

PEGASYSTEMS INC
Form 10-Q
November 04, 2014
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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 September 30, 2014**

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 <i>(State or other jurisdiction of incorporation or organization)</i>	04-2787865 <i>(IRS Employer Identification No.)</i>
One Rogers Street Cambridge, MA <i>(Address of principal executive offices)</i>	02142-1209 <i>(Zip Code)</i>
(617) 374-9600 <i>(Registrant's telephone number including area code)</i>	

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 76,348,914 shares of the Registrant's common stock, \$.01 par value per share, outstanding on October 24, 2014.

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UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	As of September 30, 2014	As of December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136,545	\$ 80,231
Marketable securities	92,026	76,461
Total cash, cash equivalents, and marketable securities	228,571	156,692
Trade accounts receivable, net of allowance of \$1,589 and \$1,997	103,439	165,641
Deferred income taxes	12,328	12,336
Income taxes receivable	11,949	4,392
Other current assets	10,096	9,148
Total current assets	366,383	348,209
Property and equipment, net	28,881	28,957
Long-term deferred income taxes	58,129	56,745
Long-term other assets	2,882	2,526
Intangible assets, net	47,880	56,574
Goodwill	45,009	43,469
Total assets	\$ 549,164	\$ 536,480
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 8,060	\$ 3,671
Accrued expenses	35,039	31,624
Accrued compensation and related expenses	40,462	44,401
Deferred revenue	128,259	110,690
Total current liabilities	211,820	190,386
Income taxes payable	20,951	21,269

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Long-term deferred revenue	20,645	34,196
Other long-term liabilities	17,473	18,841
Total liabilities	270,889	264,692
Stockholders' equity (1):		
Preferred stock, 1,000 shares authorized; no shares issued and outstanding		
Common stock, 200,000 shares and 100,000 shares authorized; 76,381 shares and 76,324 shares issued and outstanding	764	764
Additional paid-in capital	140,464	139,565
Retained earnings	135,246	127,826
Accumulated other comprehensive income	1,801	3,633
Total stockholders' equity	278,275	271,788
Total liabilities and stockholders' equity	\$ 549,164	\$ 536,480

(1) The number of common shares outstanding for all prior periods has been retroactively restated to reflect the Company's two-for-one common stock split effected in the form of a common stock dividend distributed on April 1, 2014.

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Software license	\$ 48,292	\$ 44,802	\$ 154,918	\$ 128,217
Maintenance	47,281	37,979	137,555	112,238
Services	42,058	39,230	128,607	115,117
Total revenue	137,631	122,011	421,080	355,572
Cost of revenue:				
Software license	1,076	1,592	3,832	4,751
Maintenance	5,385	3,599	15,093	11,106
Services	39,921	32,907	120,061	97,772
Total cost of revenue	46,382	38,098	138,986	113,629
Gross profit	91,249	83,913	282,094	241,943
Operating expenses:				
Selling and marketing	48,623	42,663	150,772	127,279
Research and development	28,558	19,786	80,490	59,123
General and administrative	8,825	7,130	28,377	21,203
Acquisition-related	54	545	417	545
Restructuring	192		192	
Total operating expenses	86,252	70,124	260,248	208,150
Income from operations	4,997	13,789	21,846	33,793
Foreign currency transaction (loss) gain	(2,845)	661	(2,527)	(1,666)
Interest income, net	181	123	468	376

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Other income (expense), net	19	(1,163)	(507)	(418)
Income before provision for income taxes	2,352	13,410	19,280	32,085
Provision for income taxes	470	4,700	6,129	9,603
Net income	\$ 1,882	\$ 8,710	\$ 13,151	\$ 22,482
Earnings per share (1):				
Basic	\$ 0.02	\$ 0.11	\$ 0.17	\$ 0.30
Diluted	\$ 0.02	\$ 0.11	\$ 0.17	\$ 0.29
Weighted-average number of common shares outstanding (1):				
Basic	76,351	75,910	76,312	75,900
Diluted	78,653	78,158	78,531	77,744
Cash dividends declared per share	\$ 0.030	\$ 0.015	\$ 0.075	\$ 0.045

(1) The number of common shares and per share amounts have been retroactively restated for all prior periods presented to reflect the Company's two-for-one common stock split effected in the form of a common stock dividend distributed on April 1, 2014.

See notes to unaudited condensed consolidated financial statements.

Table of Contents**PEGASYSTEMS INC.****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****(in thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 1,882	\$ 8,710	\$ 13,151	\$ 22,482
Other comprehensive (loss) income:				
Unrealized (loss) gain on securities, net of tax	(90)	113	(62)	(32)
Foreign currency translation adjustments	(3,046)	2,340	(1,770)	(147)
Total other comprehensive (loss) income	(3,136)	2,453	(1,832)	(179)
Comprehensive (loss) income	\$ (1,254)	\$ 11,163	\$ 11,319	\$ 22,303

See notes to unaudited condensed consolidated financial statements.

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PEGASYSTEMS INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30,	
	2014	2013
Operating activities:		
Net income	\$ 13,151	\$ 22,482
Adjustments to reconcile net income to cash provided by operating activities:		
Excess tax benefits from exercise or vesting of equity awards	(3,754)	(2,670)
Deferred income taxes	(1,845)	(537)
Depreciation and amortization	17,167	14,173
Stock-based compensation expense	13,721	9,713
Foreign currency transaction loss	2,527	1,666
Other non-cash items	939	2,736
Change in operating assets and liabilities:		
Trade accounts receivable	59,049	42,611
Income taxes receivable and other current assets	(3,839)	2,599
Accounts payable and accrued expenses	(1,448)	(5,762)
Deferred revenue	4,287	(3,836)