

PEGASYSTEMS INC
Form 10-Q
July 29, 2015
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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, 2015**

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
(State or other jurisdiction of
incorporation or organization)

04-2787865
(IRS Employer
Identification No.)

One Rogers Street Cambridge, MA
(Address of principal executive offices)

02142-1209
(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

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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 (Do not check if smaller reporting company) 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 76,523,015 shares of the Registrant's common stock, \$.01 par value per share, outstanding on July 17, 2015.

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PEGASYSTEMS INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	As of June 30, 2015	As of December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 120,864	\$ 114,585
Marketable securities	106,068	96,631
Total cash, cash equivalents, and marketable securities	226,932	211,216
Trade accounts receivable, net of allowance of \$1,752 and \$1,540	135,585	154,844
Deferred income taxes	12,948	12,974
Income taxes receivable	8,429	4,502
Other current assets	12,536	9,544
Total current assets	396,430	393,080
Property and equipment, net	33,855	30,156
Long-term deferred income taxes	70,765	69,258
Long-term other assets	3,016	2,783

Intangible assets, net	39,419	45,664
Goodwill	46,882	46,860
Total assets	\$ 590,367	\$ 587,801

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:

Accounts payable	\$ 8,330	\$ 4,752
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Accrued expenses	40,326	42,958
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Accrued compensation and related expenses	37,249	47,250
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Deferred revenue	143,001	134,672
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Total current liabilities	228,906	229,632
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Income taxes payable	24,919	24,896
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Long-term deferred revenue	16,214	20,859
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Other long-term liabilities	16,751	17,709
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Total liabilities	286,790	293,096
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Stockholders equity:

Preferred stock, 1,000 shares authorized; no shares issued and outstanding

Common stock, 200,000 shares authorized; 76,627 shares and 76,357 shares issued and outstanding	766	764
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Additional paid-in capital	147,257	141,495
	157,495	153,058

Retained earnings

Accumulated other comprehensive loss	(1,941)	(612)
Total stockholders' equity	303,577	294,705
Total liabilities and stockholders' equity	\$ 590,367	\$ 587,801

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,	
	2015	2014	2015	2014
Revenue:				
Software license	\$ 63,497	\$ 54,012	\$ 121,472	\$ 106,626
Maintenance	49,329	45,393	98,081	90,274
Services	49,193	43,580	96,384	86,549
Total revenue	162,019	142,985	315,937	283,449
Cost of revenue:				
Software license	1,030	1,177	2,106	2,756
Maintenance	5,476	5,044	10,656	9,708
Services	48,275	40,470	92,078	80,140
Total cost of revenue	54,781	46,691	104,840	92,604
Gross profit	107,238	96,294	211,097	190,845
Operating expenses:				
Selling and marketing	60,389	56,342	116,124	102,149
Research and development	31,372	27,323	61,216	51,932

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General and administrative	10,214	10,250	16,559	19,552
Acquisition-related	13	157	39	363
Total operating expenses	101,988	94,072	193,938	173,996
Income from operations	5,250	2,222	17,159	16,849
Foreign currency transaction (loss) gain	(968)	(4)	(3,930)	318
Interest income, net	216	163	529	287
Other income (expense), net	3	6	3	(526)
Income before provision for income taxes	4,501	2,387	13,761	16,928
Provision for income taxes	1,397	883	4,722	5,659
Net income	\$ 3,104	\$ 1,504	\$ 9,039	\$ 11,269
Earnings per share:				
Basic	\$ 0.04	\$ 0.02	\$ 0.12	\$ 0.15
Diluted	\$ 0.04	\$ 0.02	\$ 0.11	\$ 0.14
Weighted-average number of common shares outstanding:				
Basic	76,626	76,286	76,514	76,385
Diluted	78,950	78,280	78,771	78,563
Cash dividends declared per share	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.045

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 3,104	\$ 1,504	\$ 9,039	\$ 11,269
Other comprehensive income (loss):				
Unrealized (loss) gain on securities, net of tax	(86)	(3)	5	28
Foreign currency translation adjustments	1,762	891	(1,334)	1,276
Total other comprehensive income (loss), net	1,676	888	(1,329)	1,304
Comprehensive income	\$ 4,780	\$ 2,392	\$ 7,710	\$ 12,573

See notes to unaudited condensed consolidated financial statements.

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PEGASYSTEMS INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30,	
	2015	2014
Operating activities:		
Net income	\$ 9,039	\$ 11,269
Adjustments to reconcile net income to cash provided by operating activities:		
Excess tax benefits from exercise or vesting of equity awards	(2,280)	(2,526)
Deferred income taxes	(1,525)	(899)
Depreciation and amortization	11,258	11,412
Stock-based compensation expense	14,914	8,453
Foreign currency transaction loss (gain)	3,930	(318)
Other non-cash items	550	495
Change in operating assets and liabilities:		
Trade accounts receivable	16,645	51,155
Income taxes receivable and other current assets	(4,853)	(3,836)
	(10,507)	94

Accounts payable and accrued expenses		
Deferred revenue	2,378	(214)
Other long-term assets and liabilities	(150)	(1,150)
Cash provided by operating activities	39,399	73,935
Investing activities:		
Purchases of marketable securities	(31,504)	(29,547)
Proceeds from maturities and called marketable securities	21,120	15,996
Payments for acquisitions	(535)	(1,593)
Investment in property and equipment	(7,293)	(2,864)
Cash used in investing activities	(18,212)	(18,008)
Financing activities:		
Issuance of common stock for share-based compensation plans	587	338
Excess tax benefits from exercise or vesting of equity awards	2,280	2,526
Dividend payments to shareholders	(4,594)	(2,290)
Common stock repurchases for tax withholdings for net settlement of equity awards	(4,432)	(3,402)
Common stock repurchases under share repurchase programs	(7,075)	(8,459)
Cash used in financing activities	(13,234)	(11,287)
Effect of exchange rates on cash and cash equivalents	(1,674)	2,240
Net increase in cash and cash equivalents	6,279	46,880
Cash and cash equivalents, beginning of period	114,585	80,231

Cash and cash equivalents, end of period	\$ 120,864	\$ 127,111
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See notes to unaudited condensed consolidated financial statements.

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PEGASYSTEMS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of Presentation

Pegasystems Inc. (together with its subsidiaries, the Company) has prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the U.S. 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, 2014.

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 2015.