

PEGASYSTEMS INC
Form 10-Q
November 05, 2007
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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 September 30, 2007

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)

Massachusetts
*(State or other jurisdiction of
incorporation or organization)*

101 Main Street Cambridge, MA
(Address of principal executive offices)

04-2787865
*(IRS Employer
Identification No.)*

02142-1590
(Zip Code)

(617) 374-9600

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(Registrant's telephone number including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 36,126,925 shares of the Registrant's common stock, \$.01 par value per share, outstanding on November 1, 2007.

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(in thousands, except share-related data)

	September 30, 2007	December 31, 2006
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 21,960	\$ 26,008
Short-term investments	123,255	101,750
Total cash and short-term investments	145,215	127,758
Trade accounts receivable, net of allowance for doubtful accounts of \$365 in 2007 and 2006	33,403	31,985
Short-term license installments	16,494	21,790
Other current assets	8,601	9,065
Total current assets	203,713	190,598
Long-term license installments, net of unearned interest income	9,180	17,458
Equipment and improvements, net of accumulated depreciation and amortization	3,683	2,453
Computer software for internal use, net of accumulated amortization	702	1,054
Long-term deferred tax assets and other assets	6,135	99
Goodwill	2,346	2,346
Total assets	\$ 225,759	\$ 214,008
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accrued payroll related expenses	\$ 11,324	\$ 11,770
Accounts payable and accrued expenses	11,332	14,474
Deferred revenue	18,205	17,062
Current portion of capital lease obligation		63
Total current liabilities	40,861	43,369
Long-term deferred income taxes		2,344
Income taxes payable and other long-term liabilities	11,252	2,137
Total liabilities	52,113	47,850
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized; no shares issued and outstanding		
Common stock, \$.01 par value, 70,000,000 shares authorized; 36,219,830 and 35,308,978 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	362	353
Additional paid-in capital	124,201	118,027
Stock warrants	94	94
Retained earnings, including the cumulative effect of (\$1,490) for the adoption of a new accounting pronouncement at January 1, 2007 (see footnote 4)	46,989	46,549
Accumulated other comprehensive income (loss):		
Net unrealized loss on investments available-for-sale	(58)	(343)
Foreign currency translation adjustments	2,058	1,478

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Total stockholders' equity	173,646	166,158
Total liabilities and stockholders' equity	\$ 225,759	\$ 214,008

See notes to unaudited condensed consolidated financial statements.

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(in thousands, except per share amounts)

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenue:				
Software license	\$ 13,737	\$ 8,543	\$ 36,165	\$ 22,341
Services	28,304	24,981	79,028	67,712
Total revenue	42,041	33,524	115,193	90,053
Cost of revenue:				
Cost of software license				32
Cost of services	15,721	15,167	45,605	40,302
Total cost of revenue	15,721	15,167	45,605	40,334
Gross profit	26,320	18,357	69,588	49,719
Operating expenses:				
Research and development	6,768	5,610	19,333	16,694
Selling and marketing	12,800	11,619	36,216	31,602
General and administrative	3,795	3,187	12,265	9,209
Total operating expenses	23,363	20,416	67,814	57,505
Income (loss) from operations	2,957	(2,059)	1,774	(7,786)
Installment receivable interest income	291	501	849	1,402
Other interest income, net	1,749	1,352	4,933	3,951
Other income, net	157	216	235	864
Income (loss) before provision for income taxes	5,154	10	7,791	(1,569)
Provision for income taxes	1,644	420	2,614	11
Net income (loss)	\$ 3,510	\$ (410)	\$ 5,177	\$ (1,580)
Earnings (loss) per share, basic	\$ 0.10	\$ (0.01)	\$ 0.14	\$ (0.04)
Earnings (loss) per share, diluted	\$ 0.09	\$ (0.01)	\$ 0.14	\$ (0.04)
Weighted average number of common shares outstanding, basic	36,225	35,249	35,751	35,439
Weighted average number of common shares outstanding, diluted	38,542	35,249	38,081	35,439
Dividends per share	\$ 0.03	\$ 0.03	\$ 0.09	\$ 0.06

See notes to unaudited condensed consolidated financial statements.

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(in thousands)

	Nine months ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ 5,177	\$ (1,580)
Adjustment to reconcile net income (loss) to cash flows from operating activities:		
Stock option income tax benefits	(1,587)	(402)
Deferred income taxes	1,230	(619)
Depreciation, amortization, and other non-cash items	1,886	1,556
Stock-based compensation expense	1,251	1,136
Change in operating assets and liabilities:		
Trade accounts receivable and license installments	12,159	17,605
Other current assets	417	151
Accounts payable and accrued expenses	(4,173)	3,769
Deferred revenue	1,142	(2,001)
Other long-term assets and liabilities	640	599
Cash flows from operating activities	18,142	20,214
Cash flows from investing activities:		
Purchase of investments	(68,835)	(54,161)
Maturing and called investments	37,718	39,575
Sale of investments	8,919	
Investment in software, equipment and improvements	(2,345)	(1,717)
Cash flows from investing activities	(24,543)	(16,303)
Cash flows from financing activities:		
Payments under capital lease obligation	(63)	(77)
Exercise of stock options	8,904	2,780
Tax benefit from vested stock options	1,587	402
Proceeds from the sale of stock under Employee Stock Purchase Plan	82	102
Dividend payments to shareholders	(3,208)	(1,067)
Repurchase of common stock	(5,642)	(6,818)
Cash flows from financing activities	1,660	(4,678)
Effect of exchange rate on cash and cash equivalents	693	246
Net decrease in cash and cash equivalents	(4,048)	(521)
Cash and cash equivalents, beginning of period	26,008	21,314
Cash and cash equivalents, end of period	\$ 21,960	\$ 20,793
Supplemental disclosures of cash flow information:		
Cash paid during the year-to-date period for:		
Interest	\$ 5	\$ 12

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Income taxes	\$ 1,516	\$ 1,053
Non-cash financing activity:		
Dividends payable	\$ 1,099	\$ \$1,056

See notes to unaudited condensed consolidated financial statements.

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PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The Company has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Company's audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2006.