

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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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:				