

PEGASYSTEMS INC
Form 10-Q
November 06, 2008
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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, 2008

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
(State or other jurisdiction)

04-2787865
(IRS Employer)

of incorporation or organization)

Identification No.)

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

02142-1590
(Zip Code)

(617) 374-9600

(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, 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 approximately 36,032,000 shares of the Registrant's common stock, \$.01 par value per share, outstanding on October 30, 2008.

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Table of Contents**Part I Financial Information:****Item 1. Financial Statements****PEGASYSTEMS INC.****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands)**

	September 30, 2008	December 31, 2007
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 41,177	\$ 26,710
Short-term investments	130,244	123,271
Total cash, cash equivalents, and short-term investments	171,421	149,981
Trade accounts receivable, net of allowances of \$1,534 and \$1,351	33,276	45,922
Short-term license installments	6,065	19,183
Other current assets	8,580	7,240
Total current assets	219,342	222,326
Long-term license installments, net	5,732	8,267
Property and equipment, net	5,152	4,182
Long-term deferred income taxes and other assets	8,384	6,599
Goodwill	2,141	1,933
Total assets	\$ 240,751	\$ 243,307
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 4,849	\$ 5,670
Accrued expenses	6,949	10,405
Accrued compensation and related expenses	16,417	13,526
Deferred revenue	28,826	33,178
Total current liabilities	57,041	62,779
Income taxes payable	5,337	5,185
Other long-term liabilities	2,271	2,399
Total liabilities	64,649	70,363
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, 1,000 shares authorized; no shares outstanding		
Common stock, 70,000 shares authorized; 36,232 and 36,192 shares outstanding	362	362
Additional paid-in capital	122,765	123,401

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Retained earnings	52,185	47,321
Accumulated other comprehensive income	790	1,860
 Total stockholders' equity	 176,102	 172,944
 Total liabilities and stockholders' equity	 \$ 240,751	 \$ 243,307

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenue:				
Software license	\$ 17,910	\$ 13,737	\$ 51,214	\$ 36,165
Maintenance	10,045	7,760	29,027	22,161
Professional services	24,743	20,544	72,054	56,867
Total revenue	52,698	42,041	152,295	115,193
Cost of revenue:				
Cost of software license	30		64	
Cost of maintenance	1,454	1,204	4,006	3,501
Cost of professional services	19,072	14,517	56,811	42,104
Total cost of revenue	20,556	15,721	60,881	45,605
Gross profit	32,142	26,320	91,414	69,588
Operating expenses:				
Selling and marketing	15,698	12,800	45,036	36,216
Research and development	7,936	6,768	22,832	19,333
General and administrative	5,067	3,795	15,355	12,265
Total operating expenses	28,701	23,363	83,223	67,814
Income from operations	3,441	2,957	8,191	1,774
Installment receivable interest income	95	291	248	849
Other interest income, net	1,151	1,749	4,104	4,933
Other income (expense), net	(1,970)	157	(1,620)	235
Income before provision for income taxes	2,717	5,154	10,923	7,791
Provision for income taxes	366	1,644	2,776	2,614
Net income	\$ 2,351	\$ 3,510	\$ 8,147	\$ 5,177
Earnings per share, basic	\$ 0.06	\$ 0.10	\$ 0.23	\$ 0.14
Earnings per share, diluted	\$ 0.06	\$ 0.09	\$ 0.22	\$ 0.14

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Weighted average number of common shares outstanding, basic	36,419	36,225	36,201	35,751
Weighted average number of common shares outstanding, diluted	38,212	38,542	37,668	38,081
Dividends per share	\$ 0.03	\$ 0.03	\$ 0.09	\$ 0.09

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 8,147	\$ 5,177
Adjustment to reconcile net income to cash flows provided by operating activities:		
Excess tax benefits from stock options	(2,992)	(1,587)
Deferred income taxes	(1,054)	1,230
Depreciation, amortization, and other non-cash items	2,668	1,886
Stock-based compensation expense	2,552	1,251
Change in operating assets and liabilities:		
Trade accounts receivable	12,646	(1,418)
License installments	15,653	13,577
Other current assets	(1,302)	417
Accounts payable and accrued expenses	915	(4,173)
Deferred revenue	(4,352)	1,142
Other long-term assets and liabilities	(10)	640
Cash flows provided by operating activities	32,871	18,142
Cash flows from investing activities:		
Purchase of investments	(172,626)	(68,835)
Matured and called investments	80,706	37,718
Sale of investments	83,025	8,919
Payments for acquisition	(798)	
Investment in property and equipment	(2,625)	(2,345)
Cash flows used in investing activities	(12,318)	(24,543)
Cash flows from financing activities:		
Payments under capital lease obligation		(63)
Proceeds from issuance of common stock for share-based compensation plans	6,549	8,986
Excess tax benefits from stock options	2,992	1,587
Dividend payments to shareholders	(3,273)	(3,208)
Repurchase of common stock	(11,794)	(5,642)
Cash flows (used in) provided by financing activities	(5,526)	1,660
Effect of exchange rate on cash and cash equivalents	(560)	693
Net increase (decrease) in cash and cash equivalents	14,467	(4,048)
Cash and cash equivalents, beginning of period	26,710	26,008
Cash and cash equivalents, end of period	\$ 41,177	\$ 21,960

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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 3	\$ 5
Income taxes	\$ 4,807	\$ 1,516
Non-cash financing activity:		
Dividends payable	\$ 1,095	\$ 1,099
Repurchases of common stock unsettled	\$ 192	\$

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 AND RECENT ACCOUNTING PRONOUNCEMENTS

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 (U.S.) 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, 2007.

In the opinion of management, the C