

PEGASYSTEMS INC
Form 10-Q
November 03, 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 September 30, 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)*

04-2787865
*(IRS Employer
Identification No.)*

101 Main Street Cambridge, MA
(Address of principal executive offices)

(617) 374-9600

02142-1590
(Zip Code)

(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 36,678,436 shares of the Registrant's common stock, \$.01 par value per share, outstanding on October 26, 2009.

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

(in thousands)

	As of September 30, 2009	As of December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,419	\$ 36,087
Marketable securities	141,936	131,142
Total cash, cash equivalents, and marketable securities	198,355	167,229
Trade accounts receivable, net of allowances of \$612 and \$1,490	27,708	42,801
Short-term license installments	2,951	5,445
Deferred income taxes	4,338	4,351
Income taxes receivable and other current assets	10,729	4,151
Total current assets	244,081	223,977
Long-term license installments, net	3,321	5,413
Property and equipment, net	7,487	5,723
Long-term deferred income taxes and other assets	8,536	8,117
Intangible assets, net	372	479
Goodwill	2,391	2,141
Total assets	\$ 266,188	\$ 245,850
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,333	\$ 4,726
Accrued expenses	6,605	9,925
Accrued compensation and related expenses	18,123	18,015
Deferred revenue	27,818	32,231
Total current liabilities	57,879	64,897
Income taxes payable	5,274	5,665
Other long-term liabilities	1,909	2,174
Total liabilities	65,062	72,736
Commitments and contingencies (Note 8)		
Stockholders equity:		
Preferred stock, 1,000 shares authorized; no shares issued and outstanding		
Common stock and paid-in capital, 70,000 shares authorized; 36,673 shares and 35,810 shares issued and outstanding	122,757	118,284
Retained earnings, including accumulated other comprehensive income of \$1,816 and \$895	78,369	54,830
Total stockholders equity	201,126	173,114

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Total liabilities and stockholders equity	\$	266,188	\$	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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenue:				
Software license	\$ 28,358	\$ 17,910	\$ 82,045	\$ 51,214
Maintenance	12,489	10,045	36,608	29,027
Professional services	23,974	24,743	72,413	72,054
Total revenue	64,821	52,698	191,066	152,295
Cost of revenue:				
Cost of software license	28	30	90	64
Cost of maintenance	1,558	1,454	4,452	4,006
Cost of professional services	22,474	19,072	61,641	56,811
Total cost of revenue	24,060	20,556	66,183	60,881
Gross profit	40,761	32,142	124,883	91,414
Operating expenses:				
Selling and marketing	19,568	15,698	51,663	45,036
Research and development	9,930	7,936	28,198	22,832
General and administrative	3,798	5,067	13,392	15,355
Total operating expenses	33,296	28,701	93,253	83,223
Income from operations	7,465	3,441	31,630	8,191
Installment receivable interest income	74	95	224	248
Other interest income, net	721	1,151	2,404	4,104
Foreign currency transaction gain (loss)	266	(2,010)	2,377	(1,759)
Other income, net		40	17	139
Income before provision for income taxes	8,526	2,717	36,652	10,923
Provision for income taxes	2,525	366	10,768	2,776
Net income	\$ 6,001	\$ 2,351	\$ 25,884	\$ 8,147
Earnings per share				
Basic	\$ 0.16	\$ 0.06	\$ 0.72	\$ 0.23
Diluted	\$ 0.16	\$ 0.06	\$ 0.68	\$ 0.22

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Weighted-average number of common shares outstanding

Basic	36,462	36,419	36,035	36,201
Diluted	38,441	38,212	37,955	37,668
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 CASH FLOWS**

(in thousands)

	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net income	\$ 25,884	\$ 8,147
Adjustment to reconcile net income to cash provided by operating activities:		
Excess tax benefit from stock options	(14,409)	(2,992)
Deferred income taxes	(901)	(1,054)
Depreciation, amortization and other non-cash items	2,021	1,407
Amortization of investments	2,963	1,261
Stock-based compensation expense	3,523	2,552
Change in operating assets and liabilities:		
Trade accounts receivable	15,093	12,646
License installments	4,586	15,653
Income taxes receivable and other current assets	(801)	(1,302)
Accounts payable and accrued expenses	5,738	915
Deferred revenue	(4,413)	(4,352)
Other long-term assets and liabilities	(445)	(10)
Cash provided by operating activities	38,839	32,871
Investing activities:		
Purchases of marketable securities	(49,851)	(172,626)
Matured and called marketable securities	35,925	80,706
Sale of marketable securities		83,025
Payments for acquisition		(798)
Investment in property and equipment	(3,724)	(2,625)
Cash used in investing activities	(17,650)	(12,318)
Financing activities:		