

COMMVault SYSTEMS INC  
Form 10-Q  
January 31, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

- x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended: December 31, 2013**
  
- .. **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number: 1-33026**

**CommVault Systems, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**

**22-3447504**  
**(I.R.S. Employer**

**incorporation or organization)**

**Identification No.)**

**2 Crescent Place**

**Oceanport, New Jersey**  
**(Address of principal executive offices)**

**07757**  
**(Zip Code)**

**(732) 870-4000**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by the Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that 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 definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act. (Check one):

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

As of January 22, 2014, there were 47,495,325 shares of the registrant's common stock, \$0.01 par value, outstanding.

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**COMMVault SYSTEMS, INC.**

**FORM 10-Q**

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**Table of Contents****CommVault Systems, Inc.****Consolidated Balance Sheets****(In thousands, except per share data)**

	<b>December 31, 2013 (unaudited)</b>	<b>March 31, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 475,533	\$ 433,964
Short-term investments	24,978	1,948
Trade accounts receivable, less allowance for doubtful accounts of \$111 at December 31, 2013 and \$103 at March 31, 2013	106,208	85,033
Prepaid expenses and other current assets	8,465	15,225
Deferred tax assets, net	21,329	19,328
Total current assets	636,513	555,498
Deferred tax assets, net	23,258	21,166
Property and equipment, net	68,682	21,112
Other assets	6,688	7,078
Total assets	\$ 735,141	\$ 604,854
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,017	\$ 3,860
Accrued liabilities	62,845	55,577
Deferred revenue	156,985	152,967
Total current liabilities	222,847	212,404
Deferred revenue, less current portion	35,850	31,303
Other liabilities	7,113	7,130
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$0.01 par value: 50,000 shares authorized, no shares issued and outstanding at December 31, 2013 and March 31, 2013		
Common stock, \$0.01 par value: 250,000 shares authorized, 47,390 shares and 46,397 shares issued and outstanding at December 31, 2013 and March 31, 2013, respectively	474	464
Additional paid-in capital	459,842	391,772
Retained earnings (Accumulated deficit)	10,477	(37,930)
Accumulated other comprehensive loss	(1,462)	(289)

Total stockholders' equity	469,331	354,017
Total liabilities and stockholders' equity	\$ 735,141	\$ 604,854

See accompanying unaudited notes to consolidated financial statements

**Table of Contents****CommVault Systems, Inc.****Consolidated Statements of Income****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>				
Software	\$ 79,240	\$ 65,909	\$ 215,370	\$ 179,363
Services	74,010	62,238	214,151	178,213
<b>Total revenues</b>	<b>153,250</b>	<b>128,147</b>	<b>429,521</b>	<b>357,576</b>
<b>Cost of revenues:</b>				
Software	677	776	1,968	2,098
Services	17,821	15,687	52,464	44,998
<b>Total cost of revenues</b>	<b>18,498</b>	<b>16,463</b>	<b>54,432</b>	<b>47,096</b>
<b>Gross margin</b>	<b>134,752</b>	<b>111,684</b>	<b>375,089</b>	<b>310,480</b>
<b>Operating expenses:</b>				
Sales and marketing	73,367	64,547	207,715	176,634
Research and development	13,597	12,367	39,792	34,749
General and administrative	18,521	13,317	47,547	36,568
Depreciation and amortization	1,544	1,226	4,495	3,533
<b>Income from operations</b>	<b>27,723</b>	<b>20,227</b>	<b>75,540</b>	<b>58,996</b>
Interest income	220	299	675	796
<b>Income before income taxes</b>	<b>27,943</b>	<b>20,526</b>	<b>76,215</b>	<b>59,792</b>
Income tax expense	10,352	8,326	27,808	23,568
<b>Net income</b>	<b>\$ 17,591</b>	<b>\$ 12,200</b>	<b>\$ 48,407</b>	<b>\$ 36,224</b>
<b>Net income per common share:</b>				
Basic	\$ 0.37	\$ 0.27	\$ 1.03	\$ 0.80
Diluted	\$ 0.35	\$ 0.25	\$ 0.97	\$ 0.75

Weighted average common shares outstanding:				
Basic	47,307	45,738	46,921	45,203
Diluted	49,899	48,564	49,674	47,999

See accompanying unaudited notes to consolidated financial statements

Table of Contents**CommVault Systems, Inc.****Consolidated Statements of Comprehensive Income****(In thousands)****(Unaudited)**

	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 17,591	\$ 12,200	\$ 48,407	\$ 36,224
Other comprehensive income (loss):				
Foreign currency translation adjustment	(401)	(204)	(1,173)	162
Comprehensive income	\$ 17,190	\$ 11,996	\$ 47,234	\$ 36,386

See accompanying unaudited notes to consolidated financial statements



Table of Contents**CommVault Systems, Inc.****Consolidated Statement of Stockholders Equity****(In thousands)****(Unaudited)**

	<b>Common Shares</b>	<b>Stock Amount</b>	<b>Additional Paid In Capital</b>	<b>(Accumulated Deficit) Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
Balance as of March 31, 2013	46,397	\$ 464	\$ 391,772	\$ (37,930)	\$ (289)	\$ 354,017
Stock-based compensation, net			34,536			34,536
Tax benefits relating to stock-based payments			20,169			20,169
Exercise of common stock options and vesting of restricted stock units	993	10	13,365			13,375
Net income				48,407		48,407
Foreign currency translation adjustment					(1,173)	(1,173)
Balance as of December 31, 2013	47,390	\$ 474	\$ 459,842	\$ 10,477	\$ (1,462)	\$ 469,331

See accompanying unaudited notes to consolidated financial statements

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## CommVault Systems, Inc.

## Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended December 31,	
	2013	2012
<b>Cash flows from operating activities</b>		
Net income	\$ 48,407	\$ 36,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,594	3,605
Noncash stock-based compensation	34,536	21,061
Excess tax benefits from stock-based compensation	(20,113)	(18,114)
Deferred income taxes	(435)	2,113
Changes in operating assets and liabilities:		
Trade accounts receivable	(20,703)	(3,435)
Prepaid expenses and other current assets	6,798	(2,648)
Other assets	355	(1,593)
Accounts payable	(932)	835
Accrued liabilities	18,057	17,511
Deferred revenue	8,839	13,950
Other liabilities	(185)	293
Net cash provided by operating activities	79,218	69,802
<b>Cash flows from investing activities</b>		
Purchase of short-term investments	(25,978)	(1,948)
Proceeds from maturity of short-term investments	2,948	3,146
Purchases for corporate campus headquarters	(43,479)	(1,544)
Purchase of property and equipment	(3,934)	(4,062)
Net cash used in investing activities	(70,443)	(4,408)
<b>Cash flows from financing activities</b>		
Proceeds from the exercise of stock options	13,375	14,077
Excess tax benefits from stock-based compensation	20,113	18,114
Net cash provided by financing activities	33,488	32,191
Effects of exchange rate changes in cash	(694)	625
Net increase in cash and cash equivalents	41,569	98,210

Cash and cash equivalents at beginning of period	433,964	297,088
Cash and cash equivalents at end of period	\$ 475,533	\$ 395,298
<b>Supplemental disclosures of cash flow information</b>		
Purchases for corporate campus headquarters in accounts payable and accrued expenses	\$ 4,738	\$ 953
See accompanying unaudited notes to consolidated financial statements		

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**CommVault Systems, Inc.**

**Notes to Consolidated Financial Statements    Unaudited**

**(In thousands, except per share data)**

**1. Basis of Presentation**

CommVault Systems, Inc. and its subsidiaries ( CommVault or the Company ) is a leading provider of data and information management software applications and related services. The Company develops, markets and sells a suite of software applications and services, primarily in North America, Europe, Australia and Asia, that provides its customers with high-performance data protection, including backup and recovery; data migration and archiving; snapshot management and replication of data; integrated source, and target data deduplication; eDiscovery and compliance solutions; self-service access; a secure virtual repository using Simpana ContentStore; enterprise-wide search capabilities; protection, recovery and discovery of data in virtual server environments; and robust built-in analytics and troubleshooting tools. The Company's unified suite of data and information management software applications, which is sold under the Simpana brand, shares an underlying architecture that has been developed to minimize the cost and complexity of managing data on globally distributed and networked storage infrastructures. The Company also provides its customers with a broad range of professional and customer support services.

The consolidated financial statements as of December 31, 2013 and for the three and nine months ended December 31, 2013 and 2012 are unaudited, and in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ( U.S. GAAP ) for complete financial statements and should be read in conjunction with the financial statements and notes in the Company's Annual Report on Form 10-K for fiscal 2013. The results reported in these financial statements should not necessarily be taken as indicative of results that may be expected for the entire fiscal year.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make judgments and estimates that affect the amounts reported in the Company's consolidated financial statements and the accompanying notes. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. The amounts of assets and liabilities reported in the Company's balance sheets and the amounts of revenues and expenses reported for each of its periods presented are affected by estimates and assumptions, which are used for, but not limited to, the accounting for revenue recognition, allowance for doubtful accounts, income taxes and related reserves and stock-based compensation. Actual results could differ from those estimates.

**2. Summary of Significant Accounting Policies**

There have been no significant changes in the Company's accounting policies during the nine months ended December 31, 2013 as compared to the significant accounting policies described in its Annual Report on Form 10-K for the year ended March 31, 2013.

***Revenue Recognition***

The Company derives revenues from two primary sources: software licenses and services. Services include customer support, consulting, assessment and design services, installation services and training. A typical sales arrangement includes both software licenses and services.

For sales arrangements involving multiple elements, the Company recognizes revenue using the residual method. Under the residual method, the Company allocates and defers revenue for the undelivered elements based on fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of the undelivered elements in multiple-element arrangements is based on the price charged when such elements are sold separately, which is commonly referred to as vendor-specific objective-evidence, or VSOE.

The Company's software licenses typically provide for a perpetual right to use the Company's software and are sold on a per-copy basis, on a capacity basis or as site licenses. Software licenses sold on a capacity basis provide the customer with unlimited licenses of specified software products based on a defined level of terabytes of data under management. Site licenses give the customer the additional right to deploy the software on a limited basis

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**CommVault Systems, Inc.**

**Notes to Consolidated Financial Statements Unaudited (continued)**

**(In thousands, except per share data)**

during a specified term. The Company recognizes software revenue through direct sales channels upon receipt of a purchase order or other persuasive evidence and when all other basic revenue recognition criteria are met as described below. The Company recognizes software revenue through all indirect sales channels on a sell-through model. Under the sell-through model the Company recognizes revenue when the basic revenue recognition criteria are met as described below and these channels complete the sale of the Company's software products to the end-user. Revenue from software licenses sold through an original equipment manufacturer partner is recognized upon the receipt of a royalty report or purchase order from that original equipment manufacturer partner.

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches. Customer support revenue is recognized ratably over the term of the customer support agreement, which is typically one year. To determine the price for the customer support element when sold separately, the Company primarily uses historical renewal rates. Historical renewal rates are supported by performing an analysis in which the Company segregates its customer support renewal contracts into different classes based on specific criteria including, but not limited to, the dollar amount of the software purchased, the level of customer support being provided and the distribution channel. As a result of this analysis, the Company has concluded that it has established VSOE for the different classes of customer support when the support is sold as part of a multiple-element sales arrangement. The Company's determination of fair value for customer support has not changed for the periods presented.

The Company's other professional services include consulting, assessment and design services, installation services and training. Other professional services provided by the Company are not mandatory and can also be performed by the customer or a third-party. In addition to a signed purchase order, the Company's consulting, assessment and design services and installation services are, in some cases, evidenced by a Statement of Work, which defines the specific scope of such services to be performed when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Revenues from consulting, assessment and design services and installation services are based upon a daily or weekly rate and are recognized when the services are completed. Training includes courses taught by the Company's instructors or third-party contractors either at one of the Company's facilities or at the customer's site. Training fees are recognized as revenue after the training course has been provided. Based on the Company's analysis of such other professional services transactions sold on a stand-alone basis, the Company has concluded it has established VSOE for such other professional services when sold in connection with a multiple-element sales arrangement. The Company generally performs its other professional services within 90 days of entering into an agreement. The Company's determination of fair value for other professional services has not changed for the periods presented.

The Company has analyzed all of the undelivered elements included in its multiple-element sales arrangements and determined that VSOE of fair value exists to allocate revenues to services. Accordingly, assuming all basic revenue recognition criteria are met, software revenue is recognized upon delivery of the software license using the residual method.

The Company considers the four basic revenue recognition criteria for each of the elements as follows:

*Persuasive evidence of an arrangement with the customer exists.* The Company's customary practice is to require a purchase order and, in some cases, a written contract signed by both the customer and the Company, or other persuasive evidence that an arrangement exists prior to recognizing revenue related to an arrangement.

*Delivery or performance has occurred.* The Company's software applications are either physically or electronically delivered to customers with standard transfer terms such as FOB shipping point. Software and/or software license keys for add-on orders or software updates are typically delivered in an electronic format. If products that are essential to the functionality of the delivered software in an arrangement have not been delivered, the Company does not consider delivery to have occurred. Services revenue is recognized when the services are completed, except for customer support, which is recognized ratably over the term of the customer support agreement, which is typically one year.

**Table of Contents****CommVault Systems, Inc.****Notes to Consolidated Financial Statements Unaudited (continued)****(In thousands, except per share data)**

*Vendor's fee is fixed or determinable.* The fee customers pay for software applications, customer support and other professional services is negotiated at the outset of a sales arrangement. The fees are therefore considered to be fixed or determinable at the inception of the arrangement. The Company evaluates instances when extended payment terms are granted to determine if revenue should be deferred until payment becomes due.

*Collection is probable.* Probability of collection is assessed on a customer-by-customer basis. Each new customer undergoes a credit review process to evaluate its financial position and ability to pay. If the Company determines from the outset of an arrangement that collection is not probable based upon the review process, revenue is recognized at the earlier of when cash is collected or when sufficient credit becomes available, assuming all of the other basic revenue recognition criteria are met.

The Company's sales arrangements generally do not include acceptance clauses. However, if an arrangement does include an acceptance clause, revenue for such an arrangement is deferred and recognized upon acceptance. Acceptance occurs upon the earliest of receipt of a written customer acceptance, waiver of customer acceptance or expiration of the acceptance period.

**Deferred Revenue**

Deferred revenues represent amounts collected from, or invoiced to, customers in excess of revenues recognized. This results primarily from the billing of annual customer support agreements, as well as billings for other professional services fees that have not yet been performed by the Company and receipt of license fees that are deferred due to one of the revenue recognition criteria not being met. The value of deferred revenues will increase or decrease based on the timing of invoices and recognition of revenue. The Company expenses internal direct and incremental costs related to contract acquisition and origination as incurred.

Deferred revenue consists of the following:

	<b>December 31, 2013</b>	<b>March 31, 2013</b>
<b>Current:</b>		
Deferred software revenue	\$ 603	\$ 9,193
Deferred services revenue	156,382	143,774
	\$ 156,985	\$ 152,967
<b>Non-current:</b>		
Deferred services revenue	\$ 35,850	\$ 31,303



Total Deferred Revenue	\$ 192,835	\$ 184,270
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***Cash and Cash Equivalents***

The Company considers all liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. As of December 31, 2013, the Company's cash equivalents consisted of money market funds.

***Short-term Investments***

Short-term investments consist of investments with maturities of twelve months or less that do not meet the criteria to be cash equivalents. The company determines classification of the investment as trading, available-for-sale or held-to-maturity at the time of purchase and reevaluates classification whenever changes in circumstances indicate changes in classification may be necessary. The Company's current short-term investments are classified as held-to-maturity. Held-to-maturity investments consist of securities that the Company has the intent and ability to retain until maturity. Held-to-maturity investments are initially recorded at cost and adjusted for the amortization of discounts from the date of purchase through maturity.

Income related to investments is recorded as interest income in the Consolidated Statement of Income. Cash inflows and outflows related to the sale, maturity and purchase of investments are classified as investing activities in the Company's Consolidated Statements of Cash Flows.

**Table of Contents****CommVault Systems, Inc.****Notes to Consolidated Financial Statements Unaudited (continued)****(In thousands, except per share data)*****Fair Value of Financial Instruments***

The carrying amounts of the Company's cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximate their fair values due to the short-term maturity of these instruments. As of December 31, 2013, the Company's short-term investments balance consisted of U.S. Treasury Bills.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for such asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables summarize the fair value of the Company's financial assets at December 31, 2013 and March 31, 2013:

<b>December 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents	\$ 372,088			\$ 372,088
Short-term Investments		\$ 24,990		\$ 24,990

<b>March 31, 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash equivalents	\$ 342,458			\$ 342,458
Short-term Investments	\$ 1,948			\$ 1,948

Valuations of level 2 instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, or broker or dealer quotations. There were no transfers between levels in any periods presented.

***Concentration of Credit Risk***

The Company grants credit to customers in a wide variety of industries worldwide and generally does not require collateral. Credit losses have historically not been significant.

Sales through the Company's distribution agreement with Arrow Enterprise Computing Solutions, Inc. ( Arrow ) totaled 31% and 28% of total revenues for the nine months ended December 31, 2013 and 2012, respectively. Arrow accounted for approximately 34% and 39% of total accounts receivable as of December 31, 2013 and March 31, 2013, respectively.

The Company has a non-exclusive distribution agreement covering our North American markets with Avnet Technology Solutions ( Avnet ), a subsidiary of Avnet, Inc. Avnet accounted for 11% of accounts receivable as of December 31, 2013.

The Company has an original equipment manufacturer agreement with Hitachi Data Systems for them to market, sell and support CommVault's software applications and services on a stand-alone basis and/or incorporate the Company's software applications into their own hardware products. Hitachi Data Systems accounted for 18% of accounts receivable as of December 31, 2013.

The Company currently has a worldwide reseller agreement with Dell Inc. ( Dell ). The reseller agreement with Dell provides them the right to market, resell and distribute certain of the Company's products to end user customers. Historically, there was also an original equipment manufacturer agreement with Dell, which was terminated in December of 2013. The Company believes the termination of this agreement will not have a material effect on the business.

**Table of Contents****CommVault Systems, Inc.****Notes to Consolidated Financial Statements Unaudited (continued)****(In thousands, except per share data)**

For the nine months ended December 31, 2013 and 2012, sales through both agreements (reseller and original equipment manufacturer) with Dell accounted for 17% and 20%, respectively, of total revenues. Sales through both agreements with Dell accounted for 11% and 19% of total revenues for the three months ended December 31, 2013 and 2012, respectively. Revenue transacted through Dell as a percentage of total revenue is expected to continue to decline as the Company transitions Dell related end-user customers to alternative distribution channels. Dell accounted for 7% and 23% of accounts receivable as of December 31, 2013 and March 31, 2013, respectively.

***Recently Issued Accounting Standards***

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This amendment requires an entity to present, either on the face of the financial statement or in the notes, the effects on the line items of net income due to significant amounts reclassified out of accumulated other comprehensive income, as well as provide cross-references to other required reclassification disclosures, where applicable. The adoption of the new pronouncement on April 1, 2013 did not have an impact on the Company's consolidated financial position, results of operations or cash flows. There have been no amounts reclassified out of accumulated other comprehensive income in any periods presented.

There have been no other accounting pronouncements issued but not yet adopted by the Company which are expected to have a material impact on the Company's financial position, results of operations or cash flows.

**3. Property and Equipment**

Property and equipment consist of the following:

	<b>December 31, 2013</b>	<b>March 31, 2013</b>
Construction in process	\$ 58,379	\$ 10,162
Computers, servers and other equipment	28,210	25,513
Leasehold improvements	8,869	8,279
Furniture and fixtures	2,356	2,183
Purchased software	2,183	1,970
	99,997	48,107
Less: Accumulated depreciation and amortization	(31,315)	(26,995)
	\$ 68,682	\$ 21,112

Construction in process at December 31, 2013 is comprised of the purchase of land and related design and construction cost for the Company's planned corporate campus headquarters, which the Company expects to finalize over approximately the next 10-16 months. The cost of land included in construction in process at December 31, 2013 is \$5,915.

#### **4. Net Income per Common Share**

Basic net income per common share is computed by dividing net income by the weighted average number of common shares during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and the vesting of restricted stock units. The dilutive effect of such potential common shares is reflected in diluted earnings per share by application of the treasury stock method.

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## CommVault Systems, Inc.

## Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

The following table sets forth the computation of basic and diluted net income per common share:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
Net income	\$ 17,591	\$ 12,200	\$ 48,407	\$ 36,224
<b>Basic net income per common share:</b>				
Basic weighted average shares outstanding	47,307	45,738	46,921	45,203
Basic net income per common share	\$ 0.37	\$ 0.27	\$ 1.03	\$ 0.80
<b>Diluted net income per common share:</b>				
Basic weighted average shares outstanding	47,307	45,738	46,921	45,203
Dilutive effect of stock options and restricted stock units	2,592	2,826	2,753	2,796
Diluted weighted average shares outstanding	49,899	48,564	49,674	47,999
Diluted net income per common share	\$ 0.35	\$ 0.25	\$ 0.97	\$ 0.75

The diluted weighted average shares outstanding in the table above exclude outstanding stock options and restricted stock units totaling approximately 1,524 and 894 for the three months ended December 31, 2013 and 2012, respectively, and 716 and 507 for the nine months ended December 31, 2013 and 2012, respectively, because the effect would have been anti-dilutive.

**5. Commitments and Contingencies**

In the normal course of its business, the Company may be involved in various claims, negotiations and legal actions. As of December 31, 2013, the Company is not aware of any asserted or unasserted claims, negotiations and legal actions for which a loss is considered reasonably possible of occurring and would require disclosure under the guidance.

**6. Capitalization**

On October 24, 2013 the Company's Board of Directors authorized an increase and extension of the current stock repurchase program. The Company has repurchased approximately \$117,157 of common stock under the stock repurchase authorization and now may repurchase an additional \$150,000 of its common stock under the current program through March 31, 2015. The Company did not repurchase any shares during the nine months ended December 31, 2013.

**Table of Contents****CommVault Systems, Inc.****Notes to Consolidated Financial Statements Unaudited (continued)****(In thousands, except per share data)****7. Stock Plans**

The following summarizes the activity by award type for the Company's two stock incentive plans, the 1996 Stock Option Plan and the 2006 Long-Term Stock Incentive Plan, for the nine months ended December 31, 2013:

<b>Options</b>	<b>Number of Options</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding as of March 31, 2013	6,439	\$ 28.31		
Options granted	997	86.59		
Options exercised	(624)	21.43		
Options forfeited	(78)	47.99		
Options expired				
Outstanding as of December 31, 2013	6,734	\$ 37.35	6.26	\$ 264,990
Vested or expected to vest as of December 31, 2013	6,623	\$ 36.35	6.18	\$ 263,899
Exercisable as of December 31, 2013	4,001	\$ 19.55	4.55	\$ 221,297

The weighted average fair value of stock options granted was \$42.89 per option and \$42.33 per option during the three and nine months ended December 31, 2013, respectively, and \$26.29 per option and \$25.62 per option during the three and nine months ended December 31, 2012, respectively. The total intrinsic value of options exercised was \$5,339 and \$37,657 as of the three and nine months ended December 31, 2013, respectively, and \$29,239 and \$50,916 as of the three and nine months ended December 31, 2012, respectively. The Company's policy is to issue new shares upon exercise of options as the Company does not hold shares in treasury.

The assumptions used in the Black-Scholes option-pricing model are as follows:

	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Dividend yield	None	None	None	None



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Expected volatility	42%-46%	47%-50%	42%-47%	45%-50%
Weighted average expected volatility	46%	47%	46%	47%
Risk-free interest rates	1.34%-2.11%	0.63%-1.09%	0.70%-2.11%	0.60%-1.09%
Weighted average expected life (in years)	7.1	6.4	7.0	6.3

Restricted stock unit activity for the nine months ended December 31, 2013 is as follows:

<b>Non-vested Restricted Stock Units</b>	<b>Number of Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested as of March 31, 2013	1,198	\$ 46.45
Awarded	529	85.76
Vested	(369)	41.29
Forfeited	(66)	50.35
Non-vested as of December 31, 2013	1,292	\$ 63.95

**Table of Contents****CommVault Systems, Inc.****Notes to Consolidated Financial Statements Unaudited (continued)****(In thousands, except per share data)**

The weighted average fair value of restricted stock units awarded was \$86.55 per unit and \$85.76 per unit during the three and nine months ended December 31, 2013, respectively, and \$56.82 per unit and \$55.62 per unit during the three and nine months ended December 31, 2012.

The following table presents the stock-based compensation expense included in cost of services revenue, sales and marketing, research and development and general and administrative expenses for the three and nine months ended December 31, 2013 and 2012.

	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Cost of services revenue	\$ 417	\$ 280	\$ 1,008	\$ 659
Sales and marketing	5,990	4,169	14,336	9,591
Research and development	1,221	852	3,117	2,114
General and administrative	6,618	3,683	16,075	8,697
<b>Stock-based compensation expense</b>	<b>\$ 14,246</b>	<b>\$ 8,984</b>	<b>\$ 34,536</b>	<b>\$ 21,061</b>

As of December 31, 2013, there was approximately \$140,051 of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock option and restricted stock unit awards that is expected to be recognized over a weighted average period of 2.68 years. To the extent the actual forfeiture rate is different from what the Company has estimated, stock-based compensation related to these awards will be different from the Company's current estimate.

**8. Income Taxes***Income Tax Expense*

Income tax expense was \$10,352 and \$27,808 in the three and nine months ended December 31, 2013, respectively with an effective tax rate of 37% and 36% in the three and nine months ended December 31, 2013, respectively. The effective rate in the three and nine months ended December 31, 2013 approximates the federal statutory rate but is impacted by state income taxes and permanent differences in both the United States and foreign jurisdictions partially offset by income tax benefits from research and development tax credits, foreign tax credits, and domestic production activities deductions.

Income tax expense was \$8,326 and \$23,568 in the three and nine months ended December 31, 2012, respectively, with effective tax rates of 41% and 39%, respectively. The effective rates in the three and nine months ended

December 31, 2012 are higher than the expected federal statutory rate of 35% primarily due to state income taxes and permanent differences in both the United States and foreign jurisdictions partially offset by income tax benefits from recording foreign tax credits and domestic production activities deductions.

*Unrecognized Tax Benefits*

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in each of its tax jurisdictions. The number of years with open tax audits varies depending on the tax jurisdiction. A number of years may lapse before a particular matter is audited and finally resolved. A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

Balance at March 31, 2013	\$ 4,570
Additions for tax positions related to fiscal 2014	318
Additions for tax positions related to prior years	
Settlements	
Reductions related to the expiration of statutes of limitations	(91)
Foreign currency translation adjustment	60
Balance at December 31, 2013	\$ 4,857

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**CommVault Systems, Inc.**

**Notes to Consolidated Financial Statements Unaudited (continued)**

**(In thousands, except per share data)**

All of the Company's unrecognized tax benefits would favorably impact the effective tax rate if they were recognized. Components of the reserve are classified as either current or long-term in the Consolidated Balance Sheet based on when the Company expects each of the items to be settled. Accordingly, the Company has recorded its unrecognized tax benefits of \$4,857 and \$4,570 and the related accrued interest and penalties of \$955 and \$842 in Other Liabilities on the Consolidated Balance Sheet at December 31, 2013 and March 31, 2013, respectively. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense.

*Other Tax Items*

Excess tax benefits related to share-based payments are credited to equity. When determining this excess tax benefit, the Company elected to follow the tax law approach. As a result, the Company's excess tax benefit which was recorded to equity was approximately \$20,169 and \$18,157 for the nine months ended December 31, 2013 and 2012, respectively.

The Company conducts business globally and as a result, files income tax returns in the United States and in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Australia, Canada, Germany, Netherlands and United Kingdom. The Company's U.S. Federal income tax return for the fiscal year ended March 31, 2011 is currently under audit by the U.S. Internal Revenue Service. In addition, the Company's German subsidiary's income tax returns for the fiscal years ended March 31, 2006 through March 31, 2010 are currently under audit by the German tax authorities.

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**Table of Contents****Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis along with our consolidated financial statements and the related notes included elsewhere in this quarterly report on Form 10-Q. The statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2013. Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

**Overview**

We are a leading provider of data and information management software applications and related services in terms of product breadth and functionality and market penetration. We develop, market and sell a unified suite of data and information management software applications under the Simpiana® brand. Simpiana software is built from the ground up on a single platform and unified code base for integrated data and information management. The Simpiana platform contains licensable modules that work together seamlessly, sharing a single code and common function set to deliver Backup and Recovery, Archive, Replication, Search and Analytic capabilities across physical, virtual and cloud environments. With a single platform approach, Simpiana software is specifically designed to protect, manage and access data throughout its lifecycle in less time, at lower cost and with fewer resources than alternative solutions. Our product features and capabilities enable our customers to deploy solutions for data protection, business continuance, corporate compliance and centralized management and reporting. We also provide our customers with a broad range of professional services that are delivered by our worldwide support and field operations. As of December 31, 2013, we had licensed our software applications to approximately 19,500 registered customers.

In February 2013, our CommVault Simpiana 10.0 software suite ( Simpiana 10 ) was made available for public release. We believe Simpiana 10 extends our data protection and archiving leadership to deliver secure, self-service access from mobile devices, speed the adoption of cloud computing and extract value from Big Data. Simpiana 10 includes major technology advancements such as Enhanced IntelliSnap snapshot management; Simpiana OnePass with Exchange; tighter integration with Microsoft Hyper-V, VMware vSphere 5.1 and vCloud Director 5.1; workflow automation; fourth-generation parallel deduplication; and customizable web-based reporting, dashboards and cloud-based analytics. Our Simpiana 10 architecture efficiently stores all protected data in a virtual repository, called ContentStore, and opens access to simplify the way end users search, analyze and repurpose data across an enterprise.

Our software licenses typically provide for a perpetual right to use our software and are sold on a capacity basis, on a per-copy basis or as site licenses. Approximately 77% of software license transactions were sold on a capacity basis during the nine months ended December 31, 2013 and approximately 68% of software license transactions were sold on a capacity basis during the nine months ended December 31, 2012. Capacity based software licenses provide our customers with unlimited licenses of specified software products based on a defined level of terabytes of data under management. As a result, when we sell our platform through a capacity license, many of the various Simpiana functionalities are bundled into one capacity based price. We anticipate that capacity based licenses will continue to account for the majority of our software license transactions for the foreseeable future.

The industry in which we currently operate continues to go through accelerating changes as the result of compounding data growth and the introduction of new technologies. We are continuing to pursue an aggressive product development program in both data and information management solutions. Our data management solutions include not only traditional backup, but also new innovations in de-duplication, data movement, virtualization, snap-based backups and enterprise reporting. Our information management innovations are primarily in the areas of archiving,

eDiscovery, records management, governance and compliance. We remain focused on both the data and information management trends in the marketplace and, in fact, a material portion of our existing research and development expenses are utilized toward the development of such new technologies discussed above. While we are confident in our ability to meet these changing industry demands with our Simpana suite and potential future releases, the development, release and timing of any features or functionality remain at our sole discretion and our solutions or other technologies may not be widely adopted.

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The rapid growth of data, and the need to securely protect, manage and access this data is driving substantial opportunities for managed service providers (MSPs) to help organizations deploy and manage solutions that deliver data management capabilities. The result is reduced long-term management costs with increased offerings to customers, which we believe represents a long-term industry trend in the way that services are offered.

Given the nature of the industry in which we operate, our software applications are subject to obsolescence. As noted above, we continually develop and introduce updates to our existing software applications in order to keep pace with evolving industry technologies. In addition, we must address evolving industry standards, changing customer requirements and competitive software applications that may render our existing software applications obsolete. For each of our software applications, we provide full support for the current generally available release and one prior release. When we declare a product release obsolete, a customer notice is delivered twelve months prior to the effective date of obsolescence announcing continuation of full product support for the first six months. We provide an additional six months of extended assistance support in which we only provide existing workarounds or fixes that do not require additional development activity. We do not have existing plans to make any of our software products permanently obsolete.

## ***Sources of Revenues***

We derive approximately half of our total revenues from sales of licenses of our software applications. We do not customize our software for a specific end-user customer. We sell our software applications to end-user customers both directly through our sales force and indirectly through our global network of value-added reseller partners, systems integrators, corporate resellers and original equipment manufacturers. Our software revenue was 50% of our total revenues for the nine months ended December 31, 2013 and 2012.

In recent fiscal years, we have generated approximately two-thirds of our software revenue from our existing customer base and approximately one-third of our software revenue from new customers. In addition, our total software revenue in any particular period is, to a certain extent, dependent upon our ability to generate revenues from large customer software deals, which we refer to as enterprise software transactions (transactions greater than \$0.1 million). We expect the number of enterprise software transactions and resulting software revenue to continue to increase, although the size and timing of any particular software transaction is more difficult to forecast. Such software transactions represented approximately 58% of our total software revenue in the nine months ended December 31, 2013 and approximately 57% of our total software revenue in the nine months ended December 31, 2012.

Software revenue generated through indirect distribution channels was approximately 89% of total software revenue in the nine months ended December 31, 2013 and was approximately 87% of total software revenue in the nine months ended December 31, 2012. The dollar value of software revenue generated through indirect distribution channels increased approximately \$34.7 million, or 22%, in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012. The increase in software revenue generated through our indirect distribution channel is primarily due to a higher dollar value related to enterprise software transactions in both our international operations and U.S. operations in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012. Enterprise transactions are usually conducted through indirect sales channels. Software revenue generated by our international operations is almost exclusively transacted through indirect distribution channels.

Software revenue generated through direct distribution channels was approximately 11% of total software revenue in the nine months ended December 31, 2013 and was approximately 13% of total software revenue in the nine months ended December 31, 2012. The dollar value of software revenue generated through direct distribution channels increased \$1.3 million, or 6%, in the nine months ended December 31, 2013 compared to the nine months ended

December 31, 2012. The lower growth in our direct distribution channel relative to our indirect distribution channel is due to a shift in enterprise transactions conducted through direct distribution channels to indirect distribution channels. In the prior year nine month period a higher proportion of our enterprise software revenue in the United States was sold through our direct sales channel. Deals initiated by our direct sales force are sometimes transacted through indirect channels based on end-user customer requirements, which are not always in our control and can cause this overall percentage split to vary from period to period. As such, there may be fluctuations in the dollars and percentage of software revenue generated through our direct distribution channels from time to time.



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We believe that the growth of our software revenue, derived from both our indirect channel partners and direct sales force, are key attributes to our long-term growth strategy. We will continue to invest in both our channel relationships and direct sales force in the future, but we continue to expect more revenue to be generated through indirect distribution channels over the long term. The failure of our indirect distribution channels or our direct sales force to effectively sell our software applications could have a material adverse effect on our revenues and results of operations.

We currently have a worldwide reseller agreement with Dell. Our reseller agreement with Dell provides them the right to market, resell and distribute certain of our products to end user customers. Historically, we also had an original equipment manufacturer agreement with Dell, which was terminated in December of 2013. We believe the termination of this agreement will not have a material effect on our business.

For the nine months ended December 31, 2013 and 2012, sales through both of our agreements with Dell accounted for 17% and 20%, respectively, of our total revenues. Sales through both of our agreements with Dell accounted for 11% and 19% of our total revenues for the three months ended December 31, 2013 and 2012, respectively. We expect revenue transacted through Dell as a percentage of our total revenue to continue to decline as we transition our Dell related end-user customers to alternative distribution channels.

We have a global original equipment manufacturer agreement with NetApp under which NetApp will integrate elements of our Simpana software suite with NetApp SnapShot and replication technology, under the NetApp SnapProtect® brand.

We also have an original equipment manufacturer agreement with Hitachi Data Systems for them to market, sell and support our software applications and services on a stand-alone basis and/or incorporate our software applications into their own hardware products. Hitachi Data Systems and NetApp have no obligation to recommend or offer our software applications exclusively or at all, and they have no minimum sales requirements and can terminate our relationship at any time. Sales through our original equipment manufacturer agreements, including the terminated Dell original equipment agreement, accounted for 13% of our total revenues for the nine months ended December 31, 2013 and 14% of our total revenues for the nine months ended December 31, 2012.

We also have non-exclusive distribution agreements covering our North American commercial markets and our U.S. Federal Government market with Arrow and Avnet. Pursuant to these distribution agreements, these distributors primary role is to enable a more efficient and effective distribution channel for our products and services by managing our reseller partners and leveraging their own industry experience. Most of our North American resellers have been transitioned to either Arrow or Avnet. We generated approximately 31% of our total revenues through Arrow in the nine months ended December 31, 2013 and approximately 28% in the nine months ended December 31, 2012. If Arrow or Avnet were to discontinue or reduce the sales of our products or if our agreement with Arrow or Avnet was terminated, and if we were unable to take back the management of our reseller channel or find another North American distributor to replace Arrow or Avnet, then it could have a material adverse effect on our business.

We derive approximately half of our total revenues from services revenue. Our services revenue is made up of fees from the delivery of customer support and other professional services, which are typically sold in connection with the sale of our software applications. Customer support agreements provide technical support and unspecified software updates on a when-and-if-available basis for an annual fee based on licenses purchased and the level of service subscribed. Other professional services include consulting, assessment and design services, implementation and post-deployment services and training, all of which to date have predominantly been sold in connection with the sale of software applications. Our services revenue was 50% of our total revenues for the nine months ended December 31, 2013 and 2012.

The gross margin of our services revenue was 75.5% for the nine months ended December 31, 2013 and 74.8% for the nine months ended December 31, 2012. Overall, our services revenue has lower gross margins than our software revenue. The gross margin of our software revenue was 99.1% for nine months ended December 31, 2013 and 98.8% for the nine months ended December 31, 2012. An increase in the percentage of total revenues represented by services revenue may adversely affect our overall gross margin percentage.

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### ***Description of Costs and Expenses***

Our cost of revenues is as follows:

*Cost of Software Revenue*, consists primarily of third-party royalties and other costs such as media, manuals, translation and distribution costs; and

*Cost of Services Revenue*, consists primarily of salary and employee benefit costs in providing customer support and other professional services.

Our operating expenses are as follows:

*Sales and Marketing*, consists primarily of salaries, commissions, employee benefits, stock-based compensation and other direct and indirect business expenses, including travel and related expenses, sales promotion expenses, public relations expenses and costs for marketing materials and other marketing events (such as trade shows and advertising);

*Research and Development*, which is primarily the expense of developing new software applications and modifying existing software applications, consists principally of salaries, stock-based compensation and benefits for research and development personnel and related expenses; contract labor expense and consulting fees as well as other expenses associated with the design, certification and testing of our software applications; and legal costs associated with the patent registration of such software applications;

*General and Administrative*, consists primarily of salaries, stock-based compensation and benefits for our executive, accounting, human resources, legal, information systems and other administrative personnel. Also included in this category are other general corporate expenses, such as outside legal and accounting services, compliance costs and insurance; and

*Depreciation and Amortization*, consists of depreciation expense primarily for computer equipment, servers and other we use for information services and in our development and test labs.

### **Foreign Currency Exchange Rates Impact on Results of Operations**

Sales outside the United States were approximately 42% of our total revenue for the nine months ended December 31, 2013 and 40% for the nine months ended December 31, 2012. The income statements of our non-U.S. operations are translated into U.S. dollars at the average exchange rates for each applicable month in a period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions generally results in increased revenue, operating expenses and income from operations for our non-U.S. operations. Similarly, our revenue, operating expenses and net income will generally decrease for our non-U.S. operations if the U.S. dollar strengthens against foreign currencies.

Using the average foreign currency exchange rates from the three months ended December 31, 2012 our total revenues would have been higher by \$0.3 million, our cost of sales would have been higher by \$0.2 million and our operating expenses would have been higher by \$0.7 million from non-U.S. operations for the three months ended December 31, 2013. For the nine months ended December 31, 2013, our total revenues would have been higher by \$0.9 million, our cost of sales would have been higher by \$0.4 million and our operating expenses would have been higher by \$1.6 million from non-U.S. operations.

In addition, we are exposed to risks of foreign currency fluctuation primarily from cash balances, accounts receivables and intercompany accounts denominated in foreign currencies and are subject to the resulting transaction gains and losses, which are recorded as a component of general and administrative expenses. We recognized net foreign currency transaction gains of less than \$0.1 million and \$0.4 million in the three and nine months ended December 31, 2013, respectively, and net foreign currency transaction losses of approximately \$0.1 million in the three and nine months ended December 31, 2012, respectively.

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### **Critical Accounting Policies**

In presenting our consolidated financial statements in conformity with U.S. generally accepted accounting principles, we are required to make estimates and judgments that affect the amounts reported therein. Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates on historical experience and on various other assumptions that we believe to be reasonable and appropriate. Actual results may differ significantly from these estimates. The following is a description of our accounting policies that we believe require subjective and complex judgments, which could potentially have a material effect on our reported financial condition or results of operations.

#### ***Revenue Recognition***

Our revenue recognition policy is based on complex rules that require us to make significant judgments and estimates. In applying our revenue recognition policy, we must determine which portions of our revenue are recognized currently (generally software revenue) and which portions must be deferred and recognized in future periods (generally services revenue). We analyze various factors including, but not limited to, the sales of undelivered services when sold on a stand-alone basis, our pricing policies, the credit-worthiness of our customers and resellers, accounts receivable aging data and contractual terms and conditions in helping us to make such judgments about revenue recognition. Changes in judgment on any of these factors could materially impact the timing and amount of revenue recognized in a given period.

Currently, we derive revenues from two primary sources: software licenses and services. Services include customer support, consulting, assessment and design services, installation services and training. A typical sales arrangement includes both software licenses and services.

For sales arrangements involving multiple elements, we recognize revenue using the residual method. Under the residual method, we allocate and defer revenue for the undelivered elements based on fair value and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of the undelivered elements in multiple-element arrangements is based on the price charged when such elements are sold separately, which is commonly referred to as vendor-specific objective evidence ( VSOE ).

Our software licenses typically provide for a perpetual right to use our software and are sold on a per-copy basis, on a capacity basis or as site licenses. Software licenses sold on a capacity basis provide the customer with unlimited licenses of specified software products based on a defined level of terabytes of data under management. Site licenses give the customer the additional right to deploy the software on a limited basis during a specified term. We recognize software revenue through direct sales channels upon receipt of a purchase order or other persuasive evidence and when the other three basic revenue recognition criteria are met as described in the revenue recognition section in Note 2 of our *Notes to Consolidated Financial Statements*. We recognize software revenue through all indirect sales channels on a sell-through model. A sell-through model requires that we recognize revenue when the basic revenue recognition criteria are met and these channels complete the sale of our software products to the end-user. Revenue from software licenses sold through an original equipment manufacturer partner is recognized upon the receipt of a royalty report or purchase order from that original equipment manufacturer partner.

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches. Customer support revenue is recognized ratably over the term of the customer support agreement, which is typically one year. To determine the price for the customer support element when sold separately, we primarily use

historical renewal rates. Historical renewal rates are supported by a rolling 12-month VSOE analysis in which we segregate our customer support renewal contracts into different classes based on specific criteria including, but not limited to, dollar amount of software purchased, level of customer support being provided and distribution channel. The purpose of such an analysis is to determine if the customer support element that is deferred at the time of a software sale is consistent with how it is sold on a stand-alone renewal basis.

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Our other professional services include consulting; implementation and post deployment services; and education services. Other professional services provided by us are not mandatory and can also be performed by the customer or a third-party. In addition to a signed purchase order, our consulting, assessment and design services and installation services are, in some cases, evidenced by a Statement of Work, which defines the specific scope of the services to be performed when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Revenues from consulting, assessment and design services and installation services are based upon a daily, weekly or monthly rate and are recognized when the services are completed. Training includes courses taught by our instructors or third-party contractors either at one of our facilities or at the customer's site. Training fees are recognized as revenue after the training course has been provided. Based on our analysis of such other professional services transactions sold on a stand-alone basis, we have concluded we have established VSOE for such other professional services when sold in connection with a multiple-element sales arrangement.

In summary, we have analyzed all of the undelivered elements included in our multiple-element sales arrangements and determined that we have VSOE of fair value to allocate revenues to services. Our analysis of the undelivered elements has provided us with results that are consistent with the estimates and assumptions used to determine the timing and amount of revenue recognized in our multiple-element sales arrangements. Accordingly, assuming all basic revenue recognition criteria are met, software revenue is recognized upon delivery of the software license using the residual method. We are not likely to materially change our pricing and discounting practices in the future.

Our sales arrangements generally do not include acceptance clauses. However, if an arrangement does include an acceptance clause, we defer the revenue for such an arrangement and recognize it upon acceptance. Acceptance occurs upon the earliest of receipt of a written customer acceptance, waiver of customer acceptance or expiration of the acceptance period.

### ***Stock-Based Compensation***

As of December 31, 2013, we maintain two stock incentive plans. We account for our stock incentive plans based on the grant date fair value recognition provisions in accordance with ASC 718. We estimated the fair value of stock options granted using the Black-Scholes formula. The fair value of restricted stock units awarded is determined based on the number of shares granted and the closing price of our common stock on the date of grant. Compensation for all share-based payment awards is recognized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Forfeitures are estimated based on a historical analysis of our actual stock award forfeitures. We anticipate that future grants under our stock incentive plans will include both non-qualified stock options and restricted stock units.

For the three and nine months ended December 31, 2013, our calculation of expected term includes a combination of actual exercise data and an assumption on when the remaining outstanding options with similar characteristics will be exercised based on our historical data. In determining expected life, we separate employees into groups that have historically exhibited similar behavior with regard to option exercises.

Expected volatility for the three and nine months ended December 31, 2013 was calculated based on the implied volatility of our traded options with a maturity greater than six months and the historical realized volatility of our common stock.

For the three months and nine ended December 31, 2013, the risk-free interest rate is determined by reference to U.S. Treasury yield curve rates with a remaining term that is approximately the expected life assumed at the date of grant. Forfeitures are estimated based on our historical analysis of actual stock option forfeitures.





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The assumptions used in the Black-Scholes option-pricing model in the three and nine months ended December 31, 2013 and 2012 are as follows:

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Dividend yield	None	None	None	None
Expected volatility	42%-46%	47%-50%	42%-47%	45%-50%
Weighted average expected volatility	46%	47%	46%	47%
Risk-free interest rates	1.34%-2.11%	0.63%-1.09%	0.70%-2.11%	0.60%-1.09%
Weighted average expected life (in years)	7.1	6.4	7.0	6.3

The weighted average fair value of stock options granted was \$42.89 per option and \$42.33 per option during the three and nine months ended December 31, 2013, respectively, and \$26.29 per option and \$25.62 per option during the three and nine months ended December 31, 2012, respectively. In addition, the weighted average fair value of restricted stock units awarded was \$86.55 per unit and \$85.76 per unit during the three and nine months ended December 31, 2013, respectively, and \$56.82 per unit and \$55.62 per unit during the three and nine months ended December 31, 2012.

As of December 31, 2013, there was approximately \$140.1 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock option and restricted stock unit awards that is expected to be recognized over a weighted average period of 2.68 years. To the extent the actual forfeiture rate is different from what the Company has estimated, stock-based compensation related to these awards will be different from the Company's current estimate.

**Accounting for Income Taxes**

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, and assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. As of December 31, 2013, we had net deferred tax assets of approximately \$44.6 million, which were primarily related to federal and state research tax credit carryforwards, stock-based compensation and foreign net operating loss carryforwards. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe recovery is not likely, we establish a valuation allowance.

As of December 31, 2013 we had unrecognized tax benefits of \$4.9 million, all of which, if recognized, would favorably affect the effective tax rate. In addition, we have accrued interest and penalties of \$1.0 million related to the unrecognized tax benefits. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. Components of the reserve are classified as either current or long-term in the Consolidated Balance Sheet based on when we expect each of the items to be settled. Accordingly, our unrecognized tax benefits of \$4.9 million and the related accrued interest and penalties of \$1.0 million are included in Other Liabilities on the Consolidated Balance Sheet.

We conduct business globally and as a result, file income tax returns in the United States and in various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Australia, Canada, Germany, Netherlands and

United Kingdom. Our U.S. Federal income tax return for the fiscal year ended March 31, 2011 is currently under audit by the U.S. Internal Revenue Service. In addition, our German subsidiary's income tax returns for the fiscal years ended March 31, 2006 through March 31, 2010 are currently under audit by the German tax authorities.

**Table of Contents*****Software Development Costs***

Research and development expenditures are charged to operations as incurred. Based on our software development process, technological feasibility is established upon completion of a working model, which also requires certification and extensive testing. Costs incurred by us between completion of the working model and the point at which the product is ready for general release are immaterial.

**Results of Operations**

The following table sets forth each of our sources of revenues and costs of revenues for the specified periods as a percentage of our total revenues for those periods (due to rounding, numbers in column may not sum to totals):

	<b>Three Months Ended December 31,</b>		<b>Nine Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>				
Software	52%	51%	50%	50%
Services	48	49	50	50
Total revenues	100%	100%	100%	100%
<b>Cost of revenues:</b>				
Software		1%		1%
Services	12	12	12	13
Total cost of revenues	12%	13%	13%	13%
Gross margin	88%	87%	87%	87%

***Three months ended December 31, 2013 compared to three months ended December 31, 2012******Revenues***

Total revenues increased \$25.1 million, or 20%, from \$128.1 million in the three months ended December 31, 2012 to \$153.3 million in the three months ended December 31, 2013.

**Software Revenue.** Software revenue increased \$13.3 million, or 20%, from \$65.9 million in the three months ended December 31, 2012 to \$79.2 million in the three months ended December 31, 2013. Software revenue represented 52% of our total revenues in the three months ended December 31, 2013 and compared to 51% of total revenues in the three months ended December 31, 2012.

The increase in software revenue is primarily due to higher software revenue derived from our international operations, which increased 32% in the three months ended December 31, 2013 compared to the three months ended December 31, 2012. In addition, software revenue from our U.S operations increased 11% in the three months ended December 31, 2013 compared to the three months ended December 31, 2012. The growth in software revenue in our

international locations is primarily due to increases in Europe.

Software revenue derived from enterprise software transactions (transactions greater than \$0.1 million) represented approximately 61% of our software revenue in the three months ended December 31, 2013 and approximately 58% of our software revenue in the three months ended December 31, 2012. As a result, enterprise software transactions increased by \$9.4 million, or 24%, in the three months ended December 31, 2013 compared to the three months ended December 31, 2012. This increase was primarily driven by a 14% increase in the total number of enterprise deals as well as a 9% increase in the average dollar amount of such transactions. The average dollar amount of such transactions was approximately \$284,000 in the three months ended December 31, 2013 and approximately \$260,000 in the three months ended December 31, 2012. Software revenue derived from transactions less than \$0.1 million increased \$3.9 million, or 14%, in the three months ended December 31, 2013 compared to the three months ended December 31, 2012.

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Software revenue derived from our indirect distribution channel (resellers and original equipment manufacturers) increased \$10.6 million, or 19%, in the three months ended December 31, 2013 compared to the three months ended December 31, 2012, and software revenue through our direct sales force increased \$2.8 million, or 31%, in the three months ended December 31, 2013 compared to the three months ended December 31, 2012. During the three months ended December 31, 2013 a higher proportion of enterprise revenue was transacted through direct sales channels.

*Services Revenue.* Services revenue increased \$11.8 million, or 19%, from \$62.2 million in the three months ended December 31, 2012 to \$74.0 million in the three months ended December 31, 2013. Services revenue represented 48% of our total revenues in the three months ended December 31, 2013 and 49% in the three months ended December 31, 2012. The increase in services revenue is primarily due to a \$10.1 million increase in revenue from customer support agreements as a result of software sales to new customers and renewal agreements with our installed software base.

*Cost of Revenues.* Total cost of revenues increased \$2.0 million, or 12%, from \$16.5 million in the three months ended December 31, 2012 to \$18.5 million in the three months ended December 31, 2013. Total cost of revenues represented 12% of our total revenues in three months ended December 31, 2013 and 13% in the three months ended December 31, 2012.

*Cost of Software Revenue.* Cost of software revenue decreased \$0.1 million from \$0.8 million in the three months ended December 31, 2012 to \$0.7 million in the three months ended December 31, 2013.

*Cost of Services Revenue.* Cost of services revenue increased \$2.1 million, or 14%, from \$15.7 million in the three months ended December 31, 2012 to \$17.8 million in the three months ended December 31, 2013. Cost of services revenue represented 24% of our services revenue in the three months ended December 31, 2013 and 25% in the three months ended December 31, 2012. The increase in cost of services revenue is primarily the result of higher employee compensation and related expenses totaling approximately \$1.8 million mainly due to the expansion of our worldwide customer support operations.

### *Operating Expenses*

*Sales and Marketing.* Sales and marketing expenses increased \$8.8 million, or 14%, from \$64.5 million in the three months ended December 31, 2012 to \$73.4 million in the three months ended December 31, 2013. The increase is primarily due to a \$4.5 million increase in employee compensation and related expenses mainly attributable to the expansion of our sales force from the prior year. The increase in sales and marketing expenses also includes a \$1.8 million increase in stock-based compensation expenses and a \$1.2 million increase in advertising and marketing related expenses as we continue to build brand awareness for our Simpana software products. Sales and marketing expenses as a percentage of total revenues decreased to 48% in the three months ended December 31, 2013 from 50% in the three months ended December 31, 2012.

*Research and Development.* Research and development expenses increased \$1.2 million, or 10%, from \$12.4 million in the three months ended December 31, 2012 to \$13.6 million in the three months ended December 31, 2013. The increase is primarily due to a \$0.8 million increase in salary and related expenses resulting from the expansion of our engineering group and a \$0.4 million increase in stock-based compensation expenses. Research and development expenses as a percentage of total revenues was 9% in the three months ended December 31, 2013 and 10% in the three months ended December 31, 2012. Investing in research and development has been a priority for CommVault, and we anticipate continued spending related to the development of our data and information management software applications.

*General and Administrative.* General and administrative expenses increased \$5.2 million, or 39%, from \$13.3 million in the three months ended December 31, 2012 to \$18.5 million in the three months ended December 31, 2013. This increase is primarily due to a \$2.9 million increase in stock-based compensation expenses and a \$1.1 million increase in salary and related expenses. The increase in General and administrative expenses in the three months

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ended December 31, 2013 also includes a \$0.5 million increase in professional fees. General and administrative expenses in the three months ended December 31, 2013 includes less than \$0.1 million of net foreign currency transaction gains compared to approximately \$0.1 million of net foreign currency transaction losses recognized in general and administrative expenses in the three months ended December 31, 2012. General and administrative expenses as a percentage of total revenues was 12% in the three months ended December 31, 2013 and 10% in the three months ended December 31, 2012.

*Depreciation and Amortization.* Depreciation expense increased by \$0.3 million from \$1.2 million in the three months ended December 31, 2012 to \$1.5 million in the three months ended December 31, 2013. This reflects higher depreciation associated with increased capital expenditures primarily over the past 12 months as we expand our worldwide operations. We expect depreciation expense to increase within the next 12 months due to our new corporate campus headquarters which is currently under construction.

*Income Tax Expense*

Income tax expense was \$10.4 million in the three months ended December 31, 2013 compared to \$8.3 million in the three months ended December 31, 2012. The effective tax rate in the three months ended December 31, 2013 was 37% as compared to 41% in the three months ended December 31, 2012. The effective rate in the three months ended December 31, 2013 approximates the federal statutory rate but is impacted by state income taxes and permanent differences in both the United States and foreign jurisdictions, partially offset by income tax benefits from research and development credits, foreign tax credits and domestic production activities deductions. The effective rate in the three months ended December 31, 2012 is higher than the expected federal statutory rate primarily due to state income taxes and permanent differences in both the United States and foreign jurisdictions, partially offset by income tax benefits from foreign tax credits and domestic production activities deductions. The decrease in the effective tax rate is primarily the result of increases in research and development tax credits during the current year.

*Nine months ended December 31, 2013 compared to nine months ended December 31, 2012**Revenues*

Total revenues increased \$71.9 million, or 20%, from \$357.6 million in the nine months ended December 31, 2012 to \$429.5 million in the nine months ended December 31, 2013.

*Software Revenue.* Software revenue increased \$36.0 million, or 20%, from \$179.4 million in the nine months ended December 31, 2012 to \$215.4 million in the nine months ended December 31, 2013. Software revenue represented 50% of our total revenues in both the nine months ended December 31, 2013 and 2012.

The increase in software revenue was primarily due to higher software revenue derived from enterprise software transactions (transactions greater than \$0.1 million), which increased by \$22.4 million or 22%, in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012. As a result, enterprise software transactions represented approximately 58% of our software revenue in the nine months ended December 31, 2013 and approximately 57% of our software revenue in the nine months ended December 31, 2012. The dollar increase was driven by both a 14% increase in the total number of such transactions as well as a 8% increase in the average dollar amount of enterprise deals. The average dollar amount of such transactions was approximately \$283,000 in the nine months ended December 31, 2013 and approximately \$263,000 in the nine months ended December 31, 2012. Software revenue derived from transactions less than \$0.1 million increased \$13.6 million, or 18%, in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012.

Software revenue derived from our U.S operations increased 19% in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012. In addition, software revenue from our international operations increased 22% in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012. The growth in software revenue in our international locations is primarily due to increases in Europe and Canada.



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Software revenue derived from our indirect distribution channel (resellers and original equipment manufacturers) increased \$34.7 million, or 22%, in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012, and software revenue through our direct sales force increased \$1.3 million, or 6%, in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012. The increase in software revenue generated through our indirect distribution channel is primarily due to a higher dollar value related to enterprise software transactions in both our international operations and U.S. operations in the nine months ended December 31, 2013 compared to the nine months ended December 31, 2012. Software revenue generated by our international operations is almost exclusively transacted through indirect distribution channels. The lower growth in software generated by our direct distribution channel relative to our indirect distribution channel is the result of a shift in enterprise transactions conducted through direct distribution channels versus indirect distribution channels. In the prior year nine month period a higher proportion of our enterprise software revenue in the United States was sold through our direct sales channel.

*Services Revenue.* Services revenue increased \$35.9 million, or 20%, from \$178.2 million in the nine months ended December 31, 2012 to \$214.2 million in the nine months ended December 31, 2013. Services revenue represented 50% of our total revenues in the nine months ended December 31, 2013 and 2012. The increase in services revenue is primarily due to a \$30.6 million increase in revenue from customer support agreements as a result of software sales to new customers and renewal agreements with our installed software base.

*Cost of Revenues.* Total cost of revenues increased \$7.3 million, or 16%, from \$47.1 million in the nine months ended December 31, 2012 to \$54.4 million in the nine months ended December 31, 2013. Total cost of revenues represented 13% of our total revenues in both the nine months ended December 31, 2013 and the nine months ended December 31, 2012.

*Cost of Software Revenue.* Cost of software revenue decreased \$0.1 million, or 6%, from \$2.1 million in the nine months ended December 31, 2012 to \$2.0 million in the nine months ended December 31, 2013.

*Cost of Services Revenue.* Cost of services revenue increased \$7.5 million, or 17%, from \$45.0 million in the nine months ended December 31, 2012 to \$52.5 million in the nine months ended December 31, 2013. Cost of services revenue represented 24% of our services revenue in the nine months ended December 31, 2013 and 25% in the nine months ended December 31, 2012. The increase in cost of services revenue is primarily the result of higher employee compensation and related expenses totaling approximately \$5.5 million mainly due to the expansion of our worldwide customer support operations. In addition, the increase in cost of services revenue was also due to a \$1.2 million increase in third-party outsourcing costs to facilitate our services revenue growth.

### *Operating Expenses*

*Sales and Marketing.* Sales and marketing expenses increased \$31.1 million, or 18%, from \$176.6 million in the nine months ended December 31, 2012 to \$207.7 million in the nine months ended December 31, 2013. The increase is primarily due to a \$16.9 million increase in employee compensation and related expenses mainly attributable to the expansion of our sales force from the prior year and a \$4.7 million increase in stock-based compensation expenses. The increase in sales and marketing expenses also includes a \$4.1 million increase in advertising and marketing related expenses as we continue to build brand awareness for our Simpana software products. Sales and marketing expenses as a percentage of total revenues was 48% in the nine months ended December 31, 2013 and 49% in the nine months ended December 31, 2012.

*Research and Development.* Research and development expenses increased \$5.0 million, or 15%, from \$34.7 million in the nine months ended December 31, 2012 to \$39.8 million in the nine months ended December 31, 2013. The

increase is primarily due to a \$3.2 million increase in salary and related expenses resulting from the expansion of our engineering group and a \$1.0 million increase in stock-based compensation expenses. Research and development expenses as a percentage of total revenues was 9% in the nine months ended December 31, 2013 and 10% in the nine months ended December 31, 2012. Investing in research and development has been a priority for CommVault, and we anticipate continued spending related to the development of our data and information management software applications.

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*General and Administrative.* General and administrative expenses increased \$11.0 million, or 30%, from \$36.6 million in the nine months ended December 31, 2012 to \$47.5 million in the nine months ended December 31, 2013. This increase is primarily due to a \$7.4 million increase in stock-based compensation expenses. The increase in general and administrative expenses also includes a \$1.9 million increase in employee compensation and related expenses. General and administrative expenses in the nine months ended December 31, 2013 includes approximately \$0.4 million of net foreign currency transaction gains compared to approximately \$0.1 million of net foreign currency transaction losses recognized in general and administrative expenses in the nine months ended December 31, 2012. General and administrative expenses as a percentage of total revenues was 11% in the nine months ended December 31, 2013 and 10% in the nine months ended December 31, 2012.

*Depreciation and Amortization.* Depreciation expense increased by \$1.0 million from \$3.5 million in the nine months ended December 31, 2012 to \$4.5 million in the nine months ended December 31, 2013. This reflects higher depreciation associated with increased capital expenditures primarily over the past 12 months as we expand our worldwide operations. We expect depreciation expense to increase within the next 12 months due to our new corporate campus headquarters which is currently under construction.

### *Income Tax Expense*

Income tax expense was \$27.8 million in the nine months ended December 31, 2013 compared to \$23.6 million in the nine months ended December 31, 2012. The effective tax rate in the nine months ended December 31, 2013 was 36% as compared to 39% in the nine months ended December 31, 2012. The effective rate in the nine months ended December 31, 2013 approximates the expected federal statutory rate of 35% but is impacted by state income taxes and permanent differences in both the United States and foreign jurisdictions, partially offset by income tax benefits from research and development credits, foreign tax credits and domestic production activities deductions. The effective rate in the nine months ended December 31, 2012 is higher than the expected federal statutory rate of 35% primarily due state income taxes and permanent differences in both the United States and foreign jurisdictions, partially offset by income tax benefits from recording foreign tax credits and domestic production activities deductions. The decrease in the effective tax rate is primarily the result of increases in research and development tax credits during the current year.

## **Liquidity and Capital Resources**

As of December 31, 2013, our cash and cash equivalents balance of \$475.5 million primarily consisted of money market funds. In addition, as of December 31, 2013 we have short-term investments which are comprised of U.S. Treasury Bills totaling \$25.0 million. In recent fiscal years, our principal source of liquidity has been cash provided by operations.

As of December 31, 2013, the amount of cash and cash equivalents held outside of the United States by our foreign legal entities was approximately \$97.0 million. These balances are dispersed across many international locations around the world. We believe that such dispersion meets the current and anticipated future liquidity needs of our foreign legal entities. In addition, it is our intention to indefinitely reinvest undistributed earnings of our foreign legal entities. In the event we needed to repatriate funds from outside of the United States, such repatriation would likely be subject to restrictions by local laws and/or tax consequences including foreign withholding taxes or U.S. income taxes. It is not currently practical to estimate the legal restrictions or tax liability that would arise from such repatriations.

At the fiscal 2013 Annual Meeting of Stockholders of the Company held on August 21, 2013, the Company's stockholders approved the formation of the Employee Stock Purchase Plan (the "ESPP") to provide eligible employees the opportunity to become stockholders through the purchase of shares of the Company's common stock. The plan

allows for up to three million shares of the Company's common stock to be purchased by eligible employees at discounts from the fair market value. The ESPP is scheduled to begin in the 4th quarter of the current fiscal year. We will account for our ESPP in accordance with ASC 718. We will estimate the fair value of ESPP grants using the Black-Scholes formula and recognize the fair value as stock-based compensation expense over the requisite six month service period.

We currently are authorized to repurchase our common stock through March 31, 2015. Under our stock repurchase program, repurchased shares are constructively retired and returned to unissued status. Our stock

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repurchase program has been funded by our existing cash and cash equivalent balances as well as cash flows provided by our operations. During the nine months ended December 31, 2013 we did not repurchase any shares of our common stock under our stock repurchase plan. As of December 31, 2013, we have repurchased approximately \$117.2 million, or 5.7 million shares, under our stock repurchase plan at an average purchase price of \$20.43 per share. Under the current program we may repurchase an additional \$150.0 million of our common stock through March 31, 2015.

The primary business reason for our stock repurchase program is to reduce the dilutive impact on our common shares outstanding associated with stock option exercises and our previous public and private stock offerings. Under our stock repurchase program, we have bought back approximately 13% of the common stock that was outstanding at the time the stock repurchase program was initially announced. In addition, at the time we implemented our stock repurchase program in late fiscal 2008 we believed that our share price was undervalued and the best use for a portion of our cash balance was to repurchase some of our outstanding common stock. Our future stock repurchase activity is subject to the business judgment of our management and Board of Directors, taking into consideration our historical and projected results of operations, financial condition, cash flows and other anticipated capital requirements or investment alternatives.

On January 29, 2013, we closed on a purchase of land located in Tinton Falls, New Jersey for our future corporate campus headquarters to support the long-term growth of our business. We are in the process of completing the design and construction of the headquarters, which we expect to finalize in the next 10-16 months. Our estimate of the build-out, including the land purchase, building and campus infrastructure, is approximately \$130 million to \$135 million. We expect to fund this capital expenditure from our existing cash and cash equivalent balances and our cash generated from operations.

Our summarized cash flow information is as follows (in thousands):

	<b>Nine Months Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Cash provided by operating activities	\$ 79,218	\$ 69,802
Net cash used in investing activities	(70,443)	(4,408)
Net cash provided by financing activities	33,488	32,191
Effects of exchange rate-changes in cash	(694)	625
<b>Net increase in cash and cash equivalents</b>	<b>\$ 41,569</b>	<b>\$ 98,210</b>

Net cash provided by operating activities was \$79.2 million in the nine months ended December 31, 2013 and \$69.8 million in the nine months ended December 31, 2012. In the nine months ended December 31, 2013 and 2012, cash provided by operating activities was primarily due to net income adjusted for the impact of non-cash charges and increases in deferred services revenue as a result of customer support agreements from new customers and renewal agreements with our installed software base.

Net cash used in investing activities was \$70.4 million for the nine months ended December 31, 2013, an increase of \$66.0 million over the prior year period. The increase was primarily related to \$41.9 million of incremental spending on the Company's planned corporate campus headquarters and the use of \$25.0 million in cash to purchase investments

in U.S. Treasury Bills. The Company expects to continue spending on the planned corporate headquarters through fiscal 2015. The project will be funded by current cash on hand.

Net cash provided by financing activities was \$33.5 million in the nine months ended December 31, 2013 and \$32.2 million in the nine months ended December 31, 2012. The cash provided by financing activities in the nine months ended December 31, 2013 was due to \$20.1 million of excess tax benefits recognized as a result of the stock option exercises and \$13.4 million of proceeds from the exercise of stock options. The net cash provided by financing activities in the nine months ended December 31, 2012 was due to \$18.1 million of excess tax benefits recognized as a result of the stock option exercises and \$14.1 million of proceeds from the exercise of stock options.

Working capital increased \$70.6 million from \$343.1 million as of March 31, 2013 to \$413.7 million as of December 31, 2013. The increase in working capital is due to a \$64.6 million increase in cash and short-term investments. The increase in cash and short-term investments is due to net income generated during the period, cash received from the exercise of stock options, and increases in deferred revenue.

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We believe that our existing cash, cash equivalents and our cash from operations will be sufficient to meet our anticipated cash needs for working capital, capital expenditures and potential stock repurchases for at least the next 12 months. However, we may seek additional funding through public or private financings or other arrangements during this period. Adequate funds may not be available when needed or may not be available on terms favorable to us, or at all. If additional funds are raised by issuing equity securities, dilution to existing stockholders will result. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund interest expense. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

## **Off-Balance Sheet Arrangements**

As of December 31, 2013, other than our operating leases, we do not have off-balance sheet financing arrangements, including any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

## **Indemnifications**

Certain of our software licensing agreements contain certain provisions that indemnify our customers from any claim, suit or proceeding arising from alleged or actual intellectual property infringement. These provisions continue in perpetuity along with our software licensing agreements. We have never incurred a liability relating to one of these indemnification provisions in the past and we believe that the likelihood of any future payout relating to these provisions is remote. Therefore, we have not recorded a liability during any period related to these indemnification provisions.

## **Impact of Recently Issued Accounting Standards**

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This amendment requires an entity to present, either on the face of the financial statement or in the notes, the effects on the line items of net income due to significant amounts reclassified out of accumulated other comprehensive income, as well as provide cross-references to other required reclassification disclosures, where applicable. The adoption of the new pronouncement on April 1, 2013 did not have an impact on the Company's consolidated financial position, results of operations or cash flows. There have been no amounts reclassified out of accumulated other comprehensive income in any periods presented.

There have been no other accounting pronouncements issued but not yet adopted by the Company which are expected to have a material impact on the Company's financial position, results of operations or cash flows.

## **Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

### ***Interest Rate Risk***

As of December 31, 2013, our cash and cash equivalents and short-term investments consisted primarily of money market funds and U.S. Treasury Bills. Due to the short-term nature of these investments, we are not subject to any material interest rate risk on these balances.





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### ***Foreign Currency Risk***

#### ***Economic Exposure***

As a global company, we face exposure to adverse movements in foreign currency exchange rates. Our international sales are generally denominated in foreign currencies, and this revenue could be materially affected by currency fluctuations. Sales outside the United States were approximately 42% of our total revenue for the nine months ended December 31, 2013 and 40% for the nine months ended December 31, 2012. Our primary exposures are to fluctuations in exchange rates for the U.S. dollar versus the Euro, and to a lesser extent, the Australian dollar, British pound sterling, Canadian dollar, Chinese yuan, Indian rupee and Singapore dollar. Changes in currency exchange rates could adversely affect our reported revenues and require us to reduce our prices to remain competitive in foreign markets, which could also have a material adverse effect on our results of operations. Historically, we have periodically reviewed and revised the pricing of our products available to our customers in foreign countries and we have not maintained excess cash balances in foreign accounts.

#### ***Transaction Exposure***

Our exposure to foreign currency transaction gains and losses is primarily the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the functional currency of the subsidiary. Our foreign subsidiaries conduct their businesses in local currency and we generally do not maintain excess U.S. dollar cash balances in foreign accounts.

Foreign currency transaction gains and losses are recorded in *General and administrative expenses* in the Consolidated Statements of Income. We recognized net foreign currency transaction gains of less than \$0.1 million and \$0.4 million in the three and nine months ended December 31, 2013, respectively, and foreign currency transaction losses of \$0.1 million in both the three and nine months ended December 31, 2012. The net foreign currency transaction gains and losses recorded in *General and administrative expenses* include settlement gains and losses on forward contracts disclosed below.

To date, we have selectively hedged our exposure to foreign currency transaction gains and losses on the balance sheet through the use of forward contracts, which were not designated as hedging instruments. The duration of forward contracts utilized for hedging our balance sheet exposure is generally one to three months. As of December 31, 2013 and March 31, 2013, we did not have any forward contracts outstanding. We recorded net realized gains (losses) in general and administrative expenses related to the settlement of forward exchange contracts of approximately \$0.1 million and (\$0.2) million in the three and nine months ended December 31, 2013, respectively, and net realized (losses) of (\$0.1) and (\$0.2) million in the three and nine months ended December 31, 2012, respectively. In the future, we may enter into additional foreign currency based hedging contracts to reduce our exposure to significant fluctuations in currency exchange rates on the balance sheet.

### **Item 4 - Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of December 31, 2013. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013.

***Changes in Internal Control over Financial Reporting***

During the quarter ended December 31, 2013, we implemented a new enterprise resource planning system to support the growth of our business. The implementation was designed to enhance internal control over financial reporting. There were no other changes in our internal control over financial reporting that occurred during the third quarter of fiscal 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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***Inherent Limitations on Internal Controls***

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosures controls and procedures or our internal controls over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, we are subject to claims in legal proceedings arising in the normal course of our business. We do not believe that we are party to any pending legal action that could reasonably be expected to have a material adverse effect on our business or operating results.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2013, which could materially affect our business, financial condition or future results. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. If any of the risks actually occur, our business, financial conditions or results of operations could be negatively affected. In that case, the trading price of our stock could decline, and our stockholders may lose part or all of their investment.

**Item 2. Unregistered Sale of Equity Securities and Use of Proceeds**

***Purchases of Equity Securities by the Issuer***

There were no purchases of our common stock during the nine months ended December 31, 2013. As of December 31, 2013, we have repurchased \$117.2 million of common stock out of the \$267.2 million in total that was authorized under our current stock repurchase program. As a result, we may repurchase an additional \$150.0 million of our common stock through March 31, 2015.

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not Applicable

**Item 5. Other Information**

None

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**Item 6. Exhibits**

A list of exhibits filed herewith is included on the Exhibit Index, which immediately precedes such exhibits and is incorporated herein by reference.

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**Signatures**

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CommVault Systems, Inc.

Dated: January 31, 2014

By: /s/ N. Robert Hammer  
N. Robert Hammer  
Chairman, President and Chief Executive Officer

Dated: January 31, 2014

By: /s/ Brian Carolan  
Brian Carolan  
Vice President and Chief Financial Officer

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**EXHIBIT INDEX**

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document