

PEGASYSTEMS INC  
Form 10-Q  
November 12, 2013  
Table of Contents

**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, 2013**

**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)*

Massachusetts

04-2787865

*(State or other jurisdiction of  
incorporation or organization)*

*(IRS Employer  
Identification No.)*

One Rogers Street Cambridge, MA

02142-1209

*(Address of principal executive offices)*

*(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 37,961,290 shares of the Registrant's common stock, \$.01 par value per share, outstanding on November 1, 2013.

**Table of Contents**

**PEGASYSTEMS INC.**

**Index to Form 10-Q**

	<b>Page</b>
<b><u>Part I Financial Information</u></b>	
Item 1. <u>Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013 and 2012</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>15</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>23</u>
Item 4. <u>Controls and Procedures</u>	<u>23</u>
<b><u>Part II Other Information</u></b>	
Item 1A. <u>Risk Factors</u>	<u>24</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>24</u>
Item 6. <u>Exhibits</u>	<u>25</u>
<u>SIGNATURE</u>	<u>26</u>

Table of Contents

## PEGASYSTEMS INC.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	As of	As of
	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 108,827	\$ 77,525
Marketable securities	79,618	45,460
Total cash, cash equivalents, and marketable securities	188,445	122,985
Trade accounts receivable, net of allowance of \$772 and \$963	90,583	134,066
Deferred income taxes	10,152	10,202
Income taxes receivable	4,199	6,261
Other current assets	6,929	5,496
Total current assets	300,308	279,010
Property and equipment, net	28,977	30,827
Long-term deferred income taxes	49,693	49,292
Long-term other assets	1,657	1,680
Intangible assets, net	49,910	58,232
Goodwill	20,451	20,451
Total assets	\$ 450,996	\$ 439,492
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,347	\$ 3,330
Accrued expenses	20,741	15,534
Accrued compensation and related expenses	31,925	40,715
Deferred revenue	91,758	95,546
Total current liabilities	146,771	155,125
Income taxes payable	13,748	13,551
Long-term deferred revenue	17,954	18,719
Other long-term liabilities	17,466	15,618
Total liabilities	195,939	203,013
Stockholders' equity:		

Edgar Filing: PEGASYSTEMS INC - Form 10-Q

Preferred stock, 1,000 shares authorized; no shares issued and outstanding		
Common stock, 100,000 shares authorized; 37,989 shares and 37,945 shares issued and outstanding	380	379
Additional paid-in capital	138,271	138,576
Retained earnings	113,410	94,349
Accumulated other comprehensive income	2,996	3,175
Total stockholders' equity	255,057	236,479
Total liabilities and stockholders' equity	\$ 450,996	\$ 439,492

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)**

	<b>Three Months Ended</b>		<b>Nine Months</b>	
	<b>September 30,</b>		<b>Ended</b>	
	<b>2013</b>	<b>2012</b>	<b>September 30,</b>	<b>2012</b>
<b>Revenue:</b>				
Software license	\$ 44,802	\$ 28,575	\$ 128,217	\$ 95,517
Maintenance	37,979	32,317	112,238	97,657
Professional services	39,230	40,765	115,117	124,706
<b>Total revenue</b>	<b>122,011</b>	<b>101,657</b>	<b>355,572</b>	<b>317,880</b>
<b>Cost of revenue:</b>				
Software license	1,592	1,585	4,751	4,763
Maintenance	3,599	3,745	11,106	11,072
Professional services	32,907	32,335	97,772	103,351
<b>Total cost of revenue</b>	<b>38,098</b>	<b>37,665</b>	<b>113,629</b>	<b>119,186</b>
<b>Gross profit</b>	<b>83,913</b>	<b>63,992</b>	<b>241,943</b>	<b>198,694</b>
<b>Operating expenses:</b>				
Selling and marketing	42,663	36,893	127,279	116,476
Research and development	19,786	19,506	59,123	57,411
General and administrative	7,130	7,192	21,203	21,171
Acquisition-related costs	545		545	
<b>Total operating expenses</b>	<b>70,124</b>	<b>63,591</b>	<b>208,150</b>	<b>195,058</b>
Income from operations	13,789	401	33,793	3,636
Foreign currency transaction gain (loss)	661	438	(1,666)	337
Interest income, net	123	113	376	318
Other expense, net	(1,163)	(920)	(418)	(1,496)
Income before provision for income taxes	13,410	32	32,085	2,795
Provision for income taxes	4,700	363	9,603	1,336
<b>Net income (loss)</b>	<b>\$ 8,710</b>	<b>\$ (331)</b>	<b>\$ 22,482</b>	<b>\$ 1,459</b>
<b>Earnings (loss) per share:</b>				
Basic	\$ 0.23	\$ (0.01)	\$ 0.59	\$ 0.04

Edgar Filing: PEGASYSTEMS INC - Form 10-Q

Diluted	\$ 0.22	\$ (0.01)	\$ 0.58	\$ 0.04
Weighted-average number of common shares outstanding				
Basic	37,955	37,881	37,950	37,834
Diluted	39,079	37,881	38,872	38,897
Cash dividends declared 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 COMPREHENSIVE INCOME****(in thousands)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ 8,710	\$ (331)	\$ 22,482	\$ 1,459
Other comprehensive income (loss):				
Unrealized gain (loss) on securities, net of tax	113	33	(32)	80
Foreign currency translation adjustments	2,340	1,315	(147)	1,248
<b>Total other comprehensive income (loss)</b>	<b>2,453</b>	<b>1,348</b>	<b>(179)</b>	<b>1,328</b>
Comprehensive income	\$ 11,163	\$ 1,017	\$ 22,303	\$ 2,787

See notes to unaudited condensed consolidated financial statements.



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

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities:</b>		
Net income	\$ 22,482	\$ 1,459
<b>Adjustments to reconcile net income to cash provided by operating activities:</b>		
Excess tax benefits from exercise or vesting of equity awards	(2,670)	(3,161)
Deferred income taxes	(537)	(511)
Depreciation and amortization	14,173	13,986
Stock-based compensation expense	9,713	8,622
Foreign currency transaction loss (gain)	1,666	(337)
Other non-cash items	2,736	4,021
<b>Change in operating assets and liabilities:</b>		
Trade accounts receivable	42,611	18,938
Income taxes receivable and other current assets	2,599	(1,468)
Accounts payable and accrued expenses	(5,762)	(20,491)
Deferred revenue	(3,836)	2,747
Other long-term assets and liabilities	260	5,279
 Cash provided by operating activities	 83,435	 29,084
<b>Investing activities:</b>		
Purchase of marketable securities	(56,645)	(13,336)
Matured and called marketable securities	21,129	18,465
Investment in property and equipment	(4,158)	(21,875)
 Cash used in investing activities	 (39,674)	 (16,746)
<b>Financing activities:</b>		
Issuance of common stock for share-based compensation plans	970	753
Excess tax benefits from exercise or vesting of equity awards	2,670	3,161
Dividend payments to shareholders	(2,281)	(3,404)
Common stock repurchases for tax withholdings for net settlement of equity awards	(4,123)	(3,650)
Common stock repurchases under share repurchase programs	(9,178)	(3,910)
 Cash used in financing activities	 (11,942)	 (7,050)
 Effect of exchange rate on cash and cash equivalents	 (517)	 596

Edgar Filing: PEGASYSTEMS INC - Form 10-Q

Net increase in cash and cash equivalents	31,302	5,884
Cash and cash equivalents, beginning of period	77,525	60,353
Cash and cash equivalents, end of period	\$ 108,827	