

PEGASYSTEMS INC
Form 10-Q
August 09, 2012
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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, 2012

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)*

04-2787865
*(IRS Employer
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 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 37,906,098 shares of the Registrant's common stock, \$.01 par value per share, outstanding on July 30, 2012.

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(in thousands)

| | As of June 30, 2012 | As of December 31, 2011 |
|---|---------------------------|-------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 54,827 | \$ 60,353 |
| Marketable securities | 48,037 | 51,079 |
| Total cash, cash equivalents, and marketable securities | 102,864 | 111,432 |
| Trade accounts receivable, net of allowance of \$1,165 and \$926 | 92,542 | 98,293 |
| Deferred income taxes | 9,827 | 9,826 |
| Income taxes receivable | 10,035 | 7,545 |
| Other current assets | 5,512 | 4,865 |
| Total current assets | 220,780 | 231,961 |
| Property and equipment, net | 28,175 | 14,458 |
| Long-term deferred income taxes | 43,581 | 43,286 |
| Long-term other assets | 1,782 | 2,186 |
| Intangible assets, net | 63,787 | 69,369 |
| Goodwill | 20,451 | 20,451 |
| Total assets | \$ 378,556 | \$ 381,711 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,405 | 10,899 |
| Accrued expenses | 21,597 | 18,336 |
| Accrued compensation and related expenses | 26,240 | 39,170 |
| Deferred revenue | 79,358 | 73,840 |
| Total current liabilities | 134,600 | 142,245 |
| Income taxes payable | 9,633 | 9,547 |
| Long-term deferred revenue | 11,898 | 15,367 |
| Other long-term liabilities | 10,813 | 5,796 |
| Total liabilities | 166,944 | 172,955 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, 1,000 shares authorized; no shares issued and outstanding | | |
| Common stock, 100,000 shares and 70,000 shares authorized; 37,890 shares and 37,712 shares issued and outstanding | 379 | 377 |
| Additional paid-in capital | 133,057 | 129,701 |
| Retained earnings | 76,547 | 77,029 |
| Accumulated other comprehensive income | 1,629 | 1,649 |
| Total stockholders' equity | 211,612 | 208,756 |

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| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 378,556 | \$ 381,711 |
|--|------------|------------|

See notes to unaudited condensed consolidated financial statements.

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(in thousands, except per share amounts)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-----------------|------------------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenue: | | | | |
| Software license | \$ 30,999 | \$ 34,645 | \$ 66,942 | \$ 68,107 |
| Maintenance | 34,495 | 28,294 | 65,340 | 55,742 |
| Professional services | 39,562 | 40,579 | 83,941 | 82,029 |
| Total revenue | 105,056 | 103,518 | 216,223 | 205,878 |
| Cost of revenue: | | | | |
| Cost of software license | 1,579 | 1,631 | 3,178 | 3,305 |
| Cost of maintenance | 3,718 | 3,260 | 7,327 | 6,634 |
| Cost of professional services | 34,690 | 35,506 | 71,016 | 70,474 |
| Total cost of revenue | 39,987 | 40,397 | 81,521 | 80,413 |
| Gross profit | 65,069 | 63,121 | 134,702 | 125,465 |
| Operating expenses: | | | | |
| Selling and marketing | 41,188 | 37,208 | 79,583 | 71,244 |
| Research and development | 18,901 | 15,696 | 37,905 | 30,829 |
| General and administrative | 7,664 | 6,839 | 13,979 | 13,971 |
| Acquisition-related costs | | 144 | | 482 |
| Restructuring costs | | | | 141 |
| Total operating expenses | 67,753 | 59,887 | 131,467 | 116,667 |
| (Loss) income from operations | (2,684) | 3,234 | 3,235 | 8,798 |
| Foreign currency transaction (loss) gain | (841) | 173 | (101) | 1,189 |
| Interest income, net | 94 | 91 | 205 | 177 |
| Other income (expense), net | 263 | (167) | (576) | (139) |
| (Loss) income before (benefit) provision for income taxes | (3,168) | 3,331 | 2,763 | 10,025 |
| (Benefit) provision for income taxes | (901) | 1,058 | 973 | 3,021 |
| Net (loss) income | \$ (2,267) | \$ 2,273 | \$ 1,790 | \$ 7,004 |
| (Loss) earnings per share: | | | | |
| Basic | \$ (0.06) | \$ 0.06 | \$ 0.05 | \$ 0.19 |
| Diluted | \$ (0.06) | \$ 0.06 | \$ 0.05 | \$ 0.18 |
| Weighted-average number of common shares outstanding | | | | |
| Basic | 37,865 | 37,405 | 37,812 | 37,341 |
| Diluted | 37,865 | | | |