

PEGASYSTEMS INC
Form DEF 14A
May 07, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)
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

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- .. Definitive Additional Materials
- .. Soliciting Material Pursuant to Section 240.14a-11(c) or Section 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):

- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

(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:

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Dear Stockholder:

We cordially invite you to attend our 2004 Annual Meeting of Stockholders on Thursday, June 3, 2004 at One Main Street, Cambridge, Massachusetts. The Meeting will commence at 11:00 a.m.

The following Notice of Annual Meeting of Stockholders and Proxy Statement describe the items to be considered by the stockholders and contain certain information about Pegasystems and our officers and directors.

Please sign and return the enclosed proxy card as soon as possible in the envelope provided so that your shares can be voted at the Meeting in accordance with your instructions. Even if you plan to attend the Meeting, we urge you to sign and promptly return the proxy card. You can revoke it at any time before it is exercised at the Meeting, or vote your shares personally if you attend the Meeting.

We look forward to seeing you on June 3, 2004.

Sincerely,

Alan Trefler

Chairman and Chief Executive Officer

May 7, 2004

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PEGASYSTEMS INC.

101 Main Street

Cambridge, MA 02142

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on June 3, 2004

To our Stockholders:

The 2004 Annual Meeting of Stockholders of Pegasystems Inc. will be held at One Main Street, Cambridge, Massachusetts, on Thursday, June 3, 2004 at 11:00 a.m., local time. At the meeting, stockholders will consider and vote on the following matters:

1. To re-elect four members of the Board of Directors to hold office for terms of three years.
2. To approve an amendment to our Restated Articles of Organization to increase the number of authorized shares of common stock from 45,000,000 to 70,000,000.
3. To approve the Pegasystems Inc. 2004 Long-Term Incentive Plan.
4. To ratify the selection of Deloitte & Touche LLP as our independent auditors for the year ending December 31, 2004.

The Stockholders will also act on any other business as may properly come before the meeting.

Stockholders of record at the close of business on April 14, 2004 are entitled to vote at the meeting.

You are cordially invited to attend the meeting in person if possible. Whether you plan to attend the meeting or not, please fill out, sign and date the enclosed proxy we have provided and return it in the envelope enclosed for this purpose. 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 accompanying proxy statement.

By Order of the Board of Directors

June M. Morris

Clerk

Cambridge, Massachusetts

May 7, 2004

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PEGASYSTEMS INC.

101 Main Street
Cambridge, MA 02142

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To Be Held on June 3, 2004

This proxy statement contains information about the 2004 Annual Meeting of Stockholders of Pegasystems Inc. The meeting will be held on Thursday, June 3, 2004, beginning at 11:00 a.m., local time, at One Main Street, Cambridge, Massachusetts.

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 no instruction is specified on a proxy, it will be voted in favor of Proposals 1, 2, 3 and 4 set forth in the notice of the meeting. A stockholder may revoke any proxy at any time before it is exercised by giving our clerk written notice to that effect.

Our Annual Report to Stockholders for the fiscal year ended December 31, 2003 is being mailed to stockholders with the mailing of these proxy materials on or about May 7, 2004. The Annual Report does not constitute any part of this proxy statement.

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. The re-election of four members to our Board of Directors to hold office for terms of three years.
2. The approval of an amendment to our Restated Articles of Organization to increase the number of authorized shares of common stock from 45,000,000 to 70,000,000.

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3. The approval of the Pegasystems Inc. 2004 Long-Term Incentive Plan.
4. The ratification of the selection of Deloitte & Touche LLP as our independent auditors for the year ending December 31, 2004.

The stockholders will also act on any other business that may properly come before the meeting.

Who can vote?

To be able to vote, you must have been a stockholder of record at the close of business on April 14, 2004. This date is the record date for the annual meeting.

Stockholders of record at the close of business on April 14, 2004 are entitled to vote at the annual meeting. The number of outstanding shares of our common stock entitled to vote at the meeting is 35,534,595.

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.

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Is my vote important?

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

How can I vote?

You can vote in two ways. You can vote by mail or you can vote in person at the meeting.

You may vote by mail. You may vote by completing and signing the proxy card that accompanies this proxy statement and promptly mailing it in the enclosed postage-prepaid envelope. You do not need to put a stamp on the enclosed envelope if you mail it in the United States. The shares you own will be voted according to the instructions on the proxy card you mail. 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 Proposals 1, 2, 3 and 4.

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

Can I change my vote after I have mailed my proxy card?

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

signing another proxy with a later date;

giving our clerk a written notice before or at the meeting that you want to revoke your proxy; or

voting in person at the meeting.

Your attendance at the meeting alone will not revoke your proxy.

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

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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.

If your shares are held in street name, you must bring an account statement or letter from your brokerage firm or bank showing that you are the beneficial owner of the shares as of the record date in order to be admitted to the meeting on June 3, 2004. To be able to vote your shares held in street name at the meeting, you will need to obtain a proxy card from the holder of record.

What will happen if I do not give my bank or brokerage firm instructions on how to vote my shares?

If your shares are held in street name, your bank or brokerage firm will be prohibited under applicable regulations from using its discretion to vote your shares on the proposal to approve the amendment of our Restated Articles of Organization or the Pegasystems Inc. 2004 Long-Term Incentive Plan. If your bank or broker instructs us that you have not provided instructions on how to vote on those proposals, your shares will be treated as broker non-votes with respect to those proposals. However, even if you do not give your bank or broker instructions as to how to vote on the other proposals described in this proxy statement, your bank or broker may be entitled to use its discretion in voting your shares in accordance with industry practice.

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What constitutes a quorum?

For business to be conducted at the meeting, a quorum must be present. A quorum consists of the holders of a majority of the shares of common stock issued, outstanding and entitled to vote at the meeting, or at least 17,767,298 shares.

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.

What vote is required for each item?

Election of Directors. The four nominees receiving the highest number of votes cast at the meeting will be elected, regardless of whether that number represents a majority of the votes cast.

Amendment of Restated Articles of Organization. The affirmative vote of a majority of the common stock outstanding on the record date is required to approve the amendment to our Restated Articles of Organization.

Other Matters. The affirmative vote of a majority of the total number of votes cast at the meeting is needed to approve other matters to be voted on at the meeting, including the approval of the Pegasystems Inc. 2004 Long-Term Incentive Plan and the ratification of the independent auditors.

Abstentions and broker non-votes will not be counted as votes in favor of a proposal and will also not be counted as votes cast or shares voted on such proposal. Accordingly, abstentions and broker non-votes will have no effect on the outcome of voting with respect to Proposal 1 (election of directors), Proposal 3 (approval of the 2004 Long-Term Incentive Plan) and Proposal 4 (ratification of independent auditors), because each of those proposals requires an affirmative vote of a plurality, in the case of Proposal 1, or a majority, in the case of Proposals 3 and 4, of the shares of common stock present or represented by proxy. Abstentions and broker non-votes, however, will have the effect of negative votes with respect to Proposal 2 (amendment of the charter), because that proposal requires the affirmative vote of the holders of a majority of all outstanding common stock.

How will votes be counted?

Each share of common stock will be counted as one vote according to the instructions contained on a proper proxy card, whether executed by you directly or on a ballot voted in person at the 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) abstain from voting on a particular matter, or (2) are broker non-votes. Accordingly, abstentions and broker non-votes will have no effect on the voting on a matter that requires the affirmative vote of a certain percentage of the votes cast or shares voting on a matter.

Who will count the votes?

The votes will be counted, tabulated and certified by our transfer agent and registrar, EquiServe Trust Company, N.A. A representative of EquiServe Trust Company, N.A. will serve as the inspector of elections at the meeting.

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

The Board of Directors recommends that you vote:

FOR the re-election of the four members to our Board of Directors to hold office for terms of three years;

FOR the approval of the amendment to our Restated Articles of Organization;

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FOR approval of the Pegasystems Inc. 2004 Long-Term Incentive Plan; and

FOR the ratification of the selection of Deloitte & Touche LLP as our independent auditors for the year ending December 31, 2004.

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

The Board of Directors does not know of any other matters that may come before the meeting. If any matter properly comes before the meeting, the persons named in the proxy card that accompanies this proxy statement will exercise their judgment in deciding how to vote, or otherwise act, at the meeting with respect to that matter or proposal.

Where can I find the voting results?

We will report the voting results in our quarterly report on Form 10-Q for the second quarter of 2004, which we expect to file with the Securities and Exchange Commission, or SEC, on or before August 14, 2004.

How and when may I submit a stockholder proposal for the 2005 annual meeting?

If you are interested in submitting a proposal for inclusion in the proxy statement for the 2005 annual meeting, you need to follow the procedures outlined in Rule 14a-8 of the Securities Exchange Act of 1934. To be eligible for inclusion, we must receive your stockholder proposal intended for inclusion in the proxy statement for the 2005 annual meeting of stockholders at our principal corporate offices in Cambridge, Massachusetts as set forth below no later than January 3, 2005.

If a stockholder wishes to present a proposal before the 2005 annual meeting of stockholders, but does not wish to have the proposal considered for inclusion in the proxy statement and proxy card, the stockholder must also give written notice to us at the address noted below. The required notice must be received by us by March 19, 2005. If a stockholder fails to provide timely notice of a proposal to be presented at the 2005 annual meeting of stockholders, the proxies designated by our Board of Directors will have discretionary authority to vote on that proposal.

Any proposals or notices should be sent to:

Pegasystems Inc.

101 Main Street

Cambridge, MA 02142

Attention: Clerk

Who will bear the costs of soliciting these proxies?

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

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

Our annual report is available on our website at www.pegasystems.com. If you would like a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, we will send you one without charge. Please contact:

Pegasystems Inc.

101 Main Street

Cambridge, MA 02142-1590

Attention: Investor Relations

Telephone: (617) 374-9600

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 Beth Lewis, our director of Investor Relations, 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 to stockholders 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 following address or telephone number: Investor Relations, Pegasystems Inc., 101 Main Street, Cambridge, Massachusetts 02142, Telephone: 617-374-9600. If you want to receive separate copies of the proxy statement or annual report to stockholders 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.

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The following table sets forth information as of January 31, 2004, 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;

each executive officer named in the Summary Compensation Table included below in this proxy statement; and

all of our executive officers and directors as a group.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES	PERCENTAGE OF SHARES
	BENEFICIALLY OWNED (1)	BENEFICIALLY OWNED (2)
Alan Trefler (3)	21,415,873	60.6%
Henry Ancona (4)	203,500	*
Joseph J. Friscia (6)	64,000	*
Michael R. Pyle (5)	221,000	*
Christopher J. Sullivan (5)	54,375	*
Alexander V. d Arbeloff (7)	1,065,000	2.9%
Richard H. Jones (8)	1,446,400	3.9%
Steven F. Kaplan (5)	75,000	*
William H. Keough (7)	75,000	*
Edward A. Maybury (9)	67,900	*
James P. O Halloran (10)	165,024	*
Edward B. Roberts (11)	195,000	*
William W. Wyman (5)	65,000	*
All executive officers and directors as a group (13 persons) (12)	25,112,072	68.2%

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

- (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 or shares voting or investing power, plus any shares that the person has the right to acquire within 60 days, including through the exercise of stock options. To our knowledge, unless otherwise indicated, all of the persons listed 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.
- (2) The percent ownership for each stockholder on January 31, 2004, is calculated by dividing (a) the total number of shares beneficially owned by the stockholder by (b) 35,312,152 shares (the number of shares of our common stock outstanding on January 31, 2004) plus any shares acquirable (including stock options exercisable) by the stockholder within 60 days after January 31, 2004.
- (3) Includes 33,000 shares of common stock held in trust with respect to which Mr. Trefler has voting and dispositive power, as to which Mr. Trefler disclaims beneficial interest.
- (4) Includes 202,500 shares of common stock subject to stock options exercisable within 60 days of January 31, 2004.
- (5) Consists solely of shares of common stock subject to stock options exercisable within 60 days of January 31, 2004.
- (6) Consists solely of shares of common stock held in trust with respect to which Mr. Friscia has voting and dispositive power.
- (7) Includes 65,000 shares of common stock subject to stock options exercisable within 60 days of January 31, 2004.

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- (8) Includes 474,000 shares of common stock subject to stock options exercisable within 60 days of January 31, 2004.
- (9) Includes 65,000 shares of common stock subject to stock options exercisable within 60 days of January 31, 2004, and 2,900 shares of common stock held in trust with respect to which Mr. Maybury disclaims beneficial ownership.
- (10) Includes 149,524 shares of common stock subject to stock options exercisable within 60 days of January 31, 2004.
- (11) Includes 95,000 shares of common stock subject to stock options exercisable within 60 days of January 31, 2004.
- (12) Includes 1,531,399 shares of common stock subject to stock options exercisable within 60 days of January 31, 2004, the 33,000 shares of common stock described in footnote (3) the 64,000 shares of common stock described in footnote (6) above and the 2,900 shares of common stock described in footnote (9).

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ELECTION OF DIRECTORS

(Item 1 of Notice)

There are currently ten members of our Board of Directors, divided into three classes with terms expiring respectively at the 2004, 2005 and 2006 annual meetings of stockholders. At the 2004 annual meeting, stockholders will have the opportunity to vote for the nominees for the class of directors whose terms will expire at the 2007 annual meeting of stockholders. The Board has nominated Henry Ancona, Alexander V. d Arbeloff, William H. Keough and Edward A. Maybury, whose terms are expiring, for re-election to the class of directors whose terms expire in 2007. Messrs. Ancona, d Arbeloff, Keough and Maybury have consented to serve, if elected, for a three-year term expiring at the time of the 2007 annual meeting of stockholders and when their respective successors are elected and qualified. The persons named in the enclosed proxy card as proxies will vote to elect each of the nominees unless you withhold authority to vote for the election of one or more nominees by marking the proxy card to that effect. 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 election of a substitute nominee designated by our Board of Directors, or the board may reduce the number of directors. Proxies may not be voted for more than four persons.

There are no family relationships among any of our executive officers or directors.

The Board of Directors recommends that you vote FOR the election of the nominees as directors.

The following information, which is as of January 31, 2004, is furnished with respect to the nominees for election as directors and each other director. The information presented includes information each director has given us about his age, all positions he holds with us, his principal occupation and business experience during the past five years, and the names of other publicly-held companies of which he serves as a director. Information about the number of shares of common stock beneficially owned by each director, directly and indirectly, as of January 31, 2004, appears above under the heading Security Ownership of Certain Beneficial Owners and Management.

Nominees for Election for Terms of Three Years Expiring in 2007

Henry Ancona, 59, joined Pegasystems in July 2002, as President and Chief Operating Officer and was elected as a director of Pegasystems in December 2002. From 1998 through July 2002, Mr. Ancona was Chairman, President and Chief Executive Officer of Evidian, a security and network management software company. Previously, as Executive Vice President at Polaroid Corporation, he led the Commercial Imaging and Electronic Imaging businesses. Mr. Ancona held a variety of general management positions at Digital Equipment Corporation, including Vice President of the company's office and other application software businesses. Mr. Ancona holds a B.S. and an M.S. in electrical engineering from the Massachusetts Institute of Technology and an MBA from Harvard Business School. He is a director of OneSource Information Services, Inc., a provider of Web-based business information, and Sentillion Inc., a healthcare software company.

Alexander V. d Arbeloff, 76, has been a director of Pegasystems since August 2000. In December 2000, he was also elected a member of our Compensation Committee, and in April 2004, he was elected a member of our Nominating Committee. In 1960, Mr. d Arbeloff co-founded Teradyne, Inc., a leading manufacturer of automatic test equipment and interconnection systems for the electronics and telecommunications industries. Mr. d Arbeloff served as President and Chief Executive Officer of Teradyne until May 1997, and remained Chairman of the Board until June 2000. Since 1989, Mr. d Arbeloff has been a member of the MIT Corporation, and was named its Chairman in July 1997. Since 2003, Mr. d Arbeloff has served as a professor at the MIT Sloan School of Management. Mr. d Arbeloff also serves on the boards of several private companies.

William H. Keough, 66, has been a director of Pegasystems and a member of our Audit Committee since June 2000. In April 2004, he was elected a member of our Nominating Committee. He served as a director of Thermo Ecoteck Corporation, an environmentally sound power plants and fuels public company, from November

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1998 until September 2000, when the company was spun back into its parent, Thermo Electron. He served as chairman of the Board of Trustees of the National Multiple Sclerosis Society's Central New England chapter. He also served as Senior Vice President and Chief Financial Officer of two public companies from 1968 to 1999, most recently at the Pioneer Group, a financial services business with \$20 billion in assets, from 1986 to his retirement in 1999. Mr. Keough holds a B.S./B.A. in Finance from Boston College and an MBA from Northeastern University.

Edward A. Maybury, 64, has been a director of Pegasystems since our organization in 1983. In December 2000, he was elected a member of our Compensation Committee, and in April 2004, he was elected a member of our Nominating Committee. From April 1992 through December 1998, he served as a director, and from July 1992 through December 1998 was the Chief Executive Officer, of Creative Systems, Inc., a software and services company. Prior to that, Mr. Maybury was the Chief Executive Officer of Data Architect Systems, Inc., a software and services company.

Directors Whose Terms Expire in 2005

Richard H. Jones, 52, joined Pegasystems in October 1999, serving as President and Chief Operating Officer until September 2002. Mr. Jones has been a part-time employee of Pegasystems since July 2002. He was elected a director of Pegasystems in November 2000, and became Vice Chairman in September 2002. From 1995 to 1997, he 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. 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. Since June 1995, Mr. Jones has served as Chairman of Jones Boys Ventures, a retailer.

James P. O. Halloran, 71, has been a director of Pegasystems since 1999. From June 1999 to August 2001, he was the Senior Vice President, Chief Financial Officer, Treasurer, and Clerk 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 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. Since 1993, he has served as a director of ASA International Ltd., a software firm focusing on business applications for small and medium-sized companies.

Edward B. Roberts, 68, has been a director of Pegasystems since June 1996. In December 2000, he was elected a member of our Compensation Committee, and in April 2004, he was elected a member of our Nominating Committee. Since the early 1960s, he has been the David Sarnoff Professor of Management of Technology at the Massachusetts Institute of Technology, where he founded and chairs the MIT Entrepreneurship Center. Dr. Roberts co-founded and is a director of Medical Information Technology, Inc., a leading provider of healthcare information systems. He is also a director of Advanced Magnetics, Inc., a specialty pharmaceutical company; SOHU.com, Inc., an internet portal; and several early-stage high-technology firms. Dr. Roberts co-founded and served for 20 years as a general partner of the Zero Stage and First Stage Capital group of venture capital funds.

Directors Whose Terms Expire in 2006

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Steven F. Kaplan, 47, has served as a director of Pegasystems since August 1999. In December 2000, he was also elected a member of our Audit Committee, and in April 2004, he was elected a member of our Nominating Committee. He has been President of Kaplan Advisors LLC, a financial and strategy consulting firm,

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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, an international manufacturer of camping, outdoor recreation and hardware equipment. From 1993 to 1996, Mr. Kaplan was a financial and strategy consultant to venture capital and buy-out firms. During 1994, Mr. Kaplan served as Chief Financial Officer of Marcam Corporation, a software developer. Prior to that, Mr. Kaplan served as Executive Vice President and Chief Financial Officer of AM International, President of Harris Graphics and Partner of Boston Consulting Group. Mr. Kaplan holds an MS in Management, a BS in Electrical Engineering and Computer Science and a BS in Management Science from the Massachusetts Institute of Technology.

Alan Trefler, 47, a founder of Pegasystems, served as President until October 1999 and has been Chief Executive Officer and a director since Pegasystems was organized in 1983. Prior to that, he managed an electronic funds transfer product for TMI Systems Corporation, a software and services company. Mr. Trefler holds a degree in economics and computer science from Dartmouth College.

William W. Wyman, 66, has been a director of Pegasystems since June 2000. In December 2000, he was also elected a member of our Audit Committee, and in April 2004, he was elected a member of our Nominating Committee. From 1984 through 1995, Mr. Wyman was a partner at Oliver, Wyman & Company, a management consulting company which he co-founded. Mr. Wyman has previously served as a director of US Timberlands, a limited partnership consisting of the growing of trees and the sale of logs and standing timber; Predictive Systems, a network consulting company focused on the design, performance, management and security of complex computing networks; and Internosis, an information technology consultancy firm.

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 are committed to having 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 new and proposed rules of the SEC and the new Nasdaq listing standards.

Based on this review, our Board of Directors formed a Nominating Committee, adopted a charter for our Nominating Committee and our Compensation Committee, and revised the charter for our Audit Committee. You can access our current committee charters and Code of Conduct in the Corporate Governance section of www.pegasystems.com or by writing to:

Beth Lewis

Director, Investor Relations

Pegasystems Inc.

101 Main Street

Cambridge, MA 02142

Phone: (617) 374-9600

Determination of Independence

Our Board of Directors has determined that none of Messrs. d Arbeloff, Maybury, Roberts, Keough, Kaplan or Wyman has a material relationship with us (either directly or as a partner, shareholder or officer of an

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organization that has a relationship with us) and that each of these directors is independent within the meaning of Nasdaq's director independence standards. In addition, our Board of Directors has determined that each of the members of our Audit Committee, Compensation Committee and Nominating Committee has no material relationship with us (either directly or as a partner, shareholder or officer of an organization that has a relationship with us) and is independent within the meaning of Nasdaq's director independence standards.

Director Candidates

Our stockholders may recommend director candidates for inclusion by the Board of Directors 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., 101 Main Street, Cambridge, MA 02142, Attention: Vice President and General Counsel. 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 Board members 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 candidates submitted by Board members.

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 the ability to act in the interest of all stockholders. 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. We did not pay any third party a fee to assist in evaluating and identifying director nominees in 2003. During 2003, no director candidate was recommended to us by any beneficial owner of more than 5% of our common stock.

Communications from Stockholders and Other Interested Parties with 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 Vice President and General Counsel, (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

tend to receive repetitive or duplicative communications.

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

Chairman of the Board of Directors

c/o Pegasystems Inc.

101 Main Street

Cambridge, MA 02142

Attention: Vice President and General Counsel

Board of Directors Meetings and Committees

The Board of Directors has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The Board's primary responsibility is to oversee the management of the company and, in so doing, serve the best interests of the company and its stockholders. The Board selects, evaluates and provides for the succession of executive officers and, subject to stockholder election, 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 directors informed of company activity through regular written reports and presentations at Board and committee meetings.

The Board of Directors met five times in 2003. During 2003, each of our directors, other than Mr. Wyman, attended 75% or more of the total number of meetings of the Board of Directors and the committees of which such director was a member. The Board has standing Audit, Compensation and Nominating Committees. Each committee has a charter that has been approved by the Board. Each committee reviews the appropriateness of its charter and performs a self-evaluation periodically. Messrs. Ancona, Jones and Treffer are the only directors who are also employees of Pegasystems. They do not participate in any portions of meetings at which their compensation is evaluated. All members of all committees are non-employee directors.

Executive sessions of non-management directors will be held at least four times per year, generally in conjunction with regularly scheduled meetings of the full Board. Any non-management director can request that an additional executive session be scheduled.

It is our policy that directors should attend annual meetings of stockholders. All but one of our directors attended the 2003 annual meeting of stockholders.

Audit Committee

The current members of our Audit Committee are Messrs. Kaplan (Chairman), Keough and Wyman. Mr. Keough qualifies as an audit committee financial expert under SEC rules. Each of Messrs. Kaplan, Keough and Wyman is an independent director under the Nasdaq rules governing the qualifications of the members of audit committees. In addition, our Board of Directors has determined that each member of the Audit Committee

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is financially literate. None of Messrs. Kaplan, Keough and Wyman serve on the audit committees of more than two other public companies. The Audit Committee met eight times during 2003. The responsibilities of our Audit Committee and its activities during 2003 are described in the Report of the Audit Committee contained below in this proxy statement.

The charter of the Audit Committee is attached to this proxy statement as Appendix A.

Compensation Committee

The current members of the Compensation Committee are Messrs. d Arbeloff, Maybury and Roberts. The Board has determined that each of Messrs. d Arbeloff, Maybury and Roberts is independent as defined under Nasdaq rules. Our Compensation Committee held seven meetings during 2003. The Compensation Committee

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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 oversees the evaluation of management by the Board of Directors. The Compensation Committee also grants stock options and other stock incentives (within guidelines established by our Board of Directors) to our officers and employees. The responsibilities of our Compensation Committee and its activities during 2003 are described in the Report of the Compensation Committee on Executive Compensation contained below in this proxy statement.

The charter of the Compensation Committee is attached to this proxy statement as [Appendix B](#).

Nominating Committee

The current members of the Nominating Committee are Messrs. d Arbeloff, Kaplan, Keough, Maybury, Roberts and Wyman. The Board has determined that each of Messrs. d Arbeloff, Kaplan, Keough, Maybury, Roberts and Wyman is independent as defined under Nasdaq rules. The purpose of the Nominating Committee is to identify qualified individuals as needed to become Board members and 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 advisers 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 was formed in April 2004.

The charter of the Nominating Committee is attached to this proxy statement as [Appendix C](#).

Audit Committee s Pre-approval Policy and Procedures

Our Audit Committee pre-approves all services, including both audit and non-audit services, provided by our independent auditors for the purpose of maintaining the independence of our independent auditors. For audit services, each year the independent auditors provide the Audit Committee with an engagement letter outlining the scope of the audit services proposed to be performed during the year, which must be accepted by the Audit Committee before the audit commences. The independent auditors also submit an audit services fee proposal, which also must be approved by the Audit Committee before the audit commences.

As required, management also submits to the Audit Committee a description of non-audit services that it recommends the independent auditors be engaged to provide and an estimate of the fees to be paid for each. Management and the independent auditors must each confirm to the Audit Committee that the performance of the non-audit services would not compromise the independence of the auditors and would be permissible under all applicable legal requirements. The Audit Committee must approve both the non-audit services and the budget for each such service before commencement of the work. Management and the independent auditors report to the Audit Committee periodically as to the non-audit services actually provided by the independent auditors and the approximate fees incurred by us for those services.

During 2003, no services were provided to us by Deloitte & Touche LLP or any other accounting firm other than in accordance with the pre-approval policies and procedures described above.

DIRECTOR COMPENSATION

We pay each of our non-employee directors an annual retainer of \$20,000. In addition, each of our non-employee directors receives \$1,000 for every Board or committee meeting attended. We also reimburse non-employee directors for expenses incurred in attending Board meetings. Each non-employee director is granted on an annual basis a fully vested option to purchase 15,000 shares of our common stock at a price equal to the fair market value of the common stock on the date of grant. No other compensation is paid to directors for attending Board or committee meetings. Messrs. d Arbeloff, Maybury, Roberts, Kaplan, Keough, O Halloran and Wyman are currently our non-employee directors.

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EXECUTIVE COMPENSATION

The following table sets forth information required under applicable SEC rules about the compensation for each of the last three fiscal years of our Chief Executive Officer and our four most highly compensated other executive officers who were serving as officers on December 31, 2003.

Summary Compensation Table

	LONG TERM
	COMPENSATION
	AWARDS
	<hr/>
ANNUAL COMPENSATION (1)	SECURITIES
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