

PEGASYSTEMS INC
Form 10-Q
May 05, 2009
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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 March 31, 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
*(State or other jurisdiction of
incorporation or organization)*

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

(617) 374-9600

(Registrant's telephone number including area code)

04-2787865
(IRS Employer

Identification No.)

02142-1590
(Zip 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 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
(Do not check if smaller

Smaller reporting company

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 35,656,401 shares of the Registrant's common stock, \$.01 par value per share, outstanding on April 29, 2009.

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

(in thousands)

	As of March 31, 2009	As of December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,799	\$ 36,087
Marketable securities	135,232	131,142
Total cash and cash equivalents and marketable securities	173,031	167,229
Trade accounts receivable, net of allowances of \$1,491	45,996	42,801
Short-term license installments	5,508	5,445
Deferred income taxes	4,354	4,351
Other current assets	3,936	4,151
Total current assets	232,825	223,977
Long-term license installments, net	5,027	5,413
Property and equipment, net	6,234	5,723
Long-term deferred income taxes and other assets	8,365	8,117
Intangible assets, net	443	479
Goodwill	2,141	2,141
Total assets	\$ 255,035	\$ 245,850
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,792	4,726
Accrued expenses	11,784	9,925
Accrued compensation and related expenses	11,258	18,015
Deferred revenue	44,260	32,231
Total current liabilities	70,094	64,897
Income taxes payable	5,802	5,665
Other long-term liabilities	2,086	2,174
Total liabilities	77,982	72,736
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 1,000 shares authorized; no shares issued and outstanding		
Common stock, 70,000 shares authorized; 35,663 shares and 35,810 shares issued and outstanding	357	358
Additional paid-in capital	113,988	117,926
Retained earnings	61,502	53,935
Accumulated other comprehensive income	1,206	895
Total stockholders' equity	177,053	173,114
Total liabilities and stockholders' equity	\$ 255,035	\$ 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 March 31,	
	2009	2008
Revenue:		
Software license	\$ 28,036	\$ 17,485
Maintenance	11,948	8,899
Professional services	22,383	22,094
Total revenue	62,367	48,478
Cost of revenue:		
Cost of software license	31	
Cost of maintenance	1,437	1,232
Cost of professional services	19,063	18,320
Total cost of revenue	20,531	19,552
Gross profit	41,836	28,926
Operating expenses:		
Selling and marketing	15,436	14,681
Research and development	9,119	7,022
General and administrative	4,946	5,057
Total operating expenses	29,501	26,760
Income from operations	12,335	2,166
Installment receivable interest income	75	75
Other interest income, net	802	1,655
Foreign currency transaction (loss) gain	(812)	257
Other income, net	10	24
Income before provision for income taxes	12,410	4,177
Provision for income taxes	3,768	1,233
Net income	\$ 8,642	\$ 2,944
Earnings per share, basic	\$ 0.24	\$ 0.08
Earnings per share, diluted	\$ 0.23	\$ 0.08
Weighted-average number of common shares outstanding, basic	35,670	36,098
Weighted-average number of common shares outstanding, diluted	37,421	37,311
Dividends per share	\$ 0.03	\$ 0.03

See notes to unaudited condensed consolidated financial statements.

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

(in thousands)

	Three Months Ended March 31,	
	2009	2008
Operating activities:		
Net income	\$ 8,642	\$ 2,944
Adjustment to reconcile net income to provided by operating activities:		
Excess tax benefit from stock options	(2,188)	(643)
Deferred income taxes	(625)	(538)
Depreciation, amortization and other non-cash items	609	456
Amortization of investments	943	91
Stock-based compensation expense	1,698	603
Change in operating assets and liabilities:		
Trade accounts receivable	(3,195)	10,433
License installments	323	(1,036)
Other current assets	196	(277)
Accounts payable and accrued expenses	(4,691)	(6,986)
Deferred revenue	12,029	8,727
Other long-term assets and liabilities	110	151
Cash provided by operating activities	13,851	13,925
Investing activities:		
Purchase of marketable securities	(12,593)	(82,775)
Matured and called marketable securities	7,975	23,150
Sale of marketable securities		42,356
Payments for acquisition		(779)
Investment in property and equipment	(1,160)	(474)
Cash used in investing activities	(5,778)	(18,522)
Financing activities:		
Issuance of common stock for share-based compensation plans	551	530
Excess tax benefit from stock options	2,188	643
Dividend payments to shareholders	(1,080)	(1,085)
Repurchase of common stock	(7,796)	(2,201)
Cash used in financing activities	(6,137)	(2,113)
Effect of exchange rate on cash and cash equivalents	(224)	134
Net increase (decrease) in cash and cash equivalents	1,712	(6,576)
Cash and cash equivalents, beginning of period	36,087	26,710
Cash and cash equivalents, end of period	\$ 37,799	\$ 20,134
Supplemental disclosures:		
Income taxes	\$ 1,494	\$ 173

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Non-cash financing activity:

Dividends payable	\$ 1,075	\$ 1,089
Repurchases of common stock unsettled	\$ 594	\$ 140

See notes to unaudited condensed consolidated financial statements.

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PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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, 2008.

In the opinion of management, the Company has prepared the accompanying unaudited condensed consolidated financial statements on the same basis as its audited financial statements, and these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of the interim periods presented. The operating results for the interim periods presented are not necessarily indicative of the results expected for the full year 2009.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 157 Fair Value Measurements , (SFAS 157), defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. The Company adopted SFAS 157 as it relates to its recurring financial assets and liabilities on January 1, 2008 and as it relates to its nonfinancial assets and liabilities on January 1, 2009. The adoption of SFAS 157 in 2008 and 2009 did not have a significant impact on the Company s consolidated financial statements. See Note 2. Cash, Marketable Securities, and Fair Value Measurements for further discussion of the impact of SFAS 157.

Table of Contents**2. CASH, MARKETABLE SECURITIES, AND FAIR VALUE MEASUREMENTS**

As of March 31, 2009 and December 31, 2008, the Company's cash and cash equivalents and marketable securities consisted of the following:

<i>(in thousands)</i>	Amortized Cost	As of March 31, 2009		Fair Value
		Unrealized Gains	Unrealized Losses	
Cash and cash equivalents:				
Cash	\$ 30,195	\$	\$	\$ 30,195
Money market mutual funds	5,604			5,604
Municipal bonds	2,000			2,000
Cash and cash equivalents	37,799			37,799
Marketable securities:				
Municipal bonds	127,275	1,484	(11)	128,748
Government sponsored enterprises	2,252	4		2,256
Corporate bonds	4,220	26	(18)	4,228
Marketable securities	133,747	1,514	(29)	135,232
Cash and cash equivalents and marketable securities	\$ 171,546	\$ 1,514	\$ (29)	\$ 173,031

<i>(in thousands)</i>	Amortized Cost	As of December 31, 2008		Fair Value
		Unrealized Gains	Unrealized Losses	
Cash and cash equivalents:				
Cash	\$ 25,575	\$	\$	\$ 25,575
Money market mutual funds	10,512			10,512
Cash and cash equivalents	36,087			36,087
Marketable securities:				
Municipal bonds	119,843	1,056	(3)	120,896
Government sponsored enterprises	5,999	19		6,018
Corporate bonds	4,230	18	(20)	4,228
Marketable securities	130,072	1,093	(23)	131,142
Cash and cash equivalents and marketable securities	\$ 166,159	\$ 1,093	\$ (23)	\$ 167,229

Fair Value Measurements

SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including the Company's marketable securities.

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The Company's investments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, or broker dealer quotations and matrix pricing compiled by third party pricing vendors, respectively, which are based on third party pricing sources with reasonable levels of price transparency.

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The fair value hierarchy of the Company's cash equivalents and marketable securities at fair value in connection with our adoption of SFAS 157 is as follows:

<i>(in thousands)</i>	As of March 31, 2009	Fair Value Measurements at Reporting Date Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash equivalents:			
Money market mutual funds	\$ 5,604	\$ 5,604	\$
Municipal bonds	2,000	2,000	
Total cash equivalents:	\$ 7,604	\$ 7,604	\$
Marketable securities:			
Municipal bonds	\$ 128,748	\$ 22,800	\$ 105,948
Government sponsored enterprises	2,256		2,256
Corporate bonds	4,228	4,228	
Total marketable securities:	\$ 135,232	\$ 27,028	\$ 108,204

We adopted SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) on January 1, 2009. During the first quarter of 2009, we did not record any fair value measurements on any assets or liabilities that are measured at fair value on a nonrecurring basis.

3. TRADE ACCOUNTS RECEIVABLE, NET OF ALLOWANCES

Trade accounts receivable balances, which consist of billed and unbilled amounts, were \$46.0 million and \$42.8 million as of March 31, 2009 and December 31, 2008, respectively. Trade accounts receivable includes \$7.2 million and \$6.4 million for services earned under time and material arrangements that had not been invoiced as of March 31, 2009 and December 31, 2008, respectively. As of March 31, 2009 and December 31, 2008, the Company's allowances include an allowance for doubtful accounts of \$0.4 million and an allowance for sales credit memos of \$1.1 million.

4. ACQUISITION

On March 21, 2008, the Company acquired certain assets of privately held Focus Technology Group, Inc. and a related entity (collectively,

Focus). Focus provides software products to the banking industry designed to detect and prevent financial fraud and money laundering. The Company believes that the acquisition will extend the Company's software capabilities and frameworks with respect to its anti-fraud and anti-money laundering offerings to the Company's customers. The initial consideration for the acquisition was approximately \$0.8 million in cash, including transaction costs. In addition to the initial purchase consideration, up to approximately \$2.1 million of contingent consideration may be due to the former owners of Focus, based on the achievement of certain performance milestones and sales targets during a period of 30 months from the acquisition date. A majority of the contingent consideration will be accounted for as compensation expense, if earned. As a result of the purchase price allocation, the Company recorded intangible assets of \$0.8 million, consisting of \$0.5 million of technology designs, \$0.1 million of non-compete agreements and \$0.2 million of goodwill which is deductible by the Company for tax purposes. The technology designs and non-compete agreements are being amortized over their estimated useful lives of four and five years, respectively. No amount of contingent consideration was earned or paid in 2008 or during the first quarter of 2009. The results of the operations of Focus are included in the results of operations of the Company from the date of acquisition and were nominal.

Table of Contents**5. ACCRUED EXPENSES**

Accrued expenses consist of the following:

<i>(in thousands)</i>	As of March 31, 2009	As of December 31, 2008
Accrued income taxes	\$ 3,118	\$ 2,555
Accrued other taxes	2,315	2,552
Dividends payable	1,075	1,080
Repurchases of common stock unsettled	594	379
Accrued other	4,682	3,359
Balance at the end of period	\$ 11,784	\$ 9,925

6. DEFERRED REVENUE

Deferred revenue consists of the following:

<i>(in thousands)</i>	As of March 31, 2009	As of December 31, 2008
Software license	\$ 17,369	\$ 12,740
Maintenance	23,213	15,688
Professional services and other	3,678	3,803
Balance at the end of period	\$ 44,260	\$ 32,231

7. COMPREHENSIVE INCOME

Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of stockholders' equity. Other comprehensive income is comprised of currency translation adjustments and available-for-sale securities valuation adjustments. The Company's total comprehensive income is as follows:

<i>(in thousands)</i>	Three Months Ended March 31,	
	2009	2008
Comprehensive income:		
Net income	\$ 8,642	\$ 2,944
Other comprehensive income:		
Unrealized gain on securities, net of tax	421	181
Foreign currency translation adjustments	(110)	83
Comprehensive income	\$ 8,953	\$ 3,208

8. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation expense in accordance with SFAS No. 123(R), Share-Based Payment (SFAS 123(R)), which requires all share-based payments be recognized as expense based on their fair values at the grant date over the requisite service period, which is generally five years, other than the service period for restricted stock units (RSUs) under the Company s Corporate Incentive Compensation Plan (the CICIP), which is one year. Stock-based compensation expense is recognized under the ratable method, which treats each vesting tranche as if it were an individual grant, and is adjusted each period for anticipated forfeitures. The Company periodically grants stock options and RSUs for a fixed number of shares to employees and non-employee Directors. In addition, employees may elect to receive 50% of their target incentive compensation under the CICIP in the form of RSUs instead of cash. For the three months ended March 31, 2009, the Company issued approximately 295,000 shares from option exercises and vesting of restricted stock units and approximately 2,000 shares to its non-employee Directors. As of March 31, 2009, there were approximately 2,307,000 shares available for future issuance under the Company s stock plans.

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The following table summarizes stock-based compensation as reflected in the Company's unaudited condensed consolidated statements of income:

<i>(in thousands)</i>	Three Months Ended March 31,	
	2009	2008
Stock-based compensation expense:		
Cost of revenue	\$ 506	\$ 204
Selling and marketing	370	160
Research and development	248	85
General and administrative	574	154
Total stock-based compensation before tax	1,698	603
Income tax benefit	(584)	(219)
Net stock-based compensation expense	\$ 1,114	\$ 384

Stock Options

The fair value of stock options was estimated on the date of grant using a Black-Scholes option valuation model with the following weighted-average assumptions:

	Three Months Ended March 31,	
	2009	2008
Expected volatility (1)	43%	51%
Expected term in years (2)	5.9	5.9
Risk-free interest rate (3)	1.98%	2.46%
Expected annual dividend yield (4)	1.02%	1.13%
Weighted-average grant date fair value	\$ 6.07	\$ 4.37

- (1) The expected volatility for each grant is determined based on the average of historical weekly price changes of the Company's common stock over a period of time which approximates the expected option term.
- (2) The expected option term for each grant is determined based on the historical exercise behavior of employees and post-vesting employment termination behavior.
- (3) The risk-free interest rate is based on the yield of zero-coupon U.S. Treasury securities with a term that corresponds to the expected option term at the time of grant.
- (4) The expected annual dividend yield is based on the weighted-average of the dividend yield assumption used for options granted during the period. The expected annual dividend yield is based on the expected dividend of \$0.12 per share, per year (\$0.03 per share, per quarter times 4 quarters) divided by the average stock price.

Beginning in December 2007, the Company began issuing options that allow for the settlement of vested stock options on a net share basis (net settled stock options), instead of settlement with a cash payment (cash settled stock options). With net settled stock options, the employee will not surrender any cash or existing shares upon exercise. Rather, the Company will withhold the number of shares to cover the option exercise price and the minimum statutory tax withholding obligations from the shares that would otherwise be issued upon exercise. The employee

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receives the number of shares equal to the number of options being exercised less the number of shares necessary to satisfy the cost to exercise the options and, if applicable, taxes due on exercise based on the fair value of the shares at the exercise date. The settlement of vested stock options on a net share basis will result in fewer shares issued by the Company. In the second quarter of 2008, the Company began offering certain employees the opportunity to modify and convert certain outstanding cash settled stock options to net settled stock options. These modifications did not result in any material additional compensation expense. During the first quarter of 2009, option holders net settled stock options representing the right to purchase a total of approximately 451,000 shares, of which 247,000 shares were issued to the

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option holders and the balance of the shares were surrendered to the Company to pay for the exercise price and the applicable taxes.

The following table summarizes the combined stock option activity under the Company's stock option plans for the three months ended March 31, 2009:

	Cash settled options (in thousands)	Net settled options (in thousands)	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in thousands)
Options outstanding as of January 1, 2009	1,202	5,045	\$ 9.09	4.77	\$ 24,063
Granted		79	15.48		
Modified (cash settled to net settled)	(80)	80	10.53		
Exercised	(87)	(363)	6.08		
Cancelled	(8)	(18)	12.81		
Outstanding as of March 31, 2009	1,027	4,823	\$ 9.40	4.71	\$ 52,843
Weighted-average exercise price of options outstanding, as of March 31, 2009	\$ 9.72	\$ 9.33			
Ending vested and expected to vest as of March 31, 2009	956	4,515	\$ 9.28	4.44	\$ 50,066
Weighted-average exercise price of options vested and expected to vest, as of March 31, 2009	\$ 9.75	\$ 9.18			
Ending exercisable as of March 31, 2009	832	3,838	\$ 8.94	3.71	\$ 44,377
Weighted-average exercise price of options exercisable, as of March 31, 2009	\$ 9.79	\$ 8.76			

As of March 31, 2009, the Company had approximately \$2.7 million of unrecognized stock-based compensation expense related to the unvested portion of stock options that is expected to be recognized over a weighted-average period of approximately 1.9 years.

Restricted Stock Units

The fair value of RSUs is based on the closing price of the Company's common stock on the grant date, less the present value of expected dividends, as the employee is not entitled to dividends during the requisite service period. The following table summarizes the combined RSU activity for periodic grants and the CICP grants under the 2004 Long-term Incentive Plan for the three months ended March 31, 2009:

	RSUs (in thousands)	Weighted-average Grant Date Fair Value	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Nonvested as of January 1, 2009	412	\$ 11.41		
Granted	52	17.20		
Vested	(74)	10.39		
Forfeited	(7)	11.64		
Nonvested as of March 31, 2009	383	\$ 12.38	2.07	\$ 7,117
Expected to vest as of March 31, 2009	278	\$ 12.56	1.87	\$ 5,156

The RSUs associated with periodic grants vest over five years with 20% vesting after one year and the remaining 80% vesting in equal quarterly installments over the remaining four years. The RSUs granted in connection with the 2009 CICP will vest 100% on March 10, 2010. Vesting is contingent upon threshold funding of the CICP and continued active employment with the Company. As of March 31, 2009, the Company had approximately \$2.8 million of unrecognized stock-based compensation expense related to all unvested RSUs that is expected to be recognized

over a weighted-average period of 2.1 years.

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Basic earnings per share is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted-average number of common shares outstanding during the period, plus the dilutive effect of outstanding options, RSUs, and warrants, using the treasury stock method and the average market price of our common stock during the applicable period. Certain shares related to some of our outstanding stock options, RSUs, and warrants were excluded from the computation of diluted earnings per share because they were anti-dilutive in the periods presented, but could be dilutive in the future.

<i>(in thousands, except per share amounts)</i>	Three Months Ended March 31,	
	2009	2008
Basic		
Net income	\$ 8,642	\$ 2,944
Weighted-average common shares outstanding	35,670	36,098
Earnings per share, basic	\$ 0.24	\$ 0.08
Diluted		
Net income	\$ 8,642	\$ 2,944
Weighted-average common shares outstanding	35,670	36,098
Effect of assumed exercise of stock options, RSUs and warrants	1,751	1,213
Weighted-average common shares outstanding, assuming dilution	37,421	37,311
Earnings per share, diluted	\$ 0.23	\$ 0.08
Outstanding options, RSUs, and warrants excluded as impact would be anti-dilutive	1,183	1,801

10. SEGMENT REPORTING

The Company operates in one operating segment rules-based business process management, or BPM, software. The Company derives substantially all of its revenue from the sale and support of one group of similar products and services. Substantially all of the Company's assets are located within the U.S. The Company derived its revenue from the following geographic areas (sales outside the U.S. are principally through export from the U.S.):

<i>(Dollars in thousands)</i>	Three Months Ended March 31,			
	2009		2008	
U.S.	\$ 39,767	64%	\$ 28,851	60%
United Kingdom	9,863	16%	10,864	22%
Europe, other	10,171	16%	6,097	13%
Other	2,566	4%	2,666	5%
	\$ 62,367	100%	\$ 48,478	100%

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The following table summarizes the Company's concentration of credit risk associated with customers accounting for more than 10% of the Company's total revenue, outstanding trade receivables, and short and long-term license installments:

<i>(Dollars in thousands)</i>	Three Months Ended		
		March 31,	
	2009	2008	
Total Revenue	\$ 62,367	\$ 48,478	
Customer A	7,631	12%	%

<i>(Dollars in thousands)</i>	As of	As of
	March 31,	December 31,
	2009	2008
Trade receivables	\$ 45,996	\$ 42,801
Customer A	23 %	%
Customer B		12 %
Long and short-term license installments	\$ 10,535	\$ 10,858
Customer C	31%	30%
Customer D	15%	16%
Customer E	13%	%
Customer F	12%	12%
Customer G	10%	11%

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains or incorporates forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These fo