

PEGASYSTEMS INC
Form 10-Q
August 04, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2009

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number: 1-11859

PEGASYSTEMS INC.

(Exact name of Registrant as specified in its charter)

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Massachusetts <i>(State or other jurisdiction</i>	04-2787865 <i>(IRS Employer</i>
of incorporation or organization)	Identification No.)
101 Main Street Cambridge, MA <i>(Address of principal executive offices)</i>	02142-1590 <i>(Zip Code)</i>
(617) 374-9600	
<i>(Registrant's telephone number including area code)</i>	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

There were 36,344,618 shares of the Registrant's common stock, \$.01 par value per share, outstanding on July 27, 2009.

Table of Contents

PEGASYSTEMS INC.

Index to Form 10-Q

	Page
<u>Part I Financial Information</u>	
Item 1. Financial Statements:	
<u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008</u>	3
<u>Unaudited Condensed Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	25
<u>Part II Other Information</u>	
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 4. <u>Submission of Matters to Vote of Security Holders</u>	26
Item 6. <u>Exhibits</u>	26
<u>SIGNATURE</u>	27

Table of Contents**PEGASYSTEMS INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)

	As of June 30, 2009	As of December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,796	\$ 36,087
Marketable securities	140,266	131,142
Total cash, cash equivalents, and marketable securities	190,062	167,229
Trade accounts receivable, net of allowances of \$847 and \$1,490	32,377	42,801
Short-term license installments	3,061	5,445
Deferred income taxes	4,335	4,351
Income taxes receivable and other current assets	8,297	4,151
Total current assets	238,132	223,977
Long-term license installments, net	4,609	5,413
Property and equipment, net	6,318	5,723
Long-term deferred income taxes and other assets	8,504	8,117
Intangible assets, net	408	479
Goodwill	2,141	2,141
Total assets	\$ 260,112	\$ 245,850
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,844	\$ 4,726
Accrued expenses	7,783	9,925
Accrued compensation and related expenses	14,008	18,015
Deferred revenue	36,114	32,231
Total current liabilities	59,749	64,897
Income taxes payable	5,871	5,665
Other long-term liabilities	1,982	2,174
Total liabilities	67,602	72,736
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, 1,000 shares authorized; no shares issued and outstanding		
Common stock, 70,000 shares authorized; 36,346 shares and 35,810 shares issued and outstanding	363	358
Additional paid-in capital	118,678	117,926
Retained earnings	71,653	53,935
Accumulated other comprehensive income	1,816	895
Total stockholders' equity	192,510	173,114

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Total liabilities and stockholders equity	\$	260,112	\$	245,850
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See notes to unaudited condensed consolidated financial statements.

Table of Contents**PEGASYSTEMS INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Revenue:				
Software license	\$ 25,651	\$ 15,819	\$ 53,687	\$ 33,304
Maintenance	12,171	10,083	24,119	18,982
Professional services	26,056	25,217	48,439	47,311
Total revenue	63,878	51,119	126,245	99,597
Cost of revenue:				
Cost of software license	31	34	62	34
Cost of maintenance	1,457	1,320	2,894	2,552
Cost of professional services	20,104	19,419	39,167	37,739
Total cost of revenue	21,592	20,773	42,123	40,325
Gross profit	42,286	30,346	84,122	59,272
Operating expenses:				
Selling and marketing	16,659	14,657	32,095	29,338
Research and development	9,149	7,874	18,268	14,896
General and administrative	4,648	5,231	9,594	10,288
Total operating expenses	30,456	27,762	59,957	54,522
Income from operations	11,830	2,584	24,165	4,750
Installment receivable interest income	75	78	150	153
Other interest income, net	881	1,298	1,683	2,953
Foreign currency transaction gain (loss)	2,923	(6)	2,111	251
Other income, net	7	75	17	99
Income before provision for income taxes	15,716	4,029	28,126	8,206
Provision for income taxes	4,475	1,177	8,243	2,410
Net income	\$ 11,241	\$ 2,852	\$ 19,883	\$ 5,796
Earnings per share, basic	\$ 0.31	\$ 0.08	\$ 0.56	\$ 0.16
Earnings per share, diluted	\$ 0.30	\$ 0.08	\$ 0.53	\$ 0.15
Weighted-average number of common shares outstanding, basic	35,965	36,264	35,818	36,144
Weighted-average number of common shares outstanding, diluted	37,995	37,801	37,708	37,448
Dividends per share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06

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See notes to unaudited condensed consolidated financial statements.

Table of Contents**PEGASYSTEMS INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)**

	Six Months Ended June 30,	
	2009	2008
Operating activities:		
Net income	\$ 19,883	\$ 5,796
Adjustment to reconcile net income to cash provided by operating activities:		
Excess tax benefit from stock options	(10,068)	(1,717)
Deferred income taxes	(783)	(844)
Depreciation, amortization and other non-cash items	1,259	896
Amortization of investments	1,918	533
Stock-based compensation expense	2,558	1,723
Change in operating assets and liabilities:		
Trade accounts receivable	10,424	14,417
License installments	3,188	10,677
Income taxes receivable and other current assets	(283)	(539)
Accounts payable and accrued expenses	(2,697)	(7,699)
Deferred revenue	3,883	7,084
Other long-term assets and liabilities	150	140
Cash provided by operating activities	29,432	30,467
Investing activities:		
Purchases of marketable securities	(29,535)	(145,310)
Matured and called marketable securities	18,535	