an international manufacturer of camping, outdoor recreation and hardware equipment. Mr. Kaplan holds an M.S. in management, a B.S. in electrical engineering and computer science, and a B.S. in management science from the Massachusetts Institute of Technology. We believe Mr. Kaplan's qualifications to serve on our Board of Directors include his significant business and operational experience, including positions as a chief financial officer and director for several companies, as well as his experience with mergers and acquisitions.

William Wyman, 80, has been a Director of Pegasystems since June 2000. In December 2000, he was elected a member of our Audit Committee and served until June 2010. Mr. Wyman rejoined the Audit Committee in January 2017. In April 2004 he was elected a member of our Nominating Committee, and in June 2006 he was elected a member of our Compensation Committee and served until January 2017. In 2001, Mr. Wyman served as the Chief Executive Officer of Predictive Systems, Inc., a systems consulting and installation company. In 1984, Mr. Wyman co-founded Oliver Wyman and Company, a management consulting firm serving large financial institutions. He served as Managing Partner until 1995, when he became a counselor to chief executives of several companies, and a director for a number of companies in the technology and financial sectors. Mr. Wyman serves as a director of Castle Harlan, a private equity firm; Sprout Group, a private equity firm; and Allston Holding LLC, a private proprietary trading firm where he also serves as Chairman of the Compensation Committee and the Audit Committee. In 2014, Mr. Wyman joined ProMIS Neurosciences, Inc. (formerly Amorfix Life Sciences) as Chairman of the Board. He currently serves as Chair on their Audit Committee as well as on the Compensation Committee. ProMIS Neurosciences is a product development company focused on diagnostics and therapeutics for misfolded protein diseases. Prior to 1984, Mr. Wyman was a senior partner at Booz, Allen & Hamilton, where he served as President of the Management Consulting Group and head of the Financial Industries Practice. Mr. Wyman holds a degree in economics with honors from Colgate University and an M.B.A. degree from Harvard Business School. We believe Mr. Wyman's qualifications to serve on our Board of Directors include his extensive experience as a strategic advisor to technology companies and his executive leadership roles, as well as a director of several other companies.

Table of Contents

CORPORATE GOVERNANCE

General

We believe that good corporate governance is important to ensure that Pegasystems is managed for the long-term benefit of its stockholders, and we are committed to maintaining sound corporate governance principles. During the past year, we continued to review our corporate governance policies and practices and to compare them to those suggested by various authorities in corporate governance and the practices of other public companies. We have also continued to review the provisions of the Sarbanes-Oxley Act of 2002, the existing and proposed rules of the SEC, and the listing standards of Nasdaq. We have adopted policies and procedures that we believe are in the best interests of Pegasystems and our stockholders. In particular, we have the following policies and procedures:

Declassified Board of Directors. We have a declassified Board of Directors and our Amended and Restated Bylaws provide for one-year terms for our directors. All nominees will stand for re-election to one-year terms at this Annual Meeting.

Majority Voting for Election of Directors. Our Amended and Restated Bylaws provide for a majority voting standard in Director elections, so a nominee is elected to the Board of Directors if they receive a majority of the votes entitled to be cast in an election of directors by all issued and outstanding shares of common stock.

No Hedging Policy. Pursuant to our Insider Trading Policy we prohibit all hedging transactions or short sales involving Pegasystems securities by our directors and employees, including our executive officers.

We have adopted an updated written Code of Conduct that applies to our Board of Directors and all of our employees, including our principal executive officer, principal financial officer, and principal accounting officer, and to persons performing similar functions. You can access the current charters for our Audit Committee, Compensation Committee, and Nominating Committee and our Code of Conduct in the Governance section of our website at www.pegacom.com or by contacting:

Pegasystems Inc.

One Rogers Street

Cambridge, MA 02142-1209

Attention: Matthew J. Cushing

Phone: (617) 374-9600

Determination of Independence

A majority of our directors must be independent directors as defined by Nasdaq Rule 5605(a)(2). Our Board of Directors has determined that each of our non-employee directors qualifies as an independent director because none of them is an executive officer or employee or an individual who has a relationship which, in the opinion of our Board of Directors, would interfere with the exercise of their independent judgment in carrying out the responsibilities of a director. Therefore, our Board of Directors has determined that each of these directors is an independent director as defined under Nasdaq Rule 5605(a)(2). There were no other transactions, relationships, or arrangements not disclosed in this proxy statement that were relevant to the independence of the persons serving as members of our Board of

Directors in 2017.

Board Leadership Structure and Risk Oversight

The Board of Directors has responsibility for establishing broad corporate policies and reviewing our overall performance, rather than directing day-to-day operations. The Board's primary responsibility is to oversee the management of Pegasystems and, in so doing, serve the best interests of Pegasystems and its stockholders. The

Table of Contents

Board selects, evaluates, and provides for the succession of executive officers and, subject to stockholder election each year at our annual meeting, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. It participates in decisions that have a potential major economic impact on us. Management keeps the Board informed of Company activity through regular written reports and presentations at Board and committee meetings.

As part of our corporate governance process, our Board of Directors oversees the risk management process for Pegasystems, which provides further checks and balances to our leadership structure. The Board receives reports from members of senior management on the functional areas for which they are responsible. Such reports may include operational, financial, sales, competitive, legal and regulatory, compliance, strategic and other risks, as well as any related management and mitigation. In addition, as part of its core functions, the Audit Committee reviews our internal audit, business, and financial controls in collaboration with our senior management, including our Chief Compliance Officer and our Senior Director of Internal Audit.

Since our inception in 1983, Mr. Trefler, our founder, has served as Chairman of our Board of Directors and as our Chief Executive Officer. We believe our leadership structure, which is often adopted by other public companies in the United States, has been effective for us, as evidenced by our solid performance and continued growth. We believe a combined Chairman and Chief Executive Officer, along with independent Board committees and a largely independent Board, provides balanced leadership for the Company. We do not have a lead independent director.

In his dual capacity as both Chairman and Chief Executive Officer, Mr. Trefler provides a strong vision and voice for leading and representing Pegasystems to others, which provides cohesive management and reduces risk of confusion or redundant undertakings or messages. Mr. Trefler effectively serves as a bridge between our Board of Directors and the Company. As our founder, Mr. Trefler has guided us during more than three decades of growth. As such, he is most familiar with our operations and best suited to lead it into the future.

Director Candidates

Our stockholders may recommend candidates to the Board of Directors for inclusion in the slate of nominees which the Board recommends to our stockholders for election. The qualifications of recommended candidates will be reviewed by our Nominating Committee. If the Board determines to nominate a stockholder-recommended candidate and recommends his or her election as a Director by the stockholders, the name will be included in our proxy card for the stockholders meeting at which his or her election is recommended.

Stockholders may recommend individuals for the Nominating Committee to consider as potential Director candidates by submitting their names and background to the Pegasystems Inc. Nominating Committee c/o Pegasystems Inc., One Rogers Street, Cambridge, MA 02142-1209, Attention: Secretary. The Nominating Committee will consider a recommendation only if appropriate biographical information and background material is provided on a timely basis. The process followed by the Nominating Committee to identify and evaluate candidates includes requests to our directors and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the Nominating Committee and the Board. Assuming that appropriate biographical and background material is provided for candidates recommended by stockholders, the Nominating Committee will evaluate those candidates, by following substantially the same process, and applying the same criteria, as for new candidates submitted by our directors.

In considering whether to recommend any candidate for inclusion in the Board's slate of recommended Director nominees, including candidates recommended by stockholders, the Nominating Committee will apply the criteria appended to the Nominating Committee's charter. These criteria include the candidate's integrity, business acumen,

experience, commitment, diligence, conflicts of interest, and ability to act in the interest of all stockholders. Although we do not have a formal policy regarding diversity, the value of diversity is also

Table of Contents

considered, and the Nominating Committee charter specifically dictates that nominees shall not be discriminated against on the basis of race, religion, national origin, sex, sexual orientation, disability, or any other basis proscribed by law. The Nominating Committee considers diversity in the broadest sense, encompassing also director experience, professions, skills, and background.

The Nominating Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. We believe that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge, and abilities that will allow the Board to fulfill its responsibilities. More specific information regarding each director nominee's qualifications can be found in the preceding Election of Directors section of this proxy statement. No director candidate was recommended to us by any beneficial owner of more than 5% of our common stock.

Stockholders also have the right to directly nominate director candidates, without any action or recommendation on the part of the Nominating Committee. Our Amended and Restated Bylaws specify the requirements relating to the timing and the content of the notice that stockholders must provide to the Secretary for a director nomination to be properly presented at a stockholder meeting. See the section entitled Information about the Annual Meeting and Voting How and when may I submit a stockholder proposal for the 2019 Annual Meeting? above.

Communications from Stockholders and Other Interested Parties to the Board

The Board of Directors will give appropriate attention to written communications on issues that are submitted by stockholders and other interested parties, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by committee charters, the Chairman of the Board of Directors will, with the assistance of our Secretary, (1) be primarily responsible for monitoring communications from stockholders and other interested parties, and (2) provide copies or summaries of such communications to the other directors as he considers appropriate.

Communications will be forwarded to all directors if they relate to substantive matters and include suggestions or comments that the Chairman of the Board of Directors considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to personal grievances and matters as to which we receive repetitive or duplicative communications.

Stockholders and other interested parties who wish to send communications on any topic to the Board of Directors should address such communications to:

Chairman of the Board of Directors

c/o Pegasystems Inc.

One Rogers Street

Cambridge, MA 02142-1209

Attention: Matthew J. Cushing

Board Meetings

The Board of Directors met eight times in 2017. During 2017, each of our directors attended at least 75% of the total number of meetings of the Board of Directors and meetings of the committees of which such director was a member. Executive sessions of non-employee directors are held periodically each year, generally in conjunction with regularly scheduled meetings of the full Board. Any non-employee director can request that an additional executive session be scheduled.

Directors are encouraged to attend annual meetings of stockholders, but we have no formal policy requiring such attendance. Eight directors attended the 2017 Annual Meeting of Stockholders.

Table of Contents**Board Committees**

The Board of Directors has standing Audit, Compensation, and Nominating Committees. Each committee has a charter that has been approved by the Board. Copies of the charters are posted in the Governance section of our website at www.pegacom.com. Each committee reviews the appropriateness of its charter and performs a self-evaluation periodically. All members of the committees are non-employee directors. Mr. Treffer is the only director who is an employee and, as such, is not a member of any of the committees. The Board of Directors has determined that all members of the three standing committees are independent directors as defined under Nasdaq Rule 5605(a)(2), and, in the case of the Audit Committee, as further defined under Nasdaq Rule 5605(c)(2), and, in the case of the Compensation Committee, as further defined under Nasdaq Rule 5605(d)(2). The Board of Directors establishes special committees of limited duration to deal with issues not squarely within its purview from time to time. In 2017, the Board of Directors established a Special Committee. Membership on each standing committee is reflected on the chart below.

COMMITTEE MEMBERSHIP

	Audit Committee	Compensation Committee	Nominating Committee
Alan Treffer			
Peter Gyenes	X		X
Richard Jones		X	X
Steven Kaplan	X		X
Dianne Ledingham		X	X
James O. Halloran	X(C)		X
Sharon Rowlands		X(C)	X
Larry Weber		X	X(C)
William Wyman	X		X

(C) Denotes Committee Chair.

Audit Committee

We have a standing Audit Committee of the Board of Directors. The Audit Committee assists the Board's oversight of the integrity of our financial statements, the qualifications and independence of our independent registered public accounting firm, and the performance of our internal audit function and independent registered public accounting firm. The Audit Committee has the authority to engage any independent legal, accounting, or other advisors that it deems necessary or appropriate to carry out its responsibilities. The Audit Committee was responsible for selecting and appointing Deloitte & Touche LLP, our independent registered public accounting firm. The Board of Directors has determined that Mr. O. Halloran qualifies as an audit committee financial expert within the meaning of Item 407(d)(5)(ii) under Regulation S-K. The responsibilities of our Audit Committee and its activities during 2017 are further described in the Report of the Audit Committee contained below. Our Audit Committee met four times during 2017.

Compensation Committee

We have a standing Compensation Committee of the Board of Directors. The Compensation Committee evaluates and sets the compensation of our Chief Executive Officer and approves the salaries and bonuses of our other executive officers. The Compensation Committee also approves equity grants, within the guidelines established by our Board of Directors, to our named executive officers and employees. The responsibilities of our Compensation Committee and its activities during 2017 are further described in the Compensation Discussion and Analysis and the Compensation Committee Report, each of which is contained below. Our Compensation Committee held seven meetings during 2017.

Table of Contents

Nominating Committee

We have a standing Nominating Committee of the Board of Directors. The purpose of the Nominating Committee is to identify qualified individuals as needed to become directors and to recommend to the Board the persons to be nominated by the Board for election as directors at the annual meeting of stockholders. The Nominating Committee is authorized to retain any such advisors or consultants it deems necessary or appropriate to carry out its responsibilities. For information relating to nominations of directors by our stockholders, see *Director Candidates* above. Our Nominating Committee held no individual meetings in 2017, but communicated at the Board level and acted through unanimous written consent.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Except as described below, during 2017 there were no transactions involving more than \$120,000, nor are any proposed, between Pegasystems and any executive officer, director, beneficial owner of 5% or more of our common stock or equivalents, or any immediate family member of any of the foregoing, in which any such persons or entities had or will have a direct or indirect material interest. Leon Trefler, the brother of our Chairman and Chief Executive Officer, Alan Trefler, serves as our Senior Vice President, Global Customer Success.

Our Board of Directors adopted a Related Person Transaction Policy, which can be found on the *Governance* section of our website at www.pegacom.com. The policy mandates that we enter into or ratify a related person transaction only when our Board of Directors, or a committee thereof, acting in accordance with the policy, determines that the transaction is either in, or is not inconsistent with, the best interest of Pegasystems and its stockholders. A *related person transaction* for these purposes is defined in the policy to include any transaction or relationship (involving an amount expected to exceed \$120,000) between Pegasystems and an individual or entity defined as a *related person* in the policy. Approval or ratification of a related person transaction may be conditioned by the Board of Directors, or committee thereof, directing the related person or Pegasystems to take certain actions to narrow the scope of the relationship, such as: requiring the related person to resign from, or change position within an entity involved in the related person transaction; assuring that the related person not be directly involved in negotiating the terms of the related person transaction; limiting the duration or magnitude of the related person transaction; or requiring that information about the related person transaction be documented and delivered to the Board of Directors or committee on an ongoing process.

Table of Contents**DIRECTOR COMPENSATION**

Non-employee directors are paid an annual cash retainer of \$55,000 and receive an annual equity grant valued at \$125,000, typically issued on the date of our annual meeting of stockholders, or the Annual Equity Grant. The Annual Equity Grant is granted in the form of RSUs, with twenty-five percent vesting on the date of the annual meeting of stockholders and an additional twenty-five percent vesting each quarter thereafter. Prior to May 18, 2016, the Annual Equity Grant was granted in the form of unrestricted common stock.

Additionally, we pay an annual cash retainer (paid in quarterly installments) to non-employee directors serving on the Audit and Compensation Committees: \$10,000 to each Audit Committee member; \$20,000 to the Audit Committee Chair; \$6,000 to each Compensation Committee member; and \$8,000 to the Compensation Committee Chair. We paid a \$10,000 annual cash retainer to non-employee directors serving on a Special Committee and \$20,000 annual cash retainer to the Special Committee Chair, each paid in quarterly installments.

In addition to the above, we also offer to reimburse non-employee directors for expenses incurred in attending Board, committee or other Company meetings. Alan Treffler is our only director who is also an employee. He receives no compensation for his service as a director.

The following table provides the total compensation earned by each non-employee director in 2017.

NON-EMPLOYEE DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Total (\$)
Peter Gyenes	65,000(2)	125,000	190,000
Richard Jones	61,000(3)	125,000	186,000
Steven Kaplan	65,000(2)	125,000	190,000
Dianne Ledingham	71,000(4)	125,000	196,000
James O Halloran	75,000(5)	125,000	200,000
Sharon Rowlands	73,000(6)	125,000	198,000
Larry Weber	81,000(7)	125,000	206,000
William Wyman	65,000(2)	125,000	190,000

(1) These amounts reflect the dollar amount of the aggregate grant date fair value of awards granted in 2017, in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 718. As of December 31, 2017, each non-employee director held 522 unvested RSUs from the June 2017 Board of Directors award.

(2) Consists of Board retainer fees of \$55,000 and committee retainer fees of \$10,000.

(3) Consists of Board retainer fees of \$55,000 and committee retainer fees of \$6,000.

(4) Consists of Board retainer fees of \$55,000 and committee retainer fees of \$16,000.

(5) Consists of Board retainer fees of \$55,000 and committee retainer fees of \$20,000.

(6) Consists of Board retainer fees of \$55,000 and committee retainer fees of \$18,000.

(7) Consists of Board retainer fees of \$55,000 and committee retainer fees of \$26,000.

Table of Contents

PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION

We are including in this proxy statement a non-binding, advisory vote on the compensation of our named executive officers in compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act.

As described in the Compensation Discussion and Analysis section of this proxy statement, as well as in the tables set forth in the Executive Compensation and the Compensation Practices Risk Assessment sections, we seek to align the interests of our named executive officers with our stockholders. Our named executive officers, and most of our other employees, are also stockholders or hold RSUs or options. Our compensation programs contain elements of fixed and variable compensation and are designed to reward our executive officers for achieving short-term and long-term corporate goals, while avoiding the encouragement of excessive risk taking. This non-binding advisory vote is intended to address the overall compensation of our named executive officers and our executive compensation program rather than any specific elements.

Although this vote is advisory in nature and, as such, will not be binding, our Board of Directors and our Compensation Committee will consider the outcome of the vote in evaluating its executive compensation program. Therefore, we are asking our stockholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the stockholders of the Company approve, by a non-binding advisory vote, the compensation of the Company's named executive officers, as described in this proxy statement, including in the Compensation Discussion and Analysis, compensation tables, and narrative discussion included therein.

The Board of Directors recommends that you vote *FOR* the approval of the compensation of our named executive officers, as described in this proxy statement, and proxies solicited by the Board of Directors will be voted in favor thereof unless a stockholder has indicated otherwise on the proxy.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

This Compensation Discussion and Analysis section describes the material elements of our compensation programs for our named executive officers, which is comprised of our principal executive officer, our principal financial officer, and the three executive officers (other than our principal executive officer and our principal financial officer) who were our next most highly compensated executive officers during 2017. All of the named executive officers, listed below, held their positions as of December 31, 2017.

Alan Trefler, our Chairman of the Board of Directors and Chief Executive Officer (principal executive officer);

Kenneth Stillwell, our Chief Financial Officer and Chief Administrative Officer (principal financial officer);

Douglas Kra, our Senior Vice President, Global Customer Success;

Michael Pyle, our Senior Vice President, Engineering; and

Leon Trefler, our Senior Vice President, Global Customer Success.

This section also provides an overview of our executive compensation philosophy and analyzes how and why the Compensation Committee of our Board of Directors, or the Compensation Committee, arrives at specific compensation decisions and policies.

Our executive compensation is designed to reward performance by our executives and to align the interests of our executives with our stockholders. For 2017, our executive compensation program included the following elements of fixed and variable compensation:

base salary;

annual bonus tied to the achievement of corporate goals under our Corporate Incentive Compensation Plan, or the CICP;

additional individual incentive compensation tied to the achievement of individual, business unit, and/or corporate goals by our executive officers, the attainment of which supports our achievement of our corporate goals;

equity awards comprised of both stock options and RSUs that vest over time; and

other perquisites.

The Board of Directors and the Compensation Committee believe that our performance-based executive compensation program effectively correlates pay with performance, and, in doing so, aligns the interests of our stockholders and executives. The program ties significant variable compensation, such as annual bonus opportunities, as well as equity awards, with our achievement of our corporate goals. By linking executive compensation with corporate performance, our executive compensation program promotes stockholder value and our continued growth and success.

Advisory Vote on Executive Compensation, Say on Pay

In 2017, pursuant to the Dodd-Frank Act, we conducted an advisory vote of our stockholders on our executive compensation program for our named executive officers, sometimes called Say on Pay. Each year,

Table of Contents

our stockholders have overwhelmingly approved our executive compensation programs with more than 98% of the votes cast at our 2017 Annual Meeting voting to adopt our Say on Pay resolution. We value the feedback of our stockholders. As a result, our compensation program continues to be modeled on the same principles that received the strong support of our stockholders last year.

Oversight of Compensation Programs

The Compensation Committee. The Compensation Committee oversees all of the compensation programs that we offer to our executive officers. In 2017, the Compensation Committee's schedule of meetings, as well as the agenda items for those meetings, was established by our Senior Vice President of Human Resources, Jeffrey Yanagi, with input from the Chair of the Compensation Committee, Sharon Rowlands, and our Chief Executive Officer, Alan Treffer. During 2017, the Compensation Committee met seven times. At those meetings, the Compensation Committee addressed the following matters, among others: discussion and review of the compensation paid to our executive officers, including review and approval of the 2017 base salaries, target bonuses and the CICP for executive officers; review of our 2017 strategic goals and achievement of 2016 strategic goals; analysis and approval of the bonus payments under the 2016 CICP; review and approval of the 2017 CICP, including approval of the 2017 CICP RSU grants; review and approval of base salary increase budgets for our employees; approval of all grants of stock options and RSUs to our employees; and review and approval of the 2018 CICP and 2018 equity award budget. Ms. Rowlands has served as the Chair of the Compensation Committee since January 2017.

To facilitate the Compensation Committee's review of each of the elements of the compensation paid to the executive officers, and to assist with the Compensation Committee's determination of compensation for 2017, management provided the Compensation Committee with tally sheets. These tally sheets detailed each executive officer's total compensation in 2017, including the cash value of each element of that total compensation, including salary, bonus, additional incentives, equity awards, our 401(k) plan match contribution, Company-paid parking, and Company-paid health, dental, and other insurance premiums. The Compensation Committee also considered more detailed information regarding the equity components of executive compensation, including the total value of outstanding in-the-money vested stock options and unvested stock options and RSUs and the retention value of such awards. Additionally, the Compensation Committee reviewed organizational data for each executive officer, including the number of employees in each executive officer's department and the level of responsibility of such employees, to gain a more detailed understanding of the scope of responsibility of each executive officer in determining that executive officer's compensation.

The Compensation Committee considers the data provided on the tally sheets and the organizational summaries, along with benchmarking information for the role of each executive officer, as further detailed in the Objectives of Compensation Programs Benchmarking section below, when setting executive compensation for the year. The Compensation Committee uses this information to ensure that the total amount of compensation paid to the executive officers is consistent with our compensation philosophy, rather than focusing only on the base salaries and bonuses of the executive officers.

Compensation and Other Consultants. In 2017, our management continued to utilize Arthur J. Gallagher & Co. and The Kelliher Group of Morgan Stanley for consulting services related to our 401(k) defined contribution plan. Arthur J. Gallagher & Co. assisted with benefit plan design, vendor assessment, cost considerations, and plan oversight, while members of The Kelliher Group participated in meetings of our Retirement Committee, which is composed of representatives from our Finance and Human Resources departments, and provided fund guidance and regulatory updates.

The Compensation Committee may retain the services of compensation advisors for the purposes of assisting in the determination of executive compensation, and it has the budgetary authority to hire such advisors as it deems necessary, although it did not do so in 2017. The Compensation Committee does not currently engage its own outside consultant for advice, because its members are comfortable with the benchmarking data and other

Table of Contents

supporting information provided by our management and believes they are adequately experienced and equipped to address the relevant issues and provide appropriate executive compensation market data. The Compensation Committee also believes that outside consultants are unnecessary at this time, because our executive officers compensation is primarily composed of base salary, bonus, and stock option and RSU grants, and does not include more complex elements such as deferred compensation plans.

Role of Executives in Establishing Compensation. In 2017, our Human Resources department, led by Mr. Yanagi, researched appropriate types and levels of compensation for our executive officers and created preliminary recommendations that were presented to Alan Trefler. Mr. Trefler reviewed that data and presented his recommendations to the Compensation Committee in executive session to determine final compensation for our executive officers. Mr. Trefler, along with Mr. Yanagi and other members of our human resources management team, attended meetings of the Compensation Committee as required.

The Compensation Committee may form and delegate its authority to one or more subcommittees of members of the Compensation Committee as it deems appropriate from time to time under the circumstances, including a subcommittee consisting of a single member of the Compensation Committee. The Compensation Committee generally does not delegate decisions regarding the compensation of executive officers to management, except that the attainment of each executive officer's annual cash bonus is tied to that individual's level of contribution to our strategic goals as determined by Mr. Trefler in consultation with the Compensation Committee and as further described below in this Compensation Discussion and Analysis section.

Additionally, Leon Trefler and Mr. Kra, our Senior Vice Presidents, Global Customer Success, will be provided an opportunity in 2018, as they have in past years, to receive additional performance-based compensation tied to the attainment of individual, business unit, and/or corporate goals established by Alan Trefler, as further described below in this Compensation Discussion and Analysis section.

Objectives of Compensation Programs

Compensation Philosophy. The objective of our executive compensation program is to align executive compensation with the achievement of our strategic and financial goals. The program focuses on long-term indicators of the underlying success of our business, rather than on ancillary indicators such as our stock price or earnings per share that may be influenced by other factors and may not necessarily demonstrate the underlying success of our business. Our compensation philosophy is built upon principles of internal equity with respect to each executive's role relative to others within the company, external competitiveness, recognition of performance against short and long-term goals, and the sharing of success. Therefore, our compensation program is primarily focused on internal and external benchmarking, and the level of attainment of target goals, most of which are shared goals relating to our overall performance.

Our compensation program is designed to reward superior performance by our executive officers. In measuring the contribution of the executive officers to Pegasystems, the Compensation Committee considers their performance relative to the applicable unit goals such as license signings, profit margins, additional financial metrics, and other specific objectives set by management. While compensation surveys are useful guides for comparative purposes, the Compensation Committee believes that a successful compensation program also requires the application of judgment and subjective determinations of individual and company performance. Therefore, the Compensation Committee applies its judgment when reconciling the program's objectives with the realities of retaining valued employees.

Benchmarking. In making compensation decisions, management and the Compensation Committee compare each element of total cash compensation against a peer group of business-to-business software companies that the

Compensation Committee believes compete with us for executive talent and have similar present and/or projected revenue. In general, the Compensation Committee targets total cash compensation, consisting of base salary and bonuses, or Total Cash Compensation, to our executive officers that is within the range of the 50th to

Table of Contents

75th percentile of the Total Cash Compensation paid to the executive officers of the benchmark companies, with the exception of our Chief Executive Officer who is compensated below the 50th percentile due to his status as a significant stockholder.

We believe that it is helpful to utilize data from a very wide array of comparable companies in order to determine the best pay scales to apply to our executive compensation program. We primarily considered data from Radford, which we believe to have the most relevant and comprehensive data for this purpose.

Generally, the Radford surveys included data and breakout information from software companies based upon annual revenue. The surveys analyze compensation data from several hundred technology companies and provide specific data based on each executive officer's role. Our primary benchmarks are from software companies with annual revenue ranging from \$200 million to \$1 billion, which we believe is the most relevant benchmark data for our executive compensation program. We also review data from technology companies with annual revenue ranging from \$1 billion to \$3 billion, as we believe this accurately represents the companies from where we attract talent.

In 2017, we also utilized Comptryx as a secondary market data source for benchmarking purposes. In reviewing the Comptryx data, we focused on benchmarking against companies with annual revenue from \$500 million to less than \$2 billion. Data from both Radford and Comptryx were considered when evaluating 2017 executive compensation.

In addition to the standard benchmarking industry surveys mentioned above, we review compensation practices of a select group of similar companies, which are benchmarked through the use of proxy statements, because one or more of the following applies: (a) they are of comparable size and revenue; (b) they are in a comparable industry; (c) they are within our geographic market or (d) they compete with us for talent. The list of companies below was used as our compensation benchmarking peer group for developing our 2017 compensation program for our executive officers where there was data for comparable positions:

Adobe Systems	Akamai Technologies	Amdocs	Aspen Technology
Autodesk	Avid Technology	DST Systems	Fair Isaac Corporation
Guidewire Software, Inc.	Microsoft	Microstrategy	Nuance Communications
Oracle	Progress Software	PTC	RealPage, Inc.
Salesforce.com	ServiceNow	Splunk	Tableau Software
Teradata	Verint Systems	Virtusa Corp.	Workday

Our senior management uses this benchmarking data to establish the recommended levels of compensation for the executive officers in a manner consistent with our compensation philosophy, and the Compensation Committee uses this data to determine whether those recommended levels of compensation are reasonable and consistent with the goal of providing Total Cash Compensation that is targeted within the 50th to 75th percentile of the Total Cash Compensation paid to the executive officers of the benchmark companies or industry surveys. In 2017, the target Total Cash Compensation of our named executive officers generally fell within that range, with the exception of our Chief Executive Officer who is compensated below the 50th percentile due to his status as a significant stockholder.

Elements of Compensation

Elements of compensation for our executive officers consist of the following: base salary; annual bonus tied to the achievement of corporate goals; additional individual incentive compensation opportunities tied to the achievement of

specific individual, business unit and/or corporate goals by our executive officers, the attainment of which supports our achievement of our corporate goals; equity awards comprised of both stock options and RSUs that vest over time; and other perquisites such as health, disability and life insurance, a match by

Table of Contents

Pegasystems of 401(k) defined contribution plan contributions, and Company-paid parking. Further analysis and discussion of each element are described in the chart below and the discussion that follows.

Element	Objective	Fixed/Variable
Base Salary	Attract and retain highly qualified leaders with market-competitive compensation structure.	Fixed
Bonus CICP	Link pay with our performance. Reward achievement of our financial and strategic goals.	Variable
Additional Individual Incentive Compensation	Link pay with individual, business unit and/or corporate performance. Reward achievement of specific goals.	Variable
Equity Awards (Stock Options and RSUs)	Link pay with our long-term performance. Reward stock price appreciation, promote long-term retention and permit executives to accumulate equity ownership.	Variable
Other perquisites	Retain talent by providing financial protection and security.	Fixed

Base Salary. Cash compensation in the form of base salary is intended to reflect an executive's knowledge, skills, and level of responsibility, as well as the economic and business conditions affecting Pegasystems. In determining the salary of each executive officer, the Compensation Committee reviews compensation for comparable positions in other software companies and in other similarly-sized companies contained in published surveys or gleaned from the public disclosure filings of publicly-traded companies, as noted in the Benchmarking section above. As discussed above, the Compensation Committee's approach in 2017 was that Total Cash Compensation for our executive officers should be targeted between the 50th and 75th percentile of the Total Cash Compensation for similarly situated executives in comparable companies with the exception of our Chief Executive Officer who is compensated below the 50th percentile. On average, the base salaries of the executive officers for 2017, other than the Chief Executive Officer, comprise approximately 55% of their target Total Cash Compensation, with the remainder provided in the bonus portion of such compensation. The base salary of the Chief Executive Officer is 50% of his target Total Cash Compensation. Base salaries are set for our named executive officers at a regularly scheduled meeting of our Compensation Committee in the first quarter of the year or the last quarter of the prior year. The Compensation Committee also approves the bonus payments based on the prior year's results and the target bonus levels for the current year.

Bonus CICP. Annual cash bonuses are intended to reward executive officers for the achievement of our financial and strategic goals. The mechanism that we use to determine whether, and to what extent, annual cash bonuses are paid to our executive officers is the CICP for executive officers, or the Executive Incentive Plan, that is approved by the Compensation Committee each year at a regularly scheduled meeting in the first quarter of the year.

For purposes of the Executive Incentive Plan, the performance goals are divided into two categories. The first category is comprised of the corporate financial goals related to bookings and operating income, as approved by the Board of Directors in connection with establishing our annual budget, in the aggregate weighted at 70% of total achievement with, in 2017, bookings weighted at 45% and operating income weighted at 25%. The second category is comprised of the qualitative strategic goals as approved by the Board of Directors as part of our annual strategic planning, with the strategic goals in the aggregate weighted at 30% of total achievement. Together, these two categories make up a single performance target under the Executive Incentive Plan, or the Corporate Performance Target.

The percentage achievement of the Corporate Performance Target, or the Funding Percentage, determines the extent to which the Executive Incentive Plan is funded. The Executive Incentive Plan is funded with an

Table of Contents

amount equal to the aggregate target cash bonus amount for our named executive officers multiplied by the Funding Percentage, except that if the Funding Percentage is less than 70% then the Executive Incentive Plan is not funded at all. In 2017, if the Corporate Performance Target had been exceeded, the percentage achievement of the Corporate Performance Target for purposes of funding the Executive Incentive Plan would have been deemed equal to 100% with an opportunity for an enhanced incentive as determined by the Board of Directors in its discretion.

Once the Funding Percentage is determined, the actual bonus payment for each executive officer is subject to adjustment to reflect each individual's level of contribution to our strategic goals, as determined by the Compensation Committee. Our strategic goals are established each year by our senior management team and describe our key operational initiatives related to strategy and organization alignment, selling transformation and product and delivery transformation. The Chief Executive Officer assesses each executive officer's contribution to the overall operational plan and to such executive officer's specific functional unit. The Compensation Committee determines and approves executive officer compensation and has the discretion to modify individual payout amounts to reflect an individual's performance.

The target bonus levels established for our executive officers represent management's and the Compensation Committee's assessment of a very high level of achievement of specific goals. Where target bonus levels relate to financial goals that are also the subject of our published financial guidance, these goals are generally established at levels that represent over-performance in relation to the guidance that we publish at the beginning of each calendar year. For 2017, the Funding Percentage was 85%, which was consistent with our level of achievement of the Corporate Performance Target for the year.

Additional Individual Incentive Compensation. Additional cash incentives have historically been available to several executives other than our Chief Executive Officer based on the achievement of specific individual, business unit, and/or corporate performance goals established by Alan Treffer. In addition, in 2017, Leon Treffer and Mr. Kra were eligible for sales incentive compensation related to the achievement of sales achievement objectives set by our Chief Executive Officer.

Equity Awards. The Compensation Committee utilizes stock options and RSUs as long-term, non-cash incentives and as a means of aligning the long-term interests of executives and stockholders. In the case of stock options, this is because they do not become valuable to the holder unless the price of our stock increases above the fair market value of our stock on the date of grant. In the case of RSUs, an RSU delivers more value than a stock option to the holder if the price of our stock remains constant, but the value to the holder increases if our stock price increases over time.

Stock options deliver to the recipient a right to receive an option to purchase a specified number of shares of our common stock upon vesting, while RSUs deliver to the recipient a right to receive a specified number of shares of our common stock upon vesting. Unlike stock options, which require payment of the exercise price to purchase shares, RSUs do not require an additional payment by the executive officer at the time shares are issued. Therefore, RSUs provide value to our executives even if our stock price remains constant. Additionally, RSUs, while more expensive than options to the Company by approximately a three to one ratio, can be more efficient based upon the benefit to the executive in comparison to the cost to the Company. RSU grants do not result in the same amount of dilution upon issuance to our investors' ownership as is caused by stock options, because the same incentive associated with options can be provided to the executive with RSUs, but with fewer shares ultimately issued. In determining the value of equity grants to recipients, we value our RSUs at the fair value of our common stock on the grant date, which is the closing price of our common stock on that date, less the present value of expected dividends, as the executive officers or other employees are not entitled to dividends during the requisite vesting period. We value our stock options using a Black-Scholes option valuation model. Equity awards for employees typically vest over a five-year period.

Executive officers and other employees may elect to receive 50% of their target incentive compensation under the Executive Incentive Plan in the form of RSUs instead of cash. As an added incentive, beginning in

Table of Contents

2015, the number of RSUs receivable by executive officers and other employees is determined by dividing 50% of his or her target incentive compensation by an amount equal to 85% of the closing price of our common stock on the date of grant.

If elected pursuant to the Executive Incentive Plan, the equity grant occurs during the open trading period following the public release of our financial results for the prior year and vests 100% on the first anniversary of the date of grant. This typically coincides with the cash payout date for all participants. Vesting is conditioned upon threshold funding of the Executive Incentive Plan, and status as an active employee in good standing. If these conditions are not met, the equity grant does not vest and expires.

Equity Award Granting Practices. Executive officers, and most employees, have typically received an initial equity grant upon joining us. Grants to newly hired employees are determined based upon a target financial value associated with their job type, rather than a pre-determined number of options or RSUs based on an individual's level of job responsibilities, which we believe improves our ability to more effectively communicate the value of equity grants to our employees. For all employee positions which are at the director level or above, equity grants are typically comprised of an equal mix of stock options and RSUs, with 50% of the target value granted in stock options and 50% in RSUs. For those employees who hold positions below the director level, equity grants are typically awarded in RSUs.

The Compensation Committee also makes periodic grants of stock options and RSUs to the executive officers, typically on an annual basis. The Compensation Committee evaluates the equity awards in the context of each executive officer's total compensation, as well as when determining their annual base salaries and incentive cash compensation.

For periodic grants, the number of stock options and RSUs granted to an executive officer is determined by taking into consideration factors such as: (i) equity awards previously granted to the executive; (ii) the executive's remaining equity awards exercisable and the value of those equity awards; (iii) the performance of the executive; (iv) the anticipated value that an executive will add to Pegasystems in the future; (v) the target value, as discussed above; (vi) the retentive value of equity awards; and (vii) competitive external market data. We expect to continue to make annual periodic equity awards in the future.

Other Perquisites. In addition to the elements of compensation discussed above, we offer the executive officers Company-paid parking at our home office location in Cambridge, Massachusetts, and contributions towards medical, dental, vision, life, accidental death and dismemberment, and disability insurance premiums. We do not offer deferred compensation of any kind, nor do we offer retirement benefits other than a 401(k) defined contribution plan. We typically match 50% of contributions made by executive officers and other employees to the 401(k) plan, up to a cap of 50% of 6% of the executive officer's or employee's base salary.

Executive Incentive Plan

In January 2017, the Compensation Committee adopted the 2017 Executive Incentive Plan which covered the period from January 1 through December 31, 2017, or the Incentive Period. The 2017 Executive Incentive Plan was designed to establish a pool of funds to be available for making bonus payments to the executive officers if we achieved certain performance goals during the Incentive Period. The aggregate 2017 target cash bonus amount