COMMVAULT SYSTEMS INC
Form 10-Q
November 04, 2010

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended: September 30, 2010

o **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	**22-3447504**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 Crescent Place Oceanport, New Jersey	**07757**
(Address of principal executive offices)	(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 þ No o

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

As of October 29, 2010, there were 43,063,346 shares of the registrant s common stock, $0.01 par value, outstanding.

COMMVAULT SYSTEMS, INC.
FORM 10-Q
INDEX

Table of Contents

CommVault Systems, Inc.
Consolidated Balance Sheets
(In thousands, except per share data)
(Unaudited)

	September 30, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 172,858	$ 169,518
Short-term investments	5,943	5,043
Trade accounts receivable, less allowance for doubtful accounts of $160 at September 30, 2010 and $292 at March 31, 2010	52,282	58,049
Prepaid expenses and other current assets	6,989	4,612
Deferred tax assets	16,438	16,693
Total current assets	254,510	253,915
Deferred tax assets	24,020	24,485
Property and equipment, net	6,581	6,356
Other assets	1,681	1,259
Total assets	$ 286,792	$ 286,015
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 2,013	$ 1,891
Accrued liabilities	24,012	25,727
Deferred revenue	87,265	83,112
Total current liabilities	113,290	110,730
Deferred revenue, less current portion	10,414	9,140
Other liabilities	7,165	7,845
Stockholders equity:		
Preferred stock, $0.01 par value: 50,000 shares authorized, no shares issued and outstanding at September 30, 2010 and March 31, 2010		
Common stock, $0.01 par value: 250,000 shares authorized, 42,987 shares and 43,053 shares issued and outstanding at September 30, 2010 and March 31, 2010, respectively	430	431
Additional paid-in capital	251,568	239,012
Accumulated deficit	(96,325)	(81,031)
Accumulated other comprehensive income (loss)	250	(112)
Total stockholders equity	155,923	158,300

Total liabilities and stockholders equity	$	286,792	$	286,015

See accompanying unaudited notes to consolidated financial statements

1

Table of Contents

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
Revenues:				
Software	$ 35,758	$ 33,516	$ 64,053	$ 62,621
Services	39,468	33,134	77,473	64,275
Total revenues	75,226	66,650	141,526	126,896
Cost of revenues:				
Software	602	848	1,158	1,589
Services	8,915	8,127	17,879	15,736
Total cost of revenues	9,517	8,975	19,037	17,325
Gross margin	65,709	57,675	122,489	109,571
Operating expenses:				
Sales and marketing	38,559	34,578	74,385	64,960
Research and development	8,615	8,181	17,255	15,800
General and administrative	8,392	7,503	16,141	14,439
Depreciation and amortization	913	885	1,808	1,778
Income from operations	9,230	6,528	12,900	12,594
Interest expense	(26)	(23)	(53)	(46)
Interest income	154	89	273	202
Income before income taxes	9,358	6,594	13,120	12,750
Income tax expense	(3,939)	(1,876)	(4,203)	(5,597)
Net income	$ 5,419	$ 4,718	$ 8,917	$ 7,153
Net income per common share:				
Basic	$ 0.13	$ 0.11	$ 0.21	$ 0.17
Diluted	$ 0.12	$ 0.11	$ 0.19	$ 0.16

Weighted average common shares outstanding:				
Basic	42,911	41,869	43,039	41,758
Diluted	45,701	44,695	45,928	44,216

See accompanying unaudited notes to consolidated financial statements

Table of Contents

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

	Common Stock		Additional Paid - In	Accumulated	Accumulated Other Comprehensive Income	
	Shares	Amount	Capital	Deficit	(Loss)	Total
Balance as of March 31, 2010	43,053	$ 431	$ 239,012	$ (81,031)	$ (112)	$ 158,300
Stock-based compensation			6,960			6,960
Tax benefits relating to share-based payments			2,996			2,996
Exercise of common stock options and vesting of restricted stock units	1,491	15	9,830			9,845
Repurchase of common stock	(1,557)	(16)	(7,230)	(24,211)		(31,457)
Net income				8,917		8,917
Foreign currency translation adjustment					362	362
Balance as of September 30, 2010	42,987	$ 430	$ 251,568	$ (96,325)	$ 250	$ 155,923

See accompanying unaudited notes to consolidated financial statements

Table of Contents

CommVault Systems, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended September 30, 2010	Six Months Ended September 30, 2009
Cash flows from operating activities		
Net income	$ 8,917	$ 7,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,867	1,834
Noncash stock-based compensation	6,960	7,890
Excess tax benefits from stock-based compensation	(2,972)	(959)
Deferred income taxes	(1,426)	2,359
Changes in operating assets and liabilities:		
Accounts receivable	6,016	(1,085)
Prepaid expenses and other current assets	(2,316)	(1,945)
Other assets	(379)	216
Accounts payable	128	36
Accrued liabilities	2,994	1,794
Deferred revenue	4,448	5,849
Other liabilities	(786)	396
Net cash provided by operating activities	23,451	23,538
Cash flows from investing activities		
Purchase of short-term investments	(2,751)	
Proceeds from maturity of short-term investments	1,851	
Purchase of property and equipment	(1,801)	(1,780)
Net cash used in investing activities	(2,701)	(1,780)
Cash flows from financing activities		
Repurchase of common stock	(31,506)	
Proceeds from the exercise of stock options	9,845	2,557
Excess tax benefits from stock-based compensation	2,972	959
Net cash provided by (used in) financing activities	(18,689)	3,516
Effects of exchange rate changes in cash	1,279	2,001
Net increase in cash and cash equivalents	3,340	27,275
Cash and cash equivalents at beginning of period	169,518	105,205

Cash and cash equivalents at end of period	$ 172,858	$ 132,480

See accompanying unaudited notes to consolidated financial statements

CommVault Systems, Inc.
Notes to Consolidated Financial Statements Unaudited
(In thousands, except per share data)

1. Nature of Business

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; data migration and archiving; snapshot management and replication of data; embedded deduplication; e-discovery and compliance solutions; enterprise-wide search capabilities; and management and operational reports, remote services 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.

2. Basis of Presentation

The consolidated financial statements as of September 30, 2010 and for the three and six months ended September 30, 2010 and 2009 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 2010. 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 balance sheet as of March 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

3. Summary of Significant Accounting Policies

There have been no significant changes in the Company s accounting policies during the six months ended September 30, 2010 as compared to the significant accounting policies described in its Annual Report on Form 10-K for the year ended March 31, 2010. A summary of the Company s significant accounting policies are disclosed below.

Use of Estimates

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, stock-based compensation and accounting for research and development costs. Actual results could differ from those estimates.

Revenue Recognition

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

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 relative 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.

5

Table of Contents

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

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. To a lesser extent, the Company provides for a perpetual right to use the Company s software and are sold as site licenses or on a capacity basis. Site licenses give the customer the additional right to deploy the software on a limited basis during a specified term. 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. 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. A sell-through model requires that the Company recognize 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 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, and in certain cases, it uses stated 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 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 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 price for other professional services has not materially 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 on an arrangement.

6

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

Delivery or performance has occurred. The Company s software applications are usually physically 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.

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.

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.

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.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income	$ 5,419	$ 4,718	$ 8,917	$ 7,153
Basic net income per common share:				
Basic weighted average shares outstanding	42,911	41,869	43,039	41,758
Basic net income per common share	$ 0.13	$ 0.11	$ 0.21	$ 0.17
Diluted net income per common share:				
Basic weighted average shares outstanding	42,911	41,869	43,039	41,758
Dilutive effect of stock options and restricted stock units	2,790	2,826	2,889	2,458
Diluted weighted average shares outstanding	45,701	44,695	45,928	44,216

Diluted net income per common share	$	0.12	$	0.11	$	0.19	$	0.16

The diluted weighted average shares outstanding in the table above exclude outstanding stock options and restricted stock units totaling approximately 541 and 784 for the three months ended September 30, 2010 and 2009, respectively, and 575 and 2,415 for the six months ended September 30, 2010 and 2009, respectively, because the effect would have been anti-dilutive.

Table of Contents

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. As of September 30, 2010, the Company s cash and cash equivalents balance consisted primarily of money market funds.

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 relating to these customers have been minimal.

Sales through the Company s reseller and original equipment manufacturer agreements with Dell totaled 25% and 23% of total revenues for the six months ended September 30, 2010 and 2009, respectively. Dell accounted for 32% and 27% of accounts receivable as of September 30, 2010 and March 31, 2010, respectively. Sales through the Company s distribution agreement with Arrow Enterprise Computing Solutions, Inc. (Arrow) totaled 24% and 25% of total revenues for the six months ended September 30, 2010 and 2009, respectively. Arrow accounted for approximately 26% and 30% of total accounts receivable as of September 30, 2010 and March 31, 2010, respectively.

Fair Value of Financial Instruments

The carrying amounts of the Company s cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short-term maturity of these instruments. As of September 30, 2010, the Company s short-term investments balance consisted of certificates of deposit.

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 table summarizes the composition of the Company s financial assets measured at fair value on a recurring basis at September 30, 2010 and March 31, 2010:

	September 30, 2010	March 31, 2010
Cash and cash equivalents:		
Money market funds	$ 140,427	$ 143,2