

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

	December 31, 2013 (unaudited)	March 31, 2013
ASSETS		
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
LIABILITIES AND STOCKHOLDERS EQUITY		
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)**

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2013	2012	2013	2012
Revenues:				
Software	\$ 79,240	\$ 65,909	\$ 215,370	\$ 179,363
Services	74,010	62,238	214,151	178,213
Total revenues	153,250	128,147	429,521	357,576
Cost of revenues:				
Software	677	776	1,968	2,098
Services	17,821	15,687	52,464	44,998
Total cost of revenues	18,498	16,463	54,432	47,096
Gross margin	134,752	111,684	375,089	310,480
Operating expenses:				
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
Income from operations	27,723	20,227	75,540	58,996
Interest income	220	299	675	796
Income before income taxes	27,943	20,526	76,215	59,792
Income tax expense	10,352	8,326	27,808	23,568
Net income	\$ 17,591	\$ 12,200	\$ 48,407	\$ 36,224
Net income per common share:				
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)**

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2013	2012	2013	2012
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)**

	Common Shares	Stock Amount	Additional Paid In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Total
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
Cash flows from operating activities		
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
Cash flows from investing activities		
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)
Cash flows from financing activities		
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

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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

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Net earnings before cumulative effect per common share:

Basic	\$ 0.85	\$ 0.78
Diluted	\$ 0.84	\$ 0.78

Weighted average number of common shares:

Basic	1,727.6	(28.0)(3)	1,699.6
Diluted	1,740.3	(28.0)(3)	1,712.3

The accompanying notes are an integral part of this
 unaudited pro forma consolidated condensed statement of operations.

Unaudited Pro Forma Consolidated Condensed Statement of Operations

Year Ended December 31, 2003

(in millions, except per share amounts)

	Viacom Historical	Blockbuster Historical(4b)	Pro Forma Adjustments	Effects of the Exchange	Viacom Pro Forma
Revenues	\$ 26,585.3	\$ (5,911.7)	\$ 154.0(2b)	\$	\$ 20,827.6
Operating expenses	16,253.7	(4,514.4)	133.9(2b)		11,873.2
Selling, general and administrative expenses	4,374.7	(679.7)	14.1(2b) 3.9(2e)		3,713.0
Impairment and restructuring charges	1,331.3	(1,304.9)			26.4
Depreciation and amortization	999.8	(257.9)			741.9
Operating income	3,625.8	845.2	2.1		4,473.1
Interest expense, net	(761.2)	30.0			(731.2)
Other items, net	(3.4)	0.4			(3.0)
Earnings before income taxes	2,861.2	875.6	2.1		3,738.9
Provision for income taxes	(1,599.0)	103.2	(2.4)(4a)		(1,498.2)
Equity in earnings of affiliates, net of tax	(0.6)	0.7			0.1
Minority interest, net of tax	173.8		(178.5)(2a)		(4.7)
Net earnings from continuing operations before cumulative effect of accounting change	\$ 1,435.4	\$ 979.5	\$ (178.8)	\$	\$ 2,236.1
Net earnings before cumulative effect per common share:					
Basic	\$ 0.82				\$ 1.30
Diluted	\$ 0.82				\$ 1.29
Weighted average number of common shares:					
Basic	1,744.0			(28.0)(3)	1,716.0
Diluted	1,760.7			(28.0)(3)	1,732.7

The accompanying notes are an integral part of this

unaudited pro forma consolidated condensed statement of operations.

Unaudited Pro Forma Consolidated Condensed Statement of Operations

Year Ended December 31, 2002

(in millions, except per share amounts)

	Viacom Historical	Blockbuster Historical(4b)	Pro Forma Adjustments	Viacom Pro Forma
Revenues	\$ 24,605.7	\$ (5,565.9)	\$ 147.0 (2b)	\$ 19,186.8
Operating expenses	14,865.1	(4,272.8)	143.2 (2b)	10,735.5
Selling, general and administrative expenses	4,198.3	(722.2)	22.5 (2b)	3,498.6
Depreciation and amortization	945.6	(233.8)		711.8
Operating income	4,596.7	(337.1)	(18.7)	4,240.9
Interest expense, net	(832.5)	45.4		(787.1)
Other items, net	(30.0)	(2.9)		(32.9)
Earnings before income taxes	3,734.2	(294.6)	(18.7)	3,420.9
Provision for income taxes	(1,448.9)	103.0	7.6 (4a)	(1,338.3)
Equity in loss of affiliates, net of tax	(39.5)	2.2		(37.3)
Minority interest, net of tax	(39.2)		35.9 (2a)	(3.3)
Net earnings from continuing operations before cumulative effect of accounting change	2,206.6	(189.4)	24.8	2,042.0
Earnings from discontinued operation, net of tax			164.6 (2f)	164.6
Net earnings before cumulative effect of change in accounting principle	2,206.6	(189.4)	189.4	2,206.6
Cumulative effect of change in accounting principle, net of minority interest and tax	(1,480.9)	1,817.0	(1,817.0)(2f)	(1,480.9)
Net earnings (loss)	\$ 725.7	\$ 1,627.6	\$ (1,627.6)	\$ 725.7
Net earnings from continuing operations before cumulative effect per common share:				
Basic	\$ 1.26			\$ 1.16
Diluted	\$ 1.24			\$ 1.15
Net earnings per common share:				
Basic	\$ 0.41			\$ 0.41
Diluted	\$ 0.41			\$ 0.41
Weighted average number of common shares:				
Basic	1,752.8			1,752.8
Diluted	1,774.8			1,774.8

The accompanying notes are an integral part of this

unaudited pro forma consolidated condensed statement of operations.

Unaudited Pro Forma Consolidated Condensed Statement of Operations

Year Ended December 31, 2001

(in millions, except per share amounts)

	Viacom Historical	Blockbuster Historical(4b)	Pro Forma Adjustments	Viacom Pro Forma
Revenues	\$ 23,222.8	\$ (5,156.7)	\$ 174.3(2b)	\$ 18,240.4
Operating expenses	14,463.8	(4,256.4)	174.2(2b)	10,381.6
Selling, general and administrative expenses	4,092.4	(696.2)	0.1(2b)	3,396.3
Restructuring charges	119.4			119.4
Depreciation and amortization	3,087.0	(423.7)		2,663.3
Operating income	1,460.2	219.6		1,679.8
Interest expense, net	(938.6)	72.1		(866.5)
Other items, net	254.7	5.2		259.9
Earnings before income taxes	776.3	296.9		1,073.2
Provision for income taxes	(919.9)	(56.1)		(976.0)
Equity in loss of affiliates, net of tax	(127.0)	(0.5)		(127.5)
Minority interest, net of tax	47.1		(43.6)(2a)	3.5
Net loss from continuing operations	(223.5)	240.3	(43.6)	(26.8)
Loss from discontinued operation, net of tax			(196.7)(2f)	(196.7)
Net loss	\$ (223.5)	\$ 240.3	\$ (240.3)	\$ (223.5)
Net loss from continuing operations per common share:				
Basic	\$ (0.13)			\$ (0.02)
Diluted	\$ (0.13)			\$ (0.02)
Net loss per common share:				
Basic	\$ (0.13)			\$ (0.13)
Diluted	\$ (0.13)			\$ (0.13)
Weighted average number of common shares:				
Basic	1,731.6			1,731.6
Diluted	1,731.6			1,731.6

The accompanying notes are an integral part of this

unaudited pro forma consolidated condensed statement of operations.

Notes to Viacom Unaudited Pro Forma

Consolidated Condensed Financial Information

(tables in millions, except share and per share amounts)

(1) Special Distribution

On September 3, 2004, Blockbuster paid a special distribution of \$5.00 per share (approximately \$905.6 million in the aggregate) to its stockholders:

Special distribution of \$5.00 per share to Viacom 3,609,914 shares of Blockbuster Class A Common Stock and 144,000,000 shares of Blockbuster Class B Common Stock	\$ 738.1
Special distribution of \$5.00 per share to other Blockbuster stockholders 33,505,665 shares of Blockbuster Class A Common Stock	167.5
	<hr/>
Special Distribution	\$ 905.6
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The special distribution was funded by proceeds from the \$650 million of borrowings under a new \$1.15 billion credit agreement which Blockbuster entered into on August 20, 2004 with a syndicate of lenders and \$300 million 9% senior subordinated notes. In connection with these borrowings, Blockbuster expects to recognize approximately \$17.7 million in deferred financing costs, of which Viacom has agreed to reimburse Blockbuster for approximately \$7.4 million, and to use the remaining \$34.1 million in borrowings as cash for working capital and general corporate purposes. The reimbursement from Viacom has been reflected as a capital contribution in the Viacom unaudited pro forma consolidated condensed balance sheet.

(2) Deconsolidation Adjustments

(a) Adjustments to investment in Blockbuster of \$2.03 billion, other assets of \$13.1 million, minority interest of \$472.9 million, and stockholders equity of \$3.44 billion on the unaudited pro forma consolidated condensed balance sheet and minority interest in the unaudited pro forma consolidated condensed statements of operations reflect the reversal of consolidation entries to present Blockbuster as an unconsolidated subsidiary.

(b) Adjustments to accounts receivable, inventory, and accounts payable on the unaudited pro forma consolidated condensed balance sheet, and adjustments to revenues and expenses on the unaudited pro forma consolidated condensed statements of operations primarily reflect the reversal of intercompany eliminations for Blockbuster's purchase of DVD and VHS products from Paramount Pictures Corporation and advertising expenditures by Blockbuster on Viacom's various media platforms.

(c) Adjustments to other current liabilities of \$10.7 million and other liabilities of \$(19.8) million reflect a reclassification of Blockbuster deferred tax attributes and an adjustment to foreign tax credit carryforwards whose benefits have previously been realized by Viacom on a

consolidated basis.

(d) The adjustment to goodwill reflects the deconsolidation of goodwill resulting from Viacom's previous purchases of Blockbuster Class A Common Stock acquired through open market purchases in order to maintain U.S. federal income tax consolidation with Blockbuster.

Notes to Viacom Unaudited Pro Forma

Consolidated Condensed Financial Information (Continued)

(tables in millions, except share and per share amounts)

(e) Pursuant to the Amended and Restated Initial Public Offering and Split-Off Agreement entered into among Viacom, Viacom International Inc. and Blockbuster on June 18, 2004, Blockbuster has provided letters of credit of \$150 million in the aggregate for the benefit of Viacom to support Viacom's potential liability for certain real estate lease obligations of Blockbuster. The adjustments on Viacom's unaudited pro forma consolidated condensed statements of operations of \$2.0 million for the six months ended June 30, 2004 and \$3.9 million for the year ended December 31, 2003 reflect the agreement by Viacom to reimburse Blockbuster its annual cost related to these letters of credit.

(f) Adjustments made to reflect Blockbuster as a discontinued operation and for 2002, to present the cumulative effect of a change in accounting principle as a result of the initial adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142).

(3) The Exchange Offer

Viacom offered to its stockholders 2.575 shares of Blockbuster Class A Common Stock and 2.575 shares of Blockbuster Class B Common Stock in exchange for each share of Viacom Class A Common Stock or Viacom Class B Common Stock, which resulted in 27,961,165 shares of Viacom's common stock being exchanged for 72 million shares of Blockbuster Class A Common Stock and 72 million shares of Blockbuster Class B Common Stock owned by Viacom.

In accordance with SFAS 142, Viacom tests goodwill and other intangible assets for impairment during the fourth quarter of each year and on an interim date should factors or indicators become apparent that would require an interim test. Blockbuster is currently performing an interim impairment test of its goodwill due to developments related to the split-off. The exchange ratio and the market value of Blockbuster shares at the time of the split-off are two of the factors considered in determining the estimated fair value of Blockbuster for the interim impairment test. This test could result in the recognition of a material non-cash impairment charge for the third quarter of 2004. Blockbuster's goodwill balance was \$2.6 billion at June 30, 2004.

Viacom's pro forma investment balance in Blockbuster Class A Common Stock and Blockbuster Class B Common Stock of \$1.98 billion does not reflect the potential SFAS 142 impairment charge discussed above. Accordingly, the net loss on separation of Blockbuster from Viacom presented in the unaudited pro forma consolidated condensed balance sheet is calculated prior to any potential SFAS 142 impairment charge.

The Viacom unaudited pro forma consolidated condensed financial statements reflect the acceptance of 27,961,165 shares of Viacom's common stock in the exchange offer. The exchange offer resulted in a net loss to Viacom of \$1.2 billion calculated as follows:

Fair value of Viacom Class A common stock accepted for exchange (553,616 shares at \$35.91 per common share)	\$ 19.9
	971.6

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Fair value of Viacom Class B common stock accepted for exchange (27,407,549 shares at \$35.45 per common share)

Fair value of Viacom common stock accepted for exchange	991.5
Viacom's investment in Blockbuster Class A Common Stock and Blockbuster Class B Common Stock, adjusted for the special distribution	(1,983.4)
Estimated contingent obligations (net of \$59.9 million of deferred tax assets)	(90.1)
Estimated transaction costs	(75.0)
Net loss on separation of Blockbuster from Viacom	\$ (1,157.0)

Notes to Viacom Unaudited Pro Forma

Consolidated Condensed Financial Information (Continued)

(tables in millions, except share and per share amounts)

Estimated transaction costs of \$75.0 million include costs paid by Viacom on behalf of Blockbuster. Viacom will not record a tax benefit on these transaction costs.

Viacom owned approximately 3.6 million shares of Blockbuster Class A Common Stock, which Viacom previously purchased in the open market in order to maintain U.S. federal income tax consolidation with Blockbuster. On September 30, 2004, Viacom contributed all of these shares to the Viacom Pension Plan.

Market value of Blockbuster Class A Common Stock (3,609,914 shares at \$7.59 per share as of September 30, 2004)	\$ 27.4
Viacom's investment in Blockbuster Class A Common Stock, adjusted for the special distribution	(58.0)
	<hr/>
Loss on contribution of Blockbuster Class A Common Stock	\$ (30.6)
	<hr/>

Upon this contribution, Viacom realized a current tax benefit on the market value of the Blockbuster Class A Common Stock and a corresponding deferred tax expense of \$10.9 million. The resulting loss on contribution of Blockbuster Class A Common Stock was not recognized for U.S. federal income tax purposes.

(4) Other

(a) Adjustments to income tax expense on the unaudited pro forma consolidated condensed statements of operations are calculated at a 39.9% domestic marginal tax rate, excluding certain transaction costs related to the letters of credit (See Note 2(e)) for which no tax benefit has been reflected, for the six months ended June 30, 2004 and the year ended December 31, 2003 and a 40.5% domestic marginal tax rate for the years ended December 31, 2002 and 2001.

(b) Certain Blockbuster historical amounts have been reclassified to conform to Viacom's presentation.

SIGNATURE

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

VIACOM INC.
(Registrant)

By: /s/ Richard J. Bressler

Name: Richard J. Bressler
Title: Senior Executive Vice President and

Chief Financial Officer

Date: October 13, 2004