

PEGASYSTEMS INC  
Form 10-Q  
August 09, 2010  
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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 June 30, 2010

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  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 37,120,066 shares of the Registrant's common stock, \$.01 par value per share, outstanding on July 30, 2010.

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

(in thousands)

	As of June 30, 2010	As of December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 63,033	\$ 63,857
Marketable securities	11,008	138,796
Total cash, cash equivalents, and marketable securities	74,041	202,653
Trade accounts receivable, net of allowance of \$1,180 and \$649	65,910	39,396
Short-term license installments	2,638	2,829
Deferred income taxes	4,514	2,523
Income taxes receivable and other current assets	16,000	8,840
Total current assets	163,103	256,241
Long-term license installments, net	2,394	2,976
Property and equipment, net	11,265	8,931
Long-term deferred income taxes and other assets	2,129	8,710
Intangible assets, net	88,728	336
Goodwill	50,976	2,391
Total assets	\$ 318,595	\$ 279,585
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,483	\$ 4,791
Accrued expenses	23,338	6,748
Accrued compensation and related expenses	18,839	23,280
Deferred revenue	53,761	32,870
Total current liabilities	101,421	67,689
Income taxes payable	6,778	4,828
Other long-term liabilities	7,462	1,849
Total liabilities	115,661	74,366
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, 1,000 shares authorized; no shares issued and outstanding		
Common stock and additional paid-in capital, 70,000 shares authorized; 37,113 shares and 36,818 shares issued and outstanding	128,022	121,757
Retained earnings and accumulated other comprehensive (loss) income of \$(302) and \$1,686	74,912	83,462
Total stockholders' equity	202,934	205,219
Total liabilities and stockholders' equity	\$ 318,595	\$ 279,585

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See notes to unaudited condensed consolidated financial statements.

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

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenue:</b>				
Software license	\$ 28,200	\$ 25,651	\$ 58,543	\$ 53,687
Maintenance	20,388	12,171	35,474	24,119
Professional services	33,658	26,056	63,313	48,439
<b>Total revenue</b>	<b>82,246</b>	<b>63,878</b>	<b>157,330</b>	<b>126,245</b>
<b>Cost of revenue:</b>				
Cost of software license	1,109	31	1,140	62
Cost of maintenance	2,715	1,457	4,652	2,894
Cost of professional services	27,436	20,104	51,904	39,167
<b>Total cost of revenue</b>	<b>31,260</b>	<b>21,592</b>	<b>57,696</b>	<b>42,123</b>
<b>Gross profit</b>	<b>50,986</b>	<b>42,286</b>	<b>99,634</b>	<b>84,122</b>
<b>Operating expenses:</b>				
Selling and marketing	29,896	16,659	51,789	32,095
Research and development	14,010	9,149	25,636	18,268
General and administrative	6,745	4,648	11,804	9,594
Acquisition-related costs	3,395	-	4,903	-
Restructuring costs	6,080	-	6,080	-
<b>Total operating expenses</b>	<b>60,126</b>	<b>30,456</b>	<b>100,212</b>	<b>59,957</b>
(Loss) income from operations	(9,140)	11,830	(578)	24,165
Foreign currency transaction (loss) gain	(2,542)	2,923	(5,616)	2,111
Interest income, net	119	881	632	1,683
Installment receivable interest income	52	75	104	150
Other income, net	1	7	242	17
(Loss) income before (benefit) provision for income taxes	(11,510)	15,716	(5,216)	28,126
(Benefit) provision for income taxes	(3,322)	4,475	(879)	8,243
<b>Net (loss) income</b>	<b>\$ (8,188)</b>	<b>\$ 11,241</b>	<b>\$ (4,337)</b>	<b>\$ 19,883</b>
<b>Net (loss) earnings per share:</b>				
Basic	\$ (0.22)	\$ 0.31	\$ (0.12)	\$ 0.56
Diluted	\$ (0.22)	\$ 0.30	\$ (0.12)	\$ 0.53

Weighted-average number of common shares outstanding

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Basic	37,054	35,965	36,966	35,818
Diluted	37,054	37,995	36,966	37,708
Cash dividends declared per share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06

See notes to unaudited condensed consolidated financial statements.

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

(in thousands)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities:</b>		
Net (loss) income	\$ (4,337)	\$ 19,883
Adjustment to reconcile net (loss) income to cash (used in) provided by operating activities:		
Excess tax benefits from exercise or vesting of equity awards	(5,529)	(10,068)
Deferred income taxes	(321)	(783)
Depreciation, amortization and other non-cash items	3,727	1,259
Amortization of investments and realized gain on sale of investments	666	1,918
Stock-based compensation expense	3,632	2,558
Foreign currency transaction loss	4,011	-
Change in operating assets and liabilities:		
Trade accounts receivable	(12,529)	10,424
License installments	773	3,188
Income taxes receivable and other current assets	395	(283)
Accounts payable and accrued expenses	2,970	(2,697)
Deferred revenue	6,025	3,883
Other long-term assets and liabilities	(5,801)	150
<b>Cash (used in) provided by operating activities</b>	<b>(6,318)</b>	<b>29,432</b>
<b>Investing activities:</b>		
Purchases of marketable securities	(61,156)	(29,535)
Matured and called marketable securities	26,280	18,535
Sale of marketable securities	162,242	-
Payments for 2010 acquisition, net of cash acquired	(108,991)	-
Payments for 2008 acquisition	(250)	-
Investment in property and equipment	(3,497)	(1,789)
<b>Cash provided by (used in) investing activities</b>	<b>14,628</b>	<b>(12,789)</b>
<b>Financing activities:</b>		
Issuance of common stock for share-based compensation plans	1,198	3,042
Excess tax benefits from exercise or vesting of equity awards	5,529	10,068
Dividend payments to shareholders	(2,216)	(2,155)
Common stock repurchases for tax withholdings for net settlement of equity awards	(4,212)	(5,606)
Repurchase of common stock	(3,330)	(9,202)
<b>Cash used in financing activities</b>	<b>(3,031)</b>	<b>(3,853)</b>
<b>Effect of exchange rate on cash and cash equivalents</b>	<b>(6,103)</b>	<b>919</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(824)</b>	<b>13,709</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>63,857</b>	<b>36,087</b>



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Cash and cash equivalents, end of period	\$	63,033	\$	49,796
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See notes to unaudited condensed consolidated financial statements.

**Table of Contents****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, 2009.

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 2010.

***Correction of Statement of Cash Flow***

After the issuance of our March 31, 2010 interim financial statements, management identified an error in the presentation of currency transaction losses on foreign currency denominated cash and cash equivalents within the statement of cash flows. These losses should have been presented as a reconciling item within cash flows from operating activities and included within the *Effect of exchange rate on cash and cash equivalents* in the statement of cash flows. The impact of the applicable line items within the condensed consolidated statement of cash flows for the three months ended March 31, 2010 is as follows:

	Three Months Ended	
	March 31, 2010	
<i>(in thousands)</i>	As Reported	As Corrected
Foreign currency transaction loss	\$ -	\$ 2,263
Cash provided by operations	\$ 4,824	\$ 7,087
Effect of exchange rate on cash and cash equivalents	\$ (487)	\$ (2,750)

The effect of the presentation error has no impact on the reported cash and cash equivalents, total changes in cash flows for the period, the condensed consolidated statement of operations or condensed consolidated balance sheet. This matter did not have a material impact on the 2009, 2008, or 2007 consolidated financial statements, or any interim period within those years.

As the Company has concluded that these adjustments are immaterial to the March 31, 2010 interim financial statements, these adjustments will be prospectively reflected in applicable condensed consolidated statement of cash flows reported in the Company's Form 10-Q for the quarter ended March 31, 2011.

***Acquisition-related costs***

Acquisition-related costs are expensed as incurred and include costs to effect an impending or completed acquisition and direct and incremental costs associated with an acquisition. During the first six months of 2010, acquisition-related costs were primarily advisory fees, legal, tax consulting and valuation fees associated with the Company's acquisition of Chordiant. See Note 5 Acquisition, Goodwill and Intangibles for further discussion of the acquisition.

***Restructuring costs***

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Restructuring costs include severance and related benefit costs for the reduction of personnel during the second quarter of 2010 related to the Chordiant acquisition. See Note 8 Accrued Restructuring Costs for further detail.

**Table of Contents****2. FAIR VALUE MEASUREMENTS**

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 based on assumptions that market participants would use in pricing an asset or liability. As a basis for classifying such assumptions, a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value, was established as follows: (Level 1) observable inputs such as quoted prices in active markets for identical assets or liabilities; (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 its marketable securities and cash equivalents at fair value and classifies them as follows:

		Fair Value Measurements at	
		Reporting Date Using	Significant Other
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)
<i>(in thousands)</i>	<b>June 30, 2010</b>		
Cash equivalents	\$ 7,564	\$ 7,564	\$
Marketable securities:			
Municipal bonds	\$ 2,152	\$ 2,152	\$
Government sponsored enterprise bonds	7,793	7,793	
Corporate bonds	1,063	1,063	
Total marketable securities	\$ 11,008	\$ 11,008	\$

		Fair Value Measurements at	
		Reporting Date Using	Significant Other
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)
<i>(in thousands)</i>	<b>December 31, 2009</b>		
Cash equivalents	\$ 9,880	\$ 9,880	\$
Marketable securities:			
Municipal bonds	\$ 112,723	\$ 27,152	\$ 85,571
Government sponsored enterprise bonds	19,560		19,560
Corporate bonds	6,513	6,513	
Total marketable securities	\$ 138,796	\$ 33,665	\$ 105,131

**Table of Contents****3. TRADE ACCOUNTS RECEIVABLE, NET OF ALLOWANCES**

Unbilled trade accounts receivable relate to services earned under time and material arrangements, maintenance and license arrangements that had not been invoiced as of June 30, 2010 and December 31, 2009, respectively.

<i>(in thousands)</i>	As of June 30, 2010	As of December 31, 2009
Trade accounts receivable	\$ 50,613	\$ 32,042
Unbilled accounts receivable	16,477	8,003
<b>Total accounts receivable</b>	<b>67,090</b>	<b>40,045</b>
Allowance for sales credit memos	(998)	(541)
Allowance for doubtful accounts	(182)	(108)
<b>Total allowances</b>	<b>(1,180)</b>	<b>(649)</b>
	<b>\$ 65,910</b>	<b>\$ 39,396</b>

**4. INCOME TAXES RECEIVABLE AND OTHER CURRENT ASSETS**

<i>(in thousands)</i>	As of June 30, 2010	As of December 31, 2009
Income tax receivable	\$ 11,697	\$ 5,046
Interest receivable	59	1,664
Prepaid expenses	2,306	1,092
Reimbursable expenses	791	424
Sales tax receivable	1,147	614
	<b>\$ 16,000</b>	<b>\$ 8,840</b>

**5. ACQUISITION, GOODWILL, AND INTANGIBLES*****Chordiant Acquisition***

On April 21, 2010, the Company acquired all of the outstanding shares of common stock of Chordiant, a leading provider of customer relationship management ( CRM ) software and services with a focus on improving customer experiences through decision technology. The aggregate purchase price for Chordiant was approximately \$160.3 million consisting of \$156.8 million in cash and stock options with a fair value of \$3.5 million. The Company issued approximately 241,000 stock options as replacement of outstanding Chordiant stock options at the date of the closing. The majority of the fair value of these stock options was recorded as purchase price based on the portion of the awards related to pre-combination services. The compensation expense associated with the portion of the replacement awards related to post-combination services totaled \$0.2 million and will be recognized as compensation expense over the remaining service period. As of June 30, 2010, the Company incurred direct incremental expenses associated with the transaction of \$4.9 million.

The Company believes the acquisition will expand its global customer base and provide complementary solutions. Chordiant clients will be able to incorporate Pegasystems process automation to enhance their experience in their existing call center and marketing solutions. Pegasystems clients will benefit from Chordiant s decision management solutions and extensive CRM assets. In addition, the Company believes the combination of the two companies will expand the partner network and provide incremental business opportunity growth.



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The operations of Chordiant are included in our operating results from the date of acquisition. For the three and six months ended June 30, 2010, \$7.8 million of revenue was directly attributable to Chordiant operations. Due to the rapid integration of the sales force and operations of Chordiant, it will become increasingly difficult to separately identify revenue from arrangements attributable to Chordiant.

The valuation of the acquired intangible assets and assumed liabilities is preliminary. The Company is currently in the process of investigating the facts and circumstances existing as of the acquisition date in order to finalize its valuation and establish the related tax basis. As a result of the preliminary purchase price allocation, the Company recognized approximately \$48.6 million of goodwill, which is primarily due to the expected synergies of the combined entities and the workforce in place. The goodwill created by the transaction is nondeductible for tax purposes. A summary of the preliminary purchase price allocation for the acquisition of Chordiant is as follows:

*(in thousands)*

Total purchase consideration:		
Cash	\$	156,832
Stock options		3,519
Total purchase consideration	\$	160,351
Allocation of the purchase consideration:		
Cash	\$	47,604
Accounts receivable, net of allowances		14,231
Other assets		2,661
Property, plant, and equipment		753
Identifiable intangible assets		90,400
Goodwill		48,585
Accounts payable		(5,303)
Accrued liabilities		(10,478)
Deferred revenue		(17,863)
Deferred tax liabilities, net		(6,665)
Other long-term liabilities		(3,574)
Net assets acquired	\$	160,351

The valuation of the assumed deferred maintenance revenue liability was based on the Company's contractual commitment to provide post-contract customer support to Chordiant customers. The fair value of this assumed liability was based on the cost plus a reasonable margin to fulfill these service obligations. The majority of the deferred revenue is expected to be recognized in the next 12 months. The valuation of the acquired intangible assets is inherently subjective and relies on significant unobservable inputs. The valuation assumptions take into consideration the Company's estimates of contract renewal, technology attrition and revenue growth projections. The preliminary allocations of the purchase price consideration to tangible and intangible assets acquired were based on our estimates and assumptions that are still subject to change.

The preliminary values for specifically identifiable intangible assets, by major asset class, are as follows:

		<b>Weighted-average amortization period</b>
<i>(in thousands)</i>		<b>(in years)</b>
Customer related intangible assets	\$ 45,729	9
Technology	44,421	9
Trade name	250	1

\$ 90,400

8.4

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**Table of Contents****Pro forma Information**

The following unaudited pro forma financial information presents the combined results of operations of the Company and Chordiant as if the acquisition had occurred on January 1, 2010 and 2009, respectively, after giving effect to certain pro forma adjustments. The pro forma adjustments reflected herein include only those adjustments that are directly attributable to the Chordiant acquisition, factually determinable, and expected to have a continuing impact on the Company. These pro forma adjustments include a reduction of historical Chordiant revenue for fair value adjustments related to acquired deferred revenue and deferred costs, a net increase in amortization expense to eliminate historical amortization of Chordiant intangible assets and to record amortization expense for the \$90.4 million of acquired identifiable intangibles, and a decrease in interest income as a result of the cash paid for the acquisition. The unaudited pro forma financial information does not reflect any adjustments for anticipated synergies resulting from the acquisition and is not necessarily indicative of the operating results that would have actually occurred had the transaction been consummated as of January 1, 2010 and 2009, respectively. The preliminary allocations of the purchase price consideration to tangible and intangible assets acquired and liabilities assumed herein were based upon preliminary valuations and our estimates and assumptions are still subject to change.

	Pro Forma Three Months Ended June 30,		Pro Forma Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 85,524	\$ 80,545	\$ 234,087	\$ 156,704
Net (loss) income	(16,858)	7,184	(11,632)	8,256
Net (loss) income per basic share	\$ (0.45)	\$ 0.20	\$ (0.31)	\$ 0.23
Net (loss) income per diluted share	\$ (0.45)	\$ 0.19	\$ (0.31)	\$ 0.22

**Goodwill and Intangibles**

The Company operates in one operating segment. The following table presents the change in the carrying amount of goodwill:

	As of June 30, 2010
(in thousands)	
Beginning balance as of January 1,	\$ 2,391
Goodwill acquired during the period	48,585
	\$ 50,976

Amortized intangible assets consist of the following:

(in thousands)	Cost	Accumulated Amortization	Net Book Value
<b>As of June 30, 2010</b>			
Customer relationships	\$ 45,729	\$ (847)	\$ 44,882
Technology	44,421	(1,048)	43,373
Trade name	250	(42)	208
Technology designs	490	(279)	211
Non-compete agreements	100	(46)	54
Intellectual property	1,400	(1,400)	

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Total	\$ 92,390	\$ (3,662)	\$ 88,728
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**As of December 31, 2009**

Technology designs	\$ 490	\$ (218)	\$ 272
Non-compete agreements	100	(36)	64
Intellectual property	1,400	(1,400)	
<b>Total</b>	<b>\$ 1,990</b>	<b>\$ (1,654)</b>	<b>\$ 336</b>

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Amortization expense for all of the acquired intangibles was approximately \$2.0 million during both the second quarter and first six months of 2010, of which approximately \$1.1 million was included in cost of software licenses and approximately \$0.9 million was included in operating expenses. Amortization expense was de minimis in 2009.

<i>(in thousands)</i>	<b>Future estimated amortization expense</b>
<b>As of June 30,</b>	
Remainder of 2010	\$ 5,810
2011	11,453
2012	11,370
2013	11,370
2014	9,746
2015 and thereafter	38,714
	<b>\$ 88,463</b>

**6. ACCRUED EXPENSES**

<i>(in thousands)</i>	<b>As of June 30, 2010</b>	<b>As of December 31, 2009</b>
Accrued restructuring	\$ 3,904	\$ -
Accrued professional services partners fees	2,491	1,055
Accrued other taxes	2,080	1,289
Dividends payable	1,114	1,105
Accrued employee reimbursable expenses	1,849	799
Accrued acquisition-related costs	451	-
Accrued self-insurance health and dental claims	1,549	-
Accrued litigation judgment	1,426	-
Accrued professional fees	1,308	389
Accrued short-term deferred rent	1,027	422
Repurchases of common stock unsettled	100	136
Accrued other	6,039	1,553
	<b>\$ 23,338</b>	<b>\$ 6,748</b>

**7. DEFERRED REVENUE**

<i>(in thousands)</i>	<b>As of June 30, 2010</b>	<b>As of December 31, 2009</b>
Software license	\$ 5,442	\$ 4,413
Maintenance	44,324	22,039
Professional services and other	3,995	6,418
	<b>\$ 53,761</b>	<b>\$ 32,870</b>

The increase in deferred maintenance revenue is primarily due to our acquisition of Chordiant. See Note 5 Acquisition, Goodwill, and Intangibles for further discussion of the acquired assets and assumed liabilities from the acquisition.



**Table of Contents****8. ACCRUED RESTRUCTURING COSTS**

During the second quarter of 2010, in connection with the Company's integration plan of Chordiant, the Company recorded \$6.1 million of severance and related benefit costs for the reduction of approximately 50 personnel in redundant roles, primarily in general and administrative functions. These restructuring costs are all cash obligations of which approximately \$3.9 million is expected to be paid in the next 12 months and the remaining \$1.1 million by the end of the second quarter of 2012. The Company expects to incur an additional \$0.4 million in severance costs during the third quarter of 2010. In connection with the Company's evaluation of its combined facilities, the Company approved a plan to eliminate one redundant facility. As a result, the Company expects to incur approximately \$1.3 million in restructuring expenses by the end of 2010, representing future lease payments and demising costs, net of estimated sublease income and costs for this identified facility. These exit costs will be recognized when the Company ceases to use the leased facility, which is expected to occur by the end of 2010.

A summary of the restructuring activity during the second quarter of 2010 is as follows:

<i>(in thousands)</i>	<b>Personnel</b>
Balance as of April 1, 2010	\$ -
Restructuring costs	6,080
Cash payments	(1,118)
Balance as of June 30, 2010	\$ 4,962

<i>(in thousands)</i>	<b>As of June 30, 2010</b>
Reported as:	
Accrued expenses	\$ 3,904
Other long-term liabilities	1,058
	\$ 4,962

**9. COMMITMENTS AND CONTINGENCIES**

The Company's principal administrative, sales, marketing, support, and research and development operations are located in a leased facility in Cambridge, Massachusetts. The lease for this facility expires in 2013, subject to the Company's option to extend for two additional five-year periods. The Company also leases space for its other offices under non-cancelable operating leases that expire on various dates through 2014.

As of June 30, 2010, the Company's future minimum rental payments required under operating leases with non-cancelable terms in excess of one year were as follows:

*(in thousands)*

**As of June 30, \_\_\_\_\_**

**Net  
Operating&**