COMMVAULT SYSTEMS INC
Form 10-Q
November 01, 2012
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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, 2012

¨ **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** ¨

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** ¨

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	¨
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** þ

As of October 24, 2012, there were 45,480,237 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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CommVault Systems, Inc.

Consolidated Balance Sheets

(In thousands, except per share data)

	September 30, 2012 (unaudited)	March 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 351,985	$ 297,088
Short-term investments	1,948	3,146
Trade accounts receivable, less allowance for doubtful accounts of $104 at September 30, 2012 and $97 at March 31, 2012	69,293	67,793
Prepaid expenses and other current assets	11,827	12,606
Deferred tax assets, net	13,643	14,717
Total current assets	448,696	395,350
Deferred tax assets, net	22,142	23,861
Property and equipment, net	10,162	9,137
Other assets	6,994	4,340
Total assets	$ 487,994	$ 432,688
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 2,365	$ 1,847
Accrued liabilities	42,324	45,888
Deferred revenue	128,629	125,314
Total current liabilities	173,318	173,049
Deferred revenue, less current portion	26,013	22,059
Other liabilities	7,754	7,596
Stockholders equity:		
Preferred stock, $0.01 par value: 50,000 shares authorized, no shares issued and outstanding at September 30, 2012 and March 31, 2012		
Common stock, $0.01 par value: 250,000 shares authorized, 45,297 shares and 44,594 shares issued and outstanding at September 30, 2012 and March 31, 2012, respectively	453	446
Additional paid-in capital	346,966	320,438
Accumulated deficit	(67,115)	(91,139)
Accumulated other comprehensive income	605	239
Total stockholders equity	280,909	229,984
Total liabilities and stockholders equity	$ 487,994	$ 432,688

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.

Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Software	$ 59,219	$ 47,825	$ 113,454	$ 91,626
Services	58,943	49,633	115,975	97,359
Total revenues	118,162	97,458	229,429	188,985
Cost of revenues:				
Software	644	639	1,322	1,256
Services	14,699	12,435	29,311	23,861
Total cost of revenues	15,343	13,074	30,633	25,117
Gross margin	102,819	84,384	198,796	163,868
Operating expenses:				
Sales and marketing	55,700	51,224	112,087	100,982
Research and development	11,431	9,591	22,382	18,862
General and administrative	12,161	9,389	23,251	18,806
Depreciation and amortization	1,174	1,099	2,307	2,124
Income from operations	22,353	13,081	38,769	23,094
Interest expense		(27)		(53)
Interest income	261	158	497	323
Income before income taxes	22,614	13,212	39,266	23,364
Income tax expense	8,715	5,313	15,242	8,426
Net income	$ 13,899	$ 7,899	$ 24,024	$ 14,938
Net income per common share:				
Basic	$ 0.31	$ 0.18	$ 0.53	$ 0.34
Diluted	$ 0.29	$ 0.17	$ 0.50	$ 0.32
Weighted average common shares outstanding:				
Basic	45,106	43,942	44,934	44,056
Diluted	47,815	46,875	47,720	47,085

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Net income	$ 13,899	$ 7,899	$ 24,024	$ 14,938
Other comprehensive income (loss):				
Foreign currency translation adjustment	888	(436)	366	(484)
Comprehensive income	$ 14,787	$ 7,463	$ 24,390	$ 14,454

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.

Consolidated Statement of Stockholders Equity

(In thousands)

(Unaudited)

	Common Stock		Additional		Accumulated	
					Other	
	Shares	Amount	Paid In Capital	Accumulated Deficit	Comprehensive Income	Total
Balance as of March 31, 2012	44,594	$ 446	$ 320,438	$ (91,139)	$ 239	$ 229,984
Stock-based compensation			12,077			12,077
Tax benefits relating to stock-based payments			7,262			7,262
Exercise of common stock options and vesting of restricted stock units	703	7	7,189			7,196
Net income				24,024		24,024
Foreign currency translation adjustment					366	366
Balance as of September 30, 2012	45,297	$ 453	$ 346,966	$ (67,115)	$ 605	$ 280,909

See accompanying unaudited notes to consolidated financial statements

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CommVault Systems, Inc.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended September 30,	
	2012	**2011**
Cash flows from operating activities		
Net income	$ 24,024	$ 14,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,361	2,197
Noncash stock-based compensation	12,077	8,815
Excess tax benefits from stock-based compensation	(7,287)	(3,314)
Deferred income taxes	2,816	(153)
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,618)	3,675
Prepaid expenses and other current assets	795	(998)
Other assets	(1,704)	(2,532)
Accounts payable	509	537
Accrued liabilities	2,819	5,032
Deferred revenue	7,371	13,266
Other liabilities	180	688
Net cash provided by operating activities	42,343	42,151
Cash flows from investing activities		
Purchase of short-term investments	(1,948)	(3,146)
Proceeds from maturity of short-term investments	3,146	1,150
Purchase of property and equipment	(3,354)	(2,897)
Net cash used in investing activities	(2,156)	(4,893)
Cash flows from financing activities		
Repurchase of common stock		(45,639)
Proceeds from the exercise of stock options	7,196	6,389
Excess tax benefits from stock-based compensation	7,287	3,314
Net cash provided by (used in) financing activities	14,483	(35,936)
Effects of exchange rate changes in cash	227	(1,748)
Net increase (decrease) in cash and cash equivalents	54,897	(426)
Cash and cash equivalents at beginning of period	297,088	217,170
Cash and cash equivalents at end of period	$ 351,985	$ 216,744

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. 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; integrated source and target deduplication; e-discovery and compliance solutions; protection, recovery and discovery of data in virtual server environments; 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, 2012 and for the three and six months ended September 30, 2012 and 2011 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 2012. 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.

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, 2012 as compared to the significant accounting policies described in its Annual Report on Form 10-K for the year ended March 31, 2012. A summary of the Company s significant accounting policies is 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 and stock-based compensation accounting. Actual results could differ from those estimates.

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 of these sources.

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CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

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 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. 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, 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.

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CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

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.

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,	
	2012	2011	2012	2011
Net income	$ 13,899	$ 7,899	$ 24,024	$ 14,938

Basic net income per common share:				
Basic weighted average shares outstanding	45,106	43,942	44,934	44,056
Basic net income per common share	$ 0.31	$ 0.18	$ 0.53	$ 0.34
Diluted net income per common share:				
Basic weighted average shares outstanding	45,106	43,942	44,934	44,056
Dilutive effect of stock options and restricted stock units	2,709	2,933	2,786	3,029
Diluted weighted average shares outstanding	47,815	46,875	47,720	47,085
Diluted net income per common share	$ 0.29	$ 0.17	$ 0.50	$ 0.32

CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

The diluted weighted average shares outstanding in the table above exclude outstanding stock options and restricted stock units totaling approximately 1,144 and 355 for the three months ended September 30, 2012 and 2011, respectively, and 1,085 and 308 for the six months ended September 30, 2012 and 2011, respectively, because the effect would have been anti-dilutive.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. As of September 30, 2012, 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 21% of total revenues for both the six months ended September 30, 2012 and 2011. Dell accounted for 21% and 25% of accounts receivable as of September 30, 2012 and March 31, 2012, respectively. Sales through the Company s distribution agreement with Arrow Enterprise Computing Solutions, Inc. (Arrow) totaled 28% and 26% of total revenues for the six months ended September 30, 2012 and 2011, respectively. Arrow accounted for approximately 33% and 30% of total accounts receivable as of September 30, 2012 and March 31, 2012, 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, 2012, 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, 2012 and March 31, 2012:

	September 30, 2012	March 31, 2012
Cash and cash equivalents:		
Money market funds	$ 274,291	$ 232,037

All of the Company s financial instruments in the table above were classified and measured as Level I instruments.

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CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

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 billings for 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:

	September 30, 2012	March 31, 2012
Current:		
Deferred software revenue	$ 1,680	$ 3,764
Deferred services revenue	126,949	121,550
	$ 128,629	$ 125,314
Non-current:		
Deferred services revenue	$ 26,013	$ 22,059

Accounting for Stock-Based Compensation

The Company utilizes the Black-Scholes pricing model to determine the fair value of non-qualified stock options on the dates of grant. Restricted stock units are measured based on the fair market values of the underlying stock on the dates of grant. The Company recognizes stock-based compensation using the straight-line method for all stock awards.

The Company classifies benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing item cash inflow with a corresponding operating cash outflow. For the six months ended September 30, 2012 and 2011, the Company includes $7,287 and $3,314, respectively, as a financing cash inflow.

Share Repurchases

The Company considers all shares repurchased as cancelled shares restored to the status of authorized but unissued shares on the trade date. The aggregate purchase price of the shares of the Company s common stock repurchased is reflected as a reduction to Stockholders Equity. The Company accounts for shares repurchased as an adjustment to common stock (at par value) with the excess repurchase price allocated between Additional Paid-in Capital and Accumulated Deficit. There were no stock repurchases during the six months ended September 30, 2012.

Foreign Currency Translation

The functional currencies of the Company s foreign operations are deemed to be the local country s currency. Assets and liabilities of the Company s international subsidiaries are translated at their respective period-end exchange rates, and revenues and expenses are translated at average currency exchange rates for the period. The resulting balance sheet translation adjustments are included in Comprehensive Income and are reflected as a separate component of Stockholders Equity through Accumulated Other Comprehensive Income.

Foreign currency transaction gains and losses are recorded in General and administrative expenses in the Consolidated Statements of Income. The Company recognized net foreign currency transaction losses of $108 and $42 in the three and six months ended September 30, 2012, respectively, and net foreign currency transaction gains of $43 and $34 in the three and six months ended September 30, 2011, respectively. The net foreign currency transaction gains and losses recorded in General and administrative expenses include settlement gains and losses on forward contracts disclosed below.

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CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

To date, the Company has selectively hedged its 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 the Company s balance sheet exposure is generally one to three months. As of September 30, 2012 and March 31, 2012, the Company did not have any forward contracts outstanding. In the three and six months ended September 30, 2012, the Company recorded net realized gains of $103 and net realized losses of $65, respectively, in general and administrative expenses related to the settlement of forward exchange contracts. In the three and six months ended September 30, 2011, the Company recorded net realized gains of $162 and $127, respectively, in general and administrative expenses related to the settlement of forward exchange contracts. In the future, the Company may enter into additional foreign currency-based hedging contracts to reduce its exposure to significant fluctuations in currency exchange rates on the balance sheet.

Impact of Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220)* Presentation of Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 became effective for the Company in its first quarter of fiscal 2013 and was applied retrospectively. There was no significant impact on the Company s consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* (ASU 2011-12), to defer the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income.

4. Contingencies

In the normal course of its business, the Company may be involved in various claims, negotiations and legal actions. As of September 30, 2012, the Company is not aware of any asserted or unasserted claims, negotiations and legal actions that are both considered reasonably possible of occurring and also would require disclosure under the guidance.

5. Capitalization

As of September 30, 2012, the Company is authorized to repurchase up to a total of $170,000 of its common stock through March 31, 2013 under its stock repurchase program. During the six months ended September 30, 2012, the Company did not repurchase any of its shares under its stock repurchase program. As of September 30, 2012, the Company has repurchased approximately $117,157 under the stock repurchase authorization and may repurchase an additional $52,843 of its common stock under the current program through March 31, 2013.

On November 13, 2008, the Board of Directors of the Company adopted a Rights Plan and declared a dividend distribution of one Right for each outstanding share of common stock to shareholders of record on November 24, 2008. Each Right, when exercisable, entitles the registered holder to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.01 per share, at a purchase price of eighty dollars per one one-thousandth of a share, subject to adjustment. Of the 50,000 shares of preferred stock authorized under the Company s certificate of incorporation, 150 have been designated as Series A Junior Participating Preferred.

The Rights will become exercisable following the tenth business day after (i) a person or group announces the acquisition of 15% or more of the Company s common stock or (ii) commencement of a tender or exchange offer, the consummation of which would result in ownership by the person or group of 15% or more of the Company s common stock. The Company is also entitled to redeem the Rights at $0.001 per right under certain circumstances.

The Rights expire on November 14, 2018, if not exercised or redeemed.

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CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

6. Stock Plans

As of September 30, 2012, the Company maintains two stock incentive plans, the 1996 Stock Option Plan (the Plan) and the 2006 Long-Term Stock Incentive Plan (the LTIP).

Under the Plan, the Company may grant non-qualified stock options to purchase 11,705 shares of common stock to certain officers and employees. Stock options are granted at the discretion of the Board and expire 10 years from the date of the grant. At September 30, 2012, there were 571 options available for future grant under the Plan.

The LTIP permits the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance stock awards and stock unit awards based on, or related to, shares of the Company s common stock. On each April 1, the number of shares available for issuance under the LTIP is increased, if applicable, such that the total number of shares available for awards under the LTIP as of any April 1 is equal to 5% of the number of outstanding shares of the Company s common stock on that April 1. As of September 30, 2012, approximately 2,184 shares were available for future issuance under the LTIP.

As of September 30, 2012, the Company has granted non-qualified stock options and restricted stock units under its stock incentive plans. Equity awards granted by the Company under its stock incentive plans generally vest quarterly over a four-year period, except that the shares that would otherwise vest quarterly over the first 12 months do not vest until the first anniversary of the grant. The Company anticipates that future grants under its stock incentive plans will continue to include both non-qualified stock options and restricted stock units.

The Company estimated the fair value of stock options granted using the Black-Scholes formula. The average expected life for the three and six months ended September 30, 2011 was determined according to the simplified method , which is the mid-point between the vesting date and the end of the contractual term. During fiscal 2013, the Company began incorporating its historical data into the expected term calculation for stock options granted. The Company is now able to demonstrate significant stock option exercise activity for options granted subsequent to its initial public offering to provide a reasonable basis for incorporating historical data into its expected term of future stock option grants. As a result, during the three and six months ended September 30, 2012, the Company s 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 the Company s historical data. In determining expected life, the Company separates employees into groups that have historically exhibited similar behavior with regard to option exercises.

Expected volatility was calculated based on a blended approach that included historical volatility of a peer group, the implied volatility of the Company s traded options with a remaining maturity greater than six months and the historical realized volatility of the Company s common stock from the date of its initial public offering to the respective stock option grant date. The risk-free interest rate is determined by reference to U.S. Treasury yield curve rates with a remaining term equal to the expected life assumed at the date of grant. Forfeitures are estimated based on the Company s historical analysis of actual stock option forfeitures.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Dividend yield	None	None	None	None
Expected volatility	46%-48%	42%-44%	45%-48%	42%-44%
Weighted average expected volatility	47%	43%	47%	43%
Risk-free interest rates	0.60%-0.97%	1.23%-1.83%	0.60%-0.97%	1.23%-2.56%
Weighted average expected life (in years)	5.7	6.3	5.5	6.3

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CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

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 six months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Cost of services revenue	$ 195	$ 99	$ 379	$ 201
Sales and marketing	2,786	2,166	5,422	4,259
Research and development	638	442	1,262	917
General and administrative	2,530	1,657	5,014	3,438
Stock-based compensation expense	$ 6,149	$ 4,364	$ 12,077	$ 8,815

As of September 30, 2012, there was approximately $52,045 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 2.42 years. To the extent the actual forfeiture rate is different from what the Company has anticipated, stock-based compensation related to these awards will be different from the Company s expectations.

The following summarizes the activity by award type for the Company s two stock incentive plans for the six months ended September 30, 2012:

Options	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding as of March 31, 2012	6,656	$ 19.19		
Options granted	115	47.73		
Options exercised	(549)	13.11		
Options forfeited	(94)	31.83		
Options expired	(15)	9.93		
Outstanding as of September 30, 2012	6,113	$ 20.10	5.89	$ 235,702
Vested or expected to vest as of September 30, 2012	6,035	$ 19.77	5.84	$ 234,061
Exercisable as of September 30, 2012	3,921	$ 12.24	4.48	$ 182,017

The weighted average fair value of stock options granted was $20.12 per option and $20.34 per option during the three and six months ended September 30, 2012, respectively, and $18.00 per option and 17.49 per option during the three and six months ended September 30, 2011, respectively. The total intrinsic value of options exercised was $13,368 and $21,677 as of the three and six months ended September 30, 2012, respectively, and $5,618 and $14,842 as of the three and six months ended September 30, 2011, respectively. The Company s policy is to issue new shares upon exercise of options as the Company does not hold shares in treasury.

Restricted stock unit activity for the six months ended September 30, 2012 is as follows:

Non-vested Restricted Stock Units	Number of Awards	Weighted Average Grant Date Fair Value
Non-vested as of March 31, 2012	1,113	$ 33.24
Awarded	87	48.94
Vested	(154)	23.23
Forfeited	(56)	33.82
Non-vested as of September 30, 2012	990	$ 36.16

CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

7. Income Taxes

Income Tax Expense

Income tax expense was $8,715 and $15,242 in the three and six months ended September 30, 2012, respectively with an effective tax rate of 39% in both the three and six months ended September 30, 2012. The effective rate in the three and six months ended September 30, 2012 is 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.

The provision for income taxes for the three and six months ended September 30, 2011 was $5,313 and $8,426, respectively, with effective tax rates of 40% and 36%, respectively. The effective rate in the three months ended September 30, 2011 is 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 research and foreign tax credits. The effective rate in the six months ended September 30, 2011 is slightly 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 research and foreign tax credits as well as reversing $1,611 of our valuation allowance against certain state research tax credits due to the passage of state laws in New Jersey.

Deferred Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting and the amount used for income tax purposes. The Company s net deferred tax assets relate primarily to federal and state research tax credit carryforwards, stock-based compensation and foreign net operating loss carry forwards. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income and, to the extent that the Company believes recovery is not likely, the Company establishes a valuation allowance. In addition, the Company reviews the expected annual effective income tax rate and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual income, changes to the actual and forecasted permanent book-to-tax differences, or changes resulting from the impact of a tax law change.

At September 30, 2012, the Company maintained valuation allowances totaling $1,422 against its deferred tax assets. Specifically, the Company has a valuation allowance of $1,343 against certain state research tax credits due to uncertainties related to the ability to utilize such state research tax credits before they expire. The Company based its valuation allowance on its estimates of taxable income by legal entity and the period over which its state research tax credits will be recoverable. In addition, the Company has a valuation allowance of $79 against foreign net operating loss carryforwards in a certain international jurisdiction. In assessing the need for a valuation allowance against its net operating loss carryforwards in such international jurisdiction, the Company considered projected future income as part of its analysis.

CommVault Systems, Inc.

Notes to Consolidated Financial Statements Unaudited (continued)

(In thousands, except per share data)

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, 2012	$ 4,699
Additions for tax positions related to fiscal 2013	288
Additions for tax positions related to prior years	
Settlements	
Reductions related to the expiration of statutes of limitations	
Foreign currency translation adjustment	(33)
Balance at September 30, 2012	$ 4,954

All of the Company s unrecognized tax benefits at September 30, 2012 of $4,954, if recognized, would favorably affect the effective tax rate. 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 $4,954 and $4,699 and the related accrued interest and penalties of $829 and $784 in Other Liabilities on the Consolidated Balance Sheet at September 30, 2012 and March 31, 2012, respectively. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. In the six months ended September 30, 2012 and 2011, the Company recognized $59 and $60, respectively, of interest and penalties in the Consolidated Statements of Income. The Company believes that it is reasonably possible that approximately $391 of the currently remaining unrecognized tax benefits and approximately $194 of related accrued interest and penalties may also be realized by the end of the fiscal year ending March 31, 2013 as a result of the lapse of the statute of limitations.

Other Tax Items

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 income tax returns for CommVault Americas, Inc. for the fiscal years ended March 31, 2009 through March 31, 2011 are currently under audit by the State of New Jersey.

The following table summarizes the tax years in the Company s major tax jurisdictions that remain subject to income tax examinations by tax authorities as of September 30, 2012. The years subject to income tax examination in the Company s foreign jurisdictions cover the maximum time period with respect to these jurisdictions. Due to NOL carryforwards, in some cases the tax years continue to remain subject to examination with respect to such NOLs.

Tax Jurisdiction	Years Subject to Income Tax Examination
U.S. Federal	2001 Present
New Jersey	2002 Present
Foreign jurisdictions	2006 Present

8. Subsequent Events

On October 25, 2012, the Company s Board of Directors authorized a $50,000 increase to the Company s existing stock repurchase program and extended the expiration of the stock repurchase program to March 31, 2014. As of November 1, 2012, the Company has repurchased $117,157 of common stock out of the $220,000 in total that is now authorized under its stock repurchase program. As a result, the Company may repurchase an additional $102,843 of its common stock through March 31, 2014.

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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, 2012. 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 Simpana ® brand. Our Simpana software is a platform with licensable modules that work together seamlessly, sharing a single code and common function set, to deliver Backup and Recovery, Archive, Replication, Search and Resource Management capabilities. With a single platform approach, Simpana 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 products 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 highly effective services that are delivered by our worldwide support and field operations. As of September 30, 2012, we had licensed our software applications to approximately 17,100 registered customers.

Our Simpana software suite is comprised of the following five distinct data and information management software application modules: Backup and Recovery, Archive, Replication, Resource Management and Search. All of our software application modules share a common platform that provides back-end services and advanced capabilities, like encryption; deduplication; content indexing; policy-based automation; data classification; e-discovery and role-based security. The subsequent release of our other software application modules has substantially increased our addressable market. Each application module can be used individually or in combination with other application modules from our single platform suite.

In January 2009, our CommVault Simpana 8.0 software suite (Simpana 8) was made available for public release. Simpana 8 included advances in recovery management, data reduction, virtual server protection and content organization. In addition, we believe that Simpana 8 met a broad spectrum of customer s discovery and recovery management requirements and eliminated the need for a myriad of point level products.

In August 2010, our CommVault Simpana 9.0 software suite (Simpana 9) was made available for public release. We believe that Simpana 9, which builds on and significantly expands Simpana 8, allows customers to deploy a modern data management solution to achieve gains in efficiency, cost optimization and scale. We believe that Simpana 9 solves real-world IT challenges with major technology advancements, including increased virtualization scalability and performance, integrated source and target data deduplication, automatic and transparent integration with hardware array-based snapshots, as well as new tools that ease migration to our next generation Simpana 9 platform.

In January 2012, we released enhancements to our existing Simpana 9 software suite. These enhancements include new capabilities that converge backup, archive and reporting processes; additional SnapProtect technology that delivers hardware snapshot integration; enhancements to virtual server protection; new innovations to protect data on laptops and desktops with embedded source deduplication for optimized efficiency; and new integration with Microsoft SharePoint.

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 65% of software license transactions were sold on a capacity basis during the six months ended September 30, 2012, and approximately 61% of software license transactions were sold on a capacity basis during the six months ended September 30, 2011. 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 Simpana 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 Simpana 8 and Simpana 9 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.

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 49% of our total revenues for the six months ended September 30, 2012 and 48% for the six months ended September 30, 2011.

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. We expect the number of enterprise software transactions (transactions greater than $0.1 million) and resulting software revenue to increase throughout fiscal 2013, although the size and timing of any particular software transaction is more difficult to forecast. Such software transactions represented approximately 56% of our total software revenue in the six ended September 30, 2012 and approximately 54% of our total software revenue for the six months ended September 30, 2011.

Software revenue generated through indirect distribution channels was approximately 88% of total software revenue in the six months ended September 30, 2012 and was approximately 84% of total software revenue in the six months ended September 30, 2011. Software revenue generated through direct distribution channels was approximately 12% of total software revenue in the six months ended September 30, 2012 and was approximately 16% of total software revenue in the six months ended September 30, 2011. The dollar value of software revenue generated through indirect distribution channels increased approximately $23.6 million, or 31%, in the six months ended September 30, 2012 compared to the six months ended September 30, 2011. The dollar value of software revenue generated through direct distribution channels decreased $1.8 million, or 12%, in the six months ended September 30, 2012 compared to the six months ended September 30, 2011. 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 our international operations in the six months ended September 30, 2012 compared to the six months ended September 30, 2011. Software revenue generated by our international operations is almost exclusively transacted through indirect distribution channels. In the prior year six month period, a significant portion of our enterprise software transactions in the United States were 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 fiscal year to fiscal year. As such, there may be fluctuations in the dollars and percentage of software revenue generated through our direct distribution channels from time to time. 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 have a worldwide reseller and an original equipment agreement with Dell. Our reseller agreement with Dell provides them the right to market, resell and distribute certain of our products to their customers. Our original equipment manufacturer agreement with Dell is discussed more fully below. Sales through both of our agreements with Dell accounted for 21% of our total revenues for both the six months ended September 30, 2012 and for the six months ended September 30, 2011.

In May 2011, we announced that we entered into a global original equipment manufacturer agreement with NetApp under which NetApp will integrate elements of our Simpana 9 software suite with NetApp SnapShot and replication technology, under the NetApp SnapProtect® brand. During the six months ended September 30, 2012 and 2011, we did not recognize a material amount of revenue under our original equipment manufacturer agreement with NetApp.

Overall, we have original equipment manufacturer agreements primarily with Dell, Hitachi Data Systems and NetApp 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. Dell, 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. A material portion of our software revenue is sometimes generated through our original equipment manufacturer agreements. Sales through our original equipment manufacturer agreements accounted for 14% of our total revenues for the six months ended September 30, 2012 and 12% of our total revenues for the six months ended September 30, 2011.

We also have non-exclusive distribution agreements covering our North American commercial markets and our U.S. Federal Government market with Arrow Enterprise Computing Solutions, Inc. (Arrow), a subsidiary of Arrow Electronics, Inc., and Avnet Technology Solutions (Avnet), a subsidiary of Avnet, Inc. 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. Many of our North American resellers have been transitioned to either Arrow or Avnet. We generated approximately 28% of our total revenues through Arrow in the six months ended September 30, 2012 and approximately 26% in the six months ended September 30, 2011. Avnet s total revenue contribution was not material in the six months ended September 30, 2012 and 2011. 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 future revenues.

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 51% of our total revenues for the six months ended September 30, 2012 and 52% for the six months ended September 30, 2011.

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The gross margin of our services revenue was 74.7% for the six months ended September 30, 2012 and 75.5% for the six months ended September 30, 2011. The decrease in the gross margin of our services revenue in the six months ended September 30, 2012 compared to the six months ended September 30, 2011 was primarily due to higher costs of services associated with the expansion of our worldwide customer support operations. Overall, our services revenue has lower gross margins than our software revenue. The gross margin of our software revenue was 98.8% for six months ended September 30, 2012 and 98.6% for the six months ended September 30, 2011. An increase in the percentage of total revenues represented by services revenue may adversely affect our overall gross margins.

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 we use for information services and in our development and test labs.

We anticipate that each of the above categories of operating expenses will increase in dollar amounts, but will decline as a percentage of total revenues in the long-term.

Foreign Currency Exchange Rates Impact on Results of Operations

Sales outside the United States were approximately 40% of our total revenue for the six months ended September 30, 2012 and approximately 38% of our total revenue for the six months ended September 30, 2011. 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 corresponding fiscal 2012 period, our total revenues would have been higher by $1.9 million, our cost of sales would have been higher by $0.2 million and our operating expenses would have been higher by $1.4 million from non-U.S. operations for the three months ended September 30, 2012. For the six months ended September 30, 2012, our total revenues would have been higher by $5.1 million, our cost of sales would have been higher by $0.5 million and our operating expenses would have been higher by $3.0 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 losses of approximately $0.1 million and less than $0.1 million in the three and six months ended September 30, 2012, respectively, and net foreign currency transaction gains of less than $0.1 million in both the three and six months ended September 30, 2011, respectively.

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 of these sources.

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 3 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.

Our other professional services include consulting, assessment and design services, installation services and training. 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 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 September 30, 2012, we maintain two stock incentive plans, which are described more fully in Note 6 of our *Notes to Consolidated Financial Statements*. 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.

The average expected life for the three and six months ended September 30, 2011 was determined according to the simplified method , which is the mid-point between the vesting date and the end of the contractual term. During fiscal 2013, we began incorporating our historical data into the expected term calculation for stock options granted. We are now able to demonstrate significant stock option exercise activity for options granted subsequent to our initial public offering to provide a reasonable basis for incorporating historical data into our expected term of future stock option grants. As a result, during the three and six months ended September 30, 2012, 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 was calculated based on a blended approach that included historical volatility of a peer group, the implied volatility of our traded options with a remaining maturity greater than six months and the historical

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realized volatility of our common stock from the date of our initial public offering to the respective stock option grant date. The risk-free interest rate is determined by reference to U.S. Treasury yield curve rates with a remaining term equal to the expected life assumed at the date of grant. Forfeitures are estimated based on our historical analysis of actual stock option forfeitures.

The assumptions used in the Black-Scholes option-pricing model in the three and six months ended September 30, 2012 and 2011 are as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Dividend yield	None	None	None	None
Expected volatility	46%-48%	42%-44%	45%-48%	42%-44%
Weighted average expected volatility	47%	43%	47%	43%
Risk-free interest rates	0.60%-0.97%	1.23%-1.83%	0.60%-0.97%	1.23%-2.56%
Weighted average expected life (in years)	5.7	6.3	5.5	6.3

The weighted average fair value of stock options granted was $20.12 per option and $20.34 per option during the three and six months ended September 30, 2012, respectively, and $18.00 per option and $17.49 per option during the three and six months ended September 30, 2011, respectively. In addition, the weighted average fair value of restricted stock units awarded was $47.83 per unit and $48.94 per unit during the three and six months ended September 30, 2012, respectively, and $40.49 per unit and $39.16 per unit during the three and six months ended September 30, 2011.

As of September 30, 2012, there was approximately $52.0 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 2.42 years.

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 September 30, 2012, we had net deferred tax assets of approximately $35.8 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 September 30, 2012, we maintain a valuation allowance against our deferred tax assets totaling $1.4 million. Substantially all of the valuation allowance we have recorded is against certain state research tax credits due to uncertainties related to the ability to utilize such state research tax credits before they expire. We based our valuation allowance on our estimates of taxable income by legal entity and the period over which our state research tax credits will be recoverable.

As of September 30, 2012, we had unrecognized tax benefits of $5.0 million, all of which, if recognized, would favorably affect the effective tax rate. In addition, we have accrued interest and penalties of $0.8 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 $5.0 million and the related accrued interest and penalties of $0.8 million are included in Other Liabilities on the Consolidated Balance Sheet. We believe that it is reasonably possible that approximately $0.4 million of our currently remaining unrecognized tax benefits and approximately $0.2 million of related accrued interest and penalties may also be realized by the end of fiscal 2013 as a result of the lapse of the statute of limitations.

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 income tax returns for CommVault Americas, Inc. for the fiscal years ended March 31, 2009 through March 31, 2011 are currently under audit by the State of New Jersey.

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The following table summarizes the tax years in the major tax jurisdictions that remain subject to income tax examinations by tax authorities as of September 30, 2012. The years subject to income tax examination in our foreign jurisdictions cover the maximum time period with respect to these jurisdictions. Due to NOL carryforwards, in some cases the tax years continue to remain subject to examination with respect to such NOLs.

Tax Jurisdiction	Years Subject to Income Tax Examination
U.S. Federal	2001 - Present
New Jersey	2002 - Present
Foreign jurisdictions	2006 - Present

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):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Software	50%	49%	49%	48%
Services	50	51	51	52
Total revenues	100%	100%	100%	100%
Cost of revenues:				
Software	1%	1%	1%	1%
Services	12	13	13	13
Total cost of revenues	13%	13%	13%	13%
Gross margin	87%	87%	87%	87%

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Three months ended September 30, 2012 compared to three months ended September 30, 2011

Revenues

Total revenues increased $20.7 million, or 21%, from $97.5 million in the three months ended September 30, 2011 to $118.2 million in the three months ended September 30, 2012.

Software Revenue. Software revenue increased $11.4 million, or 24%, from $47.8 million in the three months ended September 30, 2011 to $59.2 million in the three months ended September 30, 2012. Software revenue represented 50% of our total revenues in the three months ended September 30, 2012 compared to 49% of total revenues in the three months ended September 30, 2011.

The increase in software revenue is primarily due to higher software revenue derived from our U.S. operations, which increased 30% in the three months ended September 30, 2012 compared to the three months ended September 30, 2011. In addition, software revenue from our international operations increased 14% in the three months ended September 30, 2012 compared to the three months ended September 30, 2011. The growth in software revenue in our international locations is primarily due to increases in Australia, Latin America, Canada and Europe as we expand our international operations.

Software revenue derived from enterprise software transactions (transactions greater than $0.1 million) represented approximately 56% of our software revenue in the three months ended September 30, 2012 and approximately 55% of our software revenue in the three months ended September 30, 2011. As a result, enterprise software transactions increased by $6.9 million, or 26%, in the three months ended September 30, 2012 compared to the three months ended September 30, 2011. This increase was primarily driven by a 19% increase in the average dollar amount of enterprise deals as well as a 6% increase in the total number of such transactions. The average dollar amount of such transactions was approximately $247,000 in the three months ended September 30, 2012 and approximately $208,000 in the three months ended September 30, 2011. Software revenue derived from transactions less than $0.1 million increased $4.5 million, or 21%, in the three months ended September 30, 2012 compared to the three months ended September 30, 2011.

Software revenue derived from our indirect distribution channel (resellers and original equipment manufacturers) increased $10.4 million, or 25%, in the three months ended September 30, 2012 compared to the three months ended September 30, 2011, and software revenue through our direct sales force increased $1.0 million, or 17%, in the three months ended September 30, 2012 compared to the three months ended September 30, 2011. Software revenue generated by our international operations is almost exclusively transacted through indirect distribution channels. The increase in the dollar value of the software revenue through our direct sales channel is due to a higher dollar value of enterprise software transactions in the United States in the three months ended September 30, 2012 compared to the three months ended September 30, 2011. Software revenue that is 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 as more fully discussed above in the Sources of Revenues section.

Services Revenue. Services revenue increased $9.3 million, or 19%, from $49.6 million in the three months ended September 30, 2011 to $58.9 million in the three months ended September 30, 2012. Services revenue represented 50% of our total revenues in the three months ended September 30, 2012 compared to 51% in the three months ended September 30, 2011. The increase in services revenue is primarily due to an $8.2 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 $2.3 million, or 17%, from $13.1 million in the three months ended September 30, 2011 to $15.3 million in the three months ended September 30, 2012. Total cost of revenues represented 13% of our total revenues in both the three months ended September 30, 2012 and the three months ended September 30, 2011.

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Cost of Software Revenue. Cost of software revenue remained flat at $0.6 million in both the three months ended September 30, 2011 and the three months ended September 30, 2012. Cost of software revenue represented 1% of our total software revenue in both the three months ended September 30, 2012 and the three months ended September 30, 2011.

Cost of Services Revenue. Cost of services revenue increased $2.3 million, or 18%, from $12.4 million in the three months ended September 30, 2011 to $14.7 million in the three months ended September 30, 2012. Cost of services revenue represented 25% of our services revenue in both the three months ended September 30, 2012 and the three months ended September 30, 2011. The increase in cost of services revenue is primarily the result of higher employee compensation and related expenses totaling approximately $1.0 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 $1.0 million increase in third-party outsourcing costs to facilitate our services revenue growth.

Operating Expenses

Sales and Marketing. Sales and marketing expenses increased $4.5 million, or 9%, from $51.2 million in the three months ended September 30, 2011 to $55.7 million in the three months ended September 30, 2012. The increase is primarily due to a $2.7 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 $0.7 million increase in advertising and marketing related expenses as we continue to build brand awareness for our Simpana software products and a $0.6 million increase in stock-based compensation expenses. Sales and marketing expenses as a percentage of total revenues decreased to 47% in the three months ended September 30, 2012 from 53% in the three months ended September 30, 2011.

Research and Development. Research and development expenses increased $1.8 million, or 19%, from $9.6 million in the three months ended September 30, 2011 to $11.4 million in the three months ended September 30, 2012. The increase is primarily due to a $1.3 million increase in salary and related expenses resulting from the expansion of our engineering group, a $0.2 million increase in legal expenses and a $0.2 million increase in stock-based compensation expenses. Research and development expenses as a percentage of total revenues was 10% in both the three months ended September 30, 2012 and the three months ended September 30, 2011. 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 $2.8 million, or 30%, from $9.4 million in the three months ended September 30, 2011 to $12.2 million in the three months ended September 30, 2012. This increase is primarily due to a $0.9 million increase in stock-based compensat; FONT-SIZE: 10pt">$

250

$

-

$

250

$

-

Total

$

2,427

$

2,177

$

250

$

-

NOTE 4 – ACQUISITIONS

In July 2012, Asure acquired the capital stock of Meeting Maker – United States, Inc., doing business as PeopleCube, for a combination of cash and Asure common stock. The 2012 acquisition of PeopleCube gave Asure a product line that includes software to assist customers in driving integrated facility management of offices, conference rooms, video conferencing, events and training, alternative workspaces and lobby use.

The purchase price was composed of $9,800 in cash, subject to a post-closing working capital adjustment, (ii) 255 shares of our common stock, par value $0.01 per share, representing just under five percent of Asure's outstanding shares and valued at $2.94 per share and (iii) an additional $3,000 note from us that is due on October 31, 2014, subject to offset of any amounts owed by the seller under the indemnification provisions of the stock purchase agreement. The note was adjusted to a fair value of $2,404 based on our incremental borrowing rate. Details regarding the financing of the acquisition are described in the below Notes Payable table. Transactions costs for this acquisition were $905 and we expensed them as incurred.

Following is the purchase price allocation for the acquisition of PeopleCube in 2012. We based the preliminary fair value estimate for the assets acquired and liabilities assumed for this acquisition upon preliminary calculations and valuations. Our estimates and assumptions for this acquisition are subject to change as we obtain additional information for our estimates during the respective measurement periods (up to one year from the acquisition date). The primary areas of those preliminary estimates that we have not yet finalized relate to certain tangible assets acquired and liabilities assumed, certain legal matters and income and non-income based taxes. We expect to deduct goodwill arising from this acquisition for tax purposes over 15 years.

We recorded the transaction using the acquisition method of accounting and recognized assets and liabilities assumed at their fair value as of the date of acquisition. The $7.4 million of intangible assets subject to amortization consist of $5.2 million allocated to Customer Relationships, $1.8 million in Developed Technology, $338 for Trade Names and $23 for a Covenant not-to-compete. We estimated the fair value of the Customer Relationships using the excess earnings method, a form of the income approach. We discounted cash flow projections using a rate of 16.6%, which reflects the risk associated with the intangible asset related to the other assets and the overall business operations to us. We estimated the fair value of the Developed Technology and Trade Names using the relief from royalty method based upon a 5% royalty rate. We estimated the value of the Covenant not-to-compete using a damages calculation, which is the form of the income approach.

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Consideration paid:		
Cash per stock purchase agreement	$	10,000
Working capital adjustments		(200)
Total cash paid		9,800
Fair value of note payable		2,404
Fair value of stock issued		747
Total consideration paid	$	12,951

We based the allocations on fair values at the date of acquisition:

		PeopleCube
Assets Acquired		
Accounts receivable	$	2,608
Fixed assets		117
Other assets		124
Goodwill		9,276
Intangibles		7,445
Total assets acquired		19,570
Liabilities assumed		
Accounts payable		(671)
Accrued other liabilities		(245)
Subordinated notes payable		(1,614)
Deferred revenue		(4,089)
Total liabilities assumed		(6,619)
Net assets acquired	$	12,951

Unaudited Pro Forma Financial Information

The following unaudited summary of pro forma combined results of operation for 2012 gives effect to the acquisition of PeopleCube as if we had completed it on January 1, 2012. This pro forma summary does not reflect any operating efficiencies, cost savings or revenue enhancements that we may achieve by combining companies. In addition, we have not reflected certain non-recurring expenses, such as legal expenses and other transactions expenses for the first 12 months after the acquisition, in the pro forma summary. We present this pro forma summary for informational purposes only and it is not necessarily indicative of what our actual results of operations would have been had the acquisition taken place as January 1, 2012, nor is it indicative of future consolidated results of operations.

		FOR THE THREE MONTHS ENDED JUNE 30, 2012		FOR THE SIX MONTHS ENDED JUNE 30, 2012
Revenues	$	6,836	$	13,247
Net (loss)	$	(1,150)	$	(3,126)

Net (loss) per common share:				
Basic and diluted	$	(0.22)	$	(0.60)
Weighted average shares outstanding:				
Basic and diluted	$	5,237	$	5,237

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NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

Asure accounted for its historical acquisitions in accordance with ASC 805, Business Combinations. We recorded the amount exceeding the fair value of net assets acquired at the date of acquisition as goodwill. We recorded intangible assets apart from goodwill if the assets had contractual or other legal rights or if the assets could be separated and sold, transferred, licensed, rented or exchanged. Asure's goodwill relates to the acquisitions of ADI and Legiant in 2011 and the acquisition of PeopleCube in July 2012.

In accordance with ASC 350, Intangibles-Goodwill and Other, we review and evaluate our long-lived assets, including intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate that we may not recover their net book value. We test goodwill for impairment on an annual basis in the fourth fiscal quarter of each year, and between annual tests, if indicators of potential impairment exist, using a fair-value-based approach. There has been no impairment of goodwill for the periods presented. We amortize intangible assets not considered to have an indefinite useful life using the straight-line method over their estimated period of benefit, which generally ranges from one to ten years. Each reporting period, we evaluate the estimated remaining useful life of intangible assets and assess whether events or changes in circumstances warrant a revision to the remaining period of amortization or indicate that impairment exists. We have not identified any impairments of finite-lived intangible assets during any of the periods presented.

The following table summarizes the changes in our goodwill:

Balance at December 31, 2012	$	15,525
Adjustments to goodwill		2
Balance at June 30, 2013	$	15,527

The gross carrying amount and accumulated amortization of our intangible assets as of June 30, 2013 and December 31, 2012 are as follows:

	June 30, 2013						
Intangible Asset	Weighted Average Amortization Period (in Years)		Gross		Accumulated Amortization		Net
Developed Technology	5	$	3,428	$	(1,250)	$	2,178
Customer Relationships	7.4		12,478		(4,437)		8,041
Reseller Relationships	7		853		(213)		640
Trade Names	5		663		(663)		-
Covenant not-to-compete	4		205		(189)		16
		$	17,627	$	(6,752)	$	10,875

	December 31, 2012			
Intangible Asset	Weighted Average Amortization Period (in Years)	Gross	Accumulated Amortization	Net
Developed Technology	5	$ 3,428	$ (1,111)	$ 2,317
Customer Relationships	7.4	12,478	(3,515)	8,963
Reseller Relationships	7	853	(152)	701
Trade Names	5	663	(494)	169
Covenant not-to-compete	4	205	(176)	29
		$ 17,627	$ (5,448)	$ 12,179

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We record amortization expense using the straight-line method over the estimated economic useful lives of the intangible assets, as noted above. Amortization expenses for the three months ended June 30, 2013 and 2012 were $582 and $292, respectively, included in Operating Expenses. Amortization expenses recorded in Cost of Sales were $70 and $65 for the three months ended June 30, 2013 and 2012, respectively. Amortization expense for the six months ended June 30, 2013 and 2012 was $1,164 and $586 included in Operating Expenses, and $140 and $128, respectively, included in Cost of Sales.

The following table summarizes the future estimated amortization expense relating to our intangible assets:

Twelve Months Ended		
December 31, 2013 (remaining)	$	1,132
December 31, 2014		2,250
December 31, 2015		2,096
December 31, 2016		1,586
December 31, 2017		1,572
Thereafter		2,239
	$	10,875

NOTE 6 – NOTES PAYABLE AND DERIVATIVE LIABILITY

The following table summarizes our outstanding debt as of the dates indicated:

Notes Payable	Maturity	Stated Interest Rate		Balance as of June 30, 2013		Balance as of December 31,2012
Subordinated notes payable: ADI - Acquisition Note	10/1/2014	0.16%	$	746	$	693
Subordinated notes payable: Legiant Acquisition - Note # 2	10/1/2014	5.00%		186		186
Subordinated notes payable: ADI – Acquisition – Note #3	10/1/2014	0.20%		1,593		1,510
Subordinated Convertible Notes Payable – 9% Notes	9/30/2014	9.00%		322		311
Subordinated Notes Payable – 15% Notes	9/30/2014	15.00%		800		800
Subordinated Notes Payable: PeopleCube Acquisition Note	10/31/2014	10.0%		2,627		2,499
Senior Note Payable	7/01/2016	11.50%		11,412		14,138
Total Notes Payable			$	17,686	$	20,137
Short-term notes payable			$	1,450	$	3,450
Long-term notes payable			$	16,236	$	16,687

The following table summarizes the future principal payments related to our outstanding debt, including the impact of the amendment to the Senior Note Payable discussed below:

Twelve Months Ended	Gross Amount

		Unamortized Original Issue Discount	Total Notes Payable
December 31, 2013	$ 1,450		
December 31, 2014	8,397		
December 31, 2015	1,450		
December 31, 2016	7,062		
	$ 18,359	$ 673	$ 17,686

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Subordinated Notes Payable: ADI - Acquisition Note

In conjunction with the acquisition of the assets of ADI in October 2011, our wholly-owned subsidiary issued a $1,095 note payable to the seller. This note bears interest at an annual rate of 0.16%, will mature on October 1, 2014 and is guaranteed by us. We may offset any indemnification payments owed by the seller under the asset purchase agreement against up to $1,000 due under the note. We recorded the note at fair value using a discount rate of 9%, which resulted in an original issue discount of $244, which will accrete up the note to its aggregate principal amount over the course of the life of the loan using the effective interest method. We made a principal payment of $245 in July 2012.

Subordinated Notes Payable: Legiant Acquisition

In conjunction with the acquisition of Legiant, our wholly-owned subsidiary issued three separate promissory notes to the seller. The details of each of the notes are as follows:

Legiant Acquisition - Note #1

Legiant Acquisition - Note #1 was for an aggregate principal amount of $250, bore interest at an annual rate of 0.20% and matured in February 2012. We paid this note in full in 2012.

Legiant Acquisition - Note #2

Legiant Acquisition - Note #2 is for the principal amount of $478, bears interest at an annual rate of 5.00% and required monthly payments of $10 until June 2012. Asure made a principal payment for $235 in July 2012. No further cash interest or principal is payable until the maturity date of October 1, 2014.

Legiant Acquisition - Note #3

Legiant Acquisition - Note #3 is for an aggregate principal amount of $1,761, bears interest at an annual rate of 0.20%, and is due in a single lump sum on October 1, 2014. We may offset any indemnification payments owed by the seller under the asset purchase agreement to us against up to $1,000 of Note #3. We recorded the note at fair value using a discount rate of 9%, resulting in an original issue discount of $382, which will accrete up the note to its aggregate principal amount over the course of the life of the loan using the effective interest method.

We guaranteed all three promissory notes, which are subordinated to our senior note payable discussed below.

Subordinated Convertible Notes Payable - 9% Notes

In September 2011, we sold $1,500 of our 9% subordinated convertible notes (“9% Notes”) in a private placement to accredited investors to finance the ADI acquisition.

The 9% Notes - As Originally Issued

The 9% Notes pay interest on each of March 31, June 30, September 30 and December 31, beginning on December 31, 2011, at a rate of 9% per year. The 9% Notes will mature on September 30, 2014. The 9% Notes are secured by all of our assets, but are subordinated to our obligations under the senior note payable and the 15% Notes discussed

below.

Beginning 12 months from the date of issuance, each note holder may convert the 9% Notes into shares of our common stock at a conversion price of $5.00 per share, subject to adjustments for stock dividends and splits and certain other events. Additionally, if we subsequently issue common stock at a price below the then current conversion price, the conversion price will be reset to the greater of $3.27 per share (the closing price of our common stock on September 30, 2011) or such lower price. In the event that a holder of a 9% Note elects to convert the 9% Note into equity, and we determine that such conversion would jeopardize our federal tax loss carryforward benefits, we may elect to prepay any or all of such 9% Notes prior to conversion, subject to certain limitations, at a purchase price equal to the product of the number of shares into which the 9% Note is convertible and the volume weighted average closing price during the 20 day trading period beginning on the 10th day before the conversion notice is received by us, multiplied by the Premium Rate. The Premium Rate is 1.1 if a holder notifies us of an intention to convert the 9% Note into equity prior to the date that is 90 days before the maturity date and 1.5 if such notification is made within 90 days of the maturity date. The 9% Notes also contain customary terms of default.

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We also agreed that if we issue common stock below $3.25 per share, each holder of the 9% Notes outstanding at that time will have the right to purchase such holder's pro rata portion of the new stock issuance.

The 9% Notes contained embedded derivative instruments related to the conversion feature that Asure accounted for separately. Asure has re-measured the fair values of these instruments for each reporting period and recorded a gain or loss for the change in fair value. At inception, we valued the conversion feature at $274, resulting in an original issue discount on the convertible debt accreting up the 9% Notes to their aggregate principal amount over the course of the life of the loan using the effective interest method. We recognized amortization of the original issue discount of $21 during 2011. We used a Monte Carlo simulation in a risk-neutral framework to simulate our market capitalization outcomes, including considerations of our projected share price volatility, to estimate the fair value of the embedded derivative. The fair value of the conversion feature was $835 at December 31, 2011, with $561 being recorded in the income statement for the mark-to-market impact. This amount of $561 was recorded in interest expense – amortization of OID and derivative mark-to-market in our Consolidated Statements of Comprehensive Income (Loss).

The 9% Notes - Amendments

In March 2012, we amended the terms of the 9% Notes to eliminate the embedded derivative features resulting in a settlement or extinguishment of the derivative liability. Under the terms of the amendment, each holder of 9% Notes was permitted to convert the outstanding principal balance due thereunder into shares of our common stock at the conversion price originally set forth in the 9% Notes ($5.00 per share of common stock) on or before March 15, 2012. As consideration for agreeing to the terms of the amendment, we made a one-time cash payment in such amount as follows: (i) $211 for holders of 9% Notes who elected to convert their 9% Notes into common stock prior to March 16, 2012, an amount equal to 80% of the interest that such holder would have received by holding the 9% Note to maturity and (ii) $11 for holders of 9% Notes who did not elect to convert their 9% Notes into common stock prior to March 16, 2012, an amount equal to 3% of the outstanding principal amount of each 9% Note. In each case, the holders of the 9% Notes agreed to the removal of the dilution protection provision to reset the conversion price below $5.00 per share upon certain issuances of our common stock below $5.00 per share. Holders of approximately $1,150 of the total $1,500 of principal amount of 9% Notes converted their 9% Notes to common stock.

The amendment to the 9% Notes eliminated the derivative liability. Effective on March 10, 2012, we no longer accounted for the derivatives on a separate basis. Therefore, we no longer re-measure the value of the derivatives after the amendment date. The fair value of the conversion feature was $1,300 at March 10, 2012, with $465 recorded in the income statement for the mark-to-market impact. We recorded this amount in interest expense – amortization of OID and derivative mark-to-market in the Consolidated Statements of Comprehensive Income (Loss). The conversion of the 9% Notes and elimination of the derivative liability resulted in a loss on debt conversion of $198, a reduction in the carrying value of the 9% Notes to $296 at March 31, 2012 and an increase in additional paid in capital of $2,244 for the issuance of 345 shares of common stock issued upon conversion.

Mr. Goepel, our Chief Executive Officer, purchased $200 of the 9% Notes. Red Oak Fund, LP purchased $600 of the 9% Notes. Mr. Sandberg, our Chairman, is the controlling member of Red Oak Partners, LLC, which manages the Red Oak Fund. Both parties subsequently converted the 9% Notes under the terms of the amendment.

Subordinated Notes Payable - 15% Notes

In September 2011, we sold $1,700 of our 15% subordinated notes ("15% Notes") in a private placement to accredited investors. The 15% Notes pay interest on each of March 31, June 30, September 30 and December 31, beginning on December 31, 2011, at a rate of 15% per year. The 15% Notes have a maturity date of September 30, 2014. On July 1, 2012, Asure prepaid $900 from proceeds of the senior note payable. Mr. Goepel, our Chief Executive Officer, originally purchased $500 of the 15% Notes. Pinnacle Fund, LLLP originally purchased $300 of the 15% Notes. Mr. Sandberg, our Chairman, is the controlling member of Red Oak Partners, LLC, which owns 50% of Pinnacle Partners, LLC, the general partner of the Pinnacle Fund, LLLP. Red Oak Partners, LLC is also the manager of the Pinnacle Fund, LLLP. We expensed $115 of fees for this transaction during 2012. The 15% Notes are secured by all of our assets, but are subordinated to our obligations to the senior note payable discussed below. The 15% Notes also contain customary terms of default.

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Subordinated Notes Payable: PeopleCube Acquisition – Note

In July 2012, we issued a $3,000 Note to the seller in the PeopleCube stock acquisition. The note is due October 31, 2014, subject to offset of any amounts owed by the seller to us under the indemnification provisions of the stock purchase agreement. We recorded the note at fair value using a discount rate of 10%, which resulted in an original issue discount of $622, which will accrete up the note to its aggregate principal amount over the course of the life of the loan using the effective interest method.

Senior note payable

In July 2012, we and our wholly-owned subsidiaries entered into a loan agreement with Deerpath Funding, LP, a Delaware limited partnership, as lender, administrative agent and collateral agent ("Deerpath"). Under the loan agreement, we borrowed $14,500 to (i) finance the cash purchase consideration for the acquisition of PeopleCube, (ii) pay outstanding indebtedness under the 15% Notes (including partial interest and subordination consent payments of $134 to Mr. Goepel, our Chief Executive Officer, and $81 to Pinnacle Fund, which is controlled by David Sandberg, our Chairman) and our bank line of credit, and (iii) pay transaction costs and expenses of the term loan and the acquisition of PeopleCube.

The loan agreement, which was amended effective December 31, 2012, also provides for a conditional commitment to provide additional single advance senior secured term loans from time to time in an aggregate amount not to exceed $10,000 to be used for refinancing certain other indebtedness, funding permitted acquisitions or other growth initiatives, and paying fees and expenses of the term loans and permitted acquisitions. We have not borrowed any amounts under the conditional term loan commitment.

The senior note payable bears interest at a floating annual rate equal to LIBOR plus 8.00%, subject to a LIBOR floor of 9.5%, or a minimum of 11.5%. It requires a separate $2,000 principal payment by October 31, 2013 in addition to monthly payments of interest only beginning on August 1, 2012 and quarterly principal payments of $362 beginning on October 1, 2012, with any remaining principal due on July 1, 2016. We paid the $2,000 principal payment in May 2013. In addition, in March 2013, we paid a $240 loan amendment fee, of which $52 was recorded to interest expense and $188 was recorded as a prepaid expense and are amortizing to interest expense over the term of the note payable using the straight-line method.

We may prepay all or a portion of the principal amount outstanding at any time, subject to a premium ranging from 1% to 5% of the principal amount being prepaid depending on if the prepayment occurs on or before the first, second or third anniversary of the closing date. The term loan requires annual mandatory prepayments beginning December 31, 2012 of outstanding principal with 75% of excess cash flow as defined in the loan agreement (such percentage to be reduced to 50% if we achieve a specified senior debt-to-EBITDA ratio) and, at Deerpath's election, with proceeds from certain events, including 100% of the net proceeds of any asset sales and issuance of equity securities. The senior note payable is secured by a first priority lien on all of our and our subsidiaries' assets and pledges of 100% of the equity interests in Asure's domestic subsidiaries and 65% of the equity interests in Asure's foreign subsidiaries.

The loan agreement contains customary covenants, which were amended effective December 31, 2012, including but not limited to limitations with respect to debt, liens, mergers and acquisitions, sale of assets, loans or advances to and investments in others, dividends or other distributions, capital expenditures and management compensation. Beginning with the quarter ending September 30, 2012, we were required to maintain a total debt-to-EBITDA ratio of

not greater than 3.75 to 1.00 (3.50 to 1.00 at December 31, 2012). Beginning with the quarter ended March 31, 2013, we were required to maintain a total debt-to-EBITDA ratio of not greater than 4.50 to 1.00, with the levels stepping down thereafter to 2.75 to 1.00 for the quarter ending March 31, 2014 and thereafter. Beginning with the quarter ended December 31, 2012, we agreed to a senior debt-to-EBITDA ratio of not greater than 2.66 to 1.00 with the levels stepping down thereafter to 1.75 to 1.00 for the quarter ending December 31, 2014 and thereafter. Deerpath may designate one representative to attend all meetings of our board of directors as a non-voting observer.

A second amendment to the loan agreement was made effective March 31, 2013 to clarify the fixed charge coverage ratio calculation. It amended the required fixed charge coverage ratios required under the loan agreement to be consistent with EBITDA levels established with the first amendment that was effective as of December 31, 2012. Beginning with the quarter ended March 31, 2013, we were required to maintain a fixed charge coverage ratio of not less than 1.00 to 1.00, with levels increasing thereafter to 1.50 to 1.00 for the quarter ending December 31, 2014 to 3.00 to 1.00 for the quarter ending June 30, 2016 and thereafter.

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We were in compliance with the amended covenant requirements as of June 30, 2013 and expect to be in compliance or be able to obtain compliance through debt repayments with the available cash on hand over the subsequent twelve month period.

The loan agreement contains customary events of default, including, among others, (i) payment defaults, (ii) covenant defaults, (iii) incorrect representations or warranties, (iv) bankruptcy and insolvency events, (v) certain cross defaults and cross accelerations, (vi) certain change of control or change of management events and (vii) certain material adverse events. In some cases, the defaults are subject to customary notice and grace period provisions.

We made principal payments of $362 on the senior note payable on each of October 1, 2012, January 1, 2013 and April 1, 2013. We paid the required $2,000 principal payment in May 2013.

Line of Credit

In September 2011, we entered into a credit agreement with JPMorgan Chase Bank N.A. (“Bank”), providing for a $500 line of credit (the “Line of Credit”), which we fully utilized as of December 31, 2011. As originally issued, the Line of Credit bore interest at a rate of 1.5% above the CB Floating Rate and matured on September 28, 2012. The CB Floating rate is defined as the Bank’s prime rate, as announced from time to time, provided that the CB Floating Rate may not be less than the adjusted one month LIBOR rate. The aggregate principal amount of advances outstanding at any one time under the Line of Credit may not exceed 80% of eligible trade accounts and accounts receivable or the maximum principal amount then available, whichever is less.

We repaid the $500 outstanding under the line of credit in full in July 2012. This line has expired as of December 31, 2012.

NOTE 7 – STOCKHOLDERS’ EQUITY

In May 2013, we sold approximately 662,000 shares of common stock to various investors, including certain directors of the Company and other entities affiliated with the directors at a purchase price of $5.31 per share, for proceeds, net of fees and expenses, of approximately $3,500. We sold the shares pursuant to a registration statement on Form S-3and a related prospectus supplement. We used $2,000 of the funds to make a principal payment under our loan agreement with Deerpath Funding, LP. We plan to use the balance of the net proceeds for general corporate purposes, which may include repayment of additional outstanding debt.

NOTE 8 – SHARE BASED COMPENSATION

Share based compensation for our stock option plans for the three months ended June 30, 2013 and 2012 were $45 and $25, respectively, and $69 and $35 for the six months ended June 30, 2013 and 2012, respectively. We issued 4,425 and 1,500 shares of common stock related to exercises of stock options granted from our Stock Option Plan for the three months ended June 30, 2013 and 2012, respectively.

Asure has one active equity plan, the 2009 Equity Plan (the “2009 Plan”). The 2009 Plan provides for the issuance of non-qualified and incentive stock options to our employees and consultants. We generally grant stock options with exercise prices greater than or equal to the fair market value at the time of grant. The options generally vest over three to four years and are exercisable for a period of five to ten years beginning with date of grant. Our shareholders

approved an amendment to the 2009 Plan in June 2013 to increase the number of shares reserved under the plan from 900,000 to 1,200,000. We have a total of 673,000 options granted and outstanding pursuant to the 2009 Plan as of June 30, 2013.

NOTE 9 – OTHER COMPREHENSIVE LOSS

Comprehensive (loss) income represents a measure of all changes in equity that result from recognized transactions and other economic events other than those resulting from investments by and distributions to shareholders. Our other comprehensive loss includes foreign currency translation adjustments.

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The following table presents the changes in each component of accumulated other comprehensive (loss) income, net of tax (in thousands):

	Foreign Currency Items	Accumulated Other Comprehensive Income Items
Beginning balance, December 31, 2012	$ (102)	$ (102)
Other comprehensive income (loss) before reclassifications	42	42
Amounts reclassified from accumulated other comprehensive income	—	—
Net current-period other comprehensive income (loss)	42	42
Ending balance, June 30, 2013	$ (60)	$ (60)

The following table presents the tax (expense) benefit allocated to each component of other comprehensive (loss) income (in thousands):

	Three Months Ended June 30, 2013		
	Before Tax	Tax Benefit	Net of Tax
Foreign currency translation adjustments	$ 4	$ —	$ 4
Other comprehensive (loss) income	$ 4	$ —	$ 4

	Six Months Ended June 30, 2013		
	Before Tax	Tax Benefit	Net of Tax
Foreign currency translation adjustments	$ 42	$ —	$ 42
Other comprehensive (loss) income	$ 42	$ —	$ 42

NOTE 10 – NET LOSS PER SHARE

We compute Net Loss per Share based on the weighted average number of common shares outstanding for the period. Diluted Net Loss per Share reflects the maximum dilution that would have resulted from incremental common shares issuable upon the exercise of stock options. We compute the number of common share equivalents, which includes stock options, using the treasury stock method. We have excluded stock options to acquire 673,000 shares for the three and six months ended June 30, 2013 and 637,000 shares for the three and six months ended June 30, 2012, respectively, from the computation of the dilutive stock options because the effect of including the stock options would have been anti-dilutive.

On April 30, 2012, we completed a 3-for-2 stock split. All prior periods have been adjusted to reflect the impact of the stock split, including the impact on basic and diluted net loss per share.

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The following table sets forth the computation of basic and diluted net loss per common share for the three and six months ended June 30, 2013 and 2012:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Net Loss	$ (569)	$ (323)	$ (1,669)	$ (1,170)
Weighted-average shares of common stock outstanding	5,497,000	4,982,000	5,380,000	4,841,000
Basic and diluted net loss per share	$ (0.10)	$ (0.06)	$ (0.31)	$ (0.24)

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of Asure's financial position as of and for the three months and six months ended June 30, 2013 and 2012 should be read in conjunction with our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Asure's internet website address is http://www.asuresoftware.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after they are electronically filed, or furnished to, the Securities and Exchange Commission. Asure's internet website and the information contained therein or connected thereto is not incorporated into this Quarterly Report on Form 10-Q.

Asure is a leading global provider of web-based workforce management solutions that enable organizations to manage their office environment as well as their human resource and payroll processes effectively and efficiently. Our software is delivered primarily as software-as-a-service, or SaaS, and on premise. Asure markets a suite of hardware products that enable time and facility management and are fully integrated with our software offerings. We also offer a wide range of professional services for implementation and customer customization. Our revenues consist of software subscription revenue, hardware revenue, maintenance revenue, onetime software license revenue and professional services revenue.

Our product offerings consist of AsureSpace™ workplace management solutions that enable organizations to manage their office environments and optimize real estate utilization, and AsureForce® time and labor management solutions which help organizations optimize labor and labor administration costs and activities. We target our sales and marketing efforts to a wide range of audiences, from small and medium-sized businesses to Fortune 500 companies and divisions of enterprise organizations throughout the United States, Europe and Asia/Pacific. We generate sales of our solutions through our direct sales teams and indirectly through our channel partners. We are expanding our investment in our direct sales teams to continue to address our market opportunity.

In April 2012, we effected a 3-for-2 stock split. We made cash payments based upon the closing price of our shares on the record date in lieu of the issuance of fractional shares. Share and per share information in this report, including in our financial statements, reflect the impact of the stock split.

On April 11, 2013, we received a letter from The NASDAQ Stock Market ("NASDAQ") stating that pursuant to Rule 5550(b)(2), we had not met the $35 million minimum Market Value of Listed Securities ("MVLS") for our common stock for the period from February 26, 2013 to April 10, 2013. Rule 5550(b)(2) requires the Company to have a minimum MVLS of $35 million for at least 30 consecutive business days. In order to regain compliance with Rule 5550(b)(2), the Company's MVLS must close at $35 million or more for a minimum of 10 consecutive trading days. The NASDAQ notification has no immediate effect on the listing of our common stock and Asure has a grace period of 180 calendar days, or until October 8, 2013, to regain compliance.

Under Rule 5550, we can regain compliance and avoid the potential for delisting of our common stock by satisfying any one of the MVLS test, the minimum equity test (total stockholder's equity of $2.5 million) or the minimum net income test ($500,000 in net income from operations). Although we cannot control our stock price or market capitalization, we continue to monitor the MVLS for our common stock and are considering various options available to us if our common stock does not trade at a level that is likely to regain compliance within the requisite grace period.

In May 2013, we sold approximately 662,000 shares of common stock to various investors, including certain directors of the Company and other entities affiliated with the directors at a purchase price of $5.31 per share, for proceeds, net of fees and expenses, of approximately $3.5 million. We believe this transaction allows us to meet the minimum

equity test and brought us back into compliance with the NASDAQ requirements and we are awaiting confirmation from NASDAQ to this effect.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Report represent forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results of operations, levels of activity, economic performance, financial condition or achievements to be materially different from future results of operations, levels of activity, economic performance, financial condition or achievements as expressed or implied by such forward-looking statements. Asure has attempted to identify these forward-looking statements with the words "believes," "estimates," "plans," "expects," "anticipates," "may," "could" and other similar expressions. Although these forward-looking statements reflect management's current plans and expectations, which we believe are reasonable as of the filing date of this report, they inherently are subject to certain risks and uncertainties. Additionally, Asure is under no obligation to update any of the forward-looking statements after the date of this Form 10-Q to conform such statements to actual results.

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RESULTS OF OPERATIONS

The following table sets forth the percentage of total revenues represented by certain items in Asure's Consolidated Statements of Comprehensive Income (Loss) for the fiscal periods indicated:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2013	2012	2013	2012
Revenues	100%	100%	100%	100%
Gross margin	76.5	76.4	73.4	75.6
Selling, general and administrative	54.8	55.5	54.8	53.5
Research and development	10.5	14.1	11.1	14.1
Amortization of intangible assets	9.2	6.9	9.5	7.0
Total operating expenses	74.6	76.5	75.4	74.6
Other income (loss), net	(10.3)	(4.8)	(11.0)	(13.0)
Net loss	(9.0)	(7.7)	(13.6)	(14.0)

THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (Amounts in thousands)

Revenues

Revenues represent our consolidated revenues, including sales of our scheduling software, time and attendance and human resource software, complementary hardware devices to enhance our software products, software maintenance and support services, installation and training services and other professional services.

Revenues for the three months ended June 30, 2013 were $6,296, an increase of $2,091 or 49.7%, from the $4,205 reported for the three months ended June 30, 2012. The increase was primarily due to $2,088 of revenues generated by PeopleCube, which we acquired in July 2012.

Revenues for the six months ended June 30, 2012 were $12,271, an increase of $3,914 or 46.8%, from the $8,357 reported for the six months ended June 30, 2012. The increase was primarily due to $4,013 of revenues generated by PeopleCube, which we acquired in July 2012.

Although our sales are concentrated in certain industry sectors, including corporate, education, healthcare, governmental, legal and non-profit, our total customer base is widely spread across industries. Geographically, we sell our products worldwide, but sales are largely concentrated in the United States and Canada. Additionally, Asure has a distribution partner in Australia. We continue to target small and medium size businesses and divisions of enterprises in these same industries as prospective customers. As the overall workforce management solutions market continues to experience significant growth related to SaaS products, Asure will continue to focus on sales of its Meeting Room Manager On Demand, PeopleCube and ADI SaaS products.

In addition to continuing to develop our workforce management solutions and release new software updates and enhancements, we continue to actively explore other opportunities to acquire additional products or technologies to complement our current software and services. Through acquisitions in 2011 of ADI and Legiant, we expanded our cloud computing time and attendance software and management services business. The 2012 acquisition of PeopleCube gave Asure a product line that includes software to assist customers in driving integrated facility management of offices, conference rooms, video conferencing, events and training, alternative workspaces and lobby use.

Gross Margin

Consolidated gross margin for the three months ended June 30, 2013 was $4,815, an increase of $1,601, or 49.8%, from the $3,214 reported for the three months ended June 30, 2012. Gross margin as a percentage of revenues was 76.5% and 76.4% for the three months ended June 30, 2013 and 2012, respectively. We attribute the increase in gross margins of $1,601 to a full year of ADI and Legiant revenues and the acquisition of PeopleCube in July 2012. Absent PeopleCube, gross margin as a percentage of revenues would have increased to 81.8%. PeopleCube accounted for 33.2% of second quarter 2013 consolidated revenues and realized an overall gross margin of 65.8%.

Consolidated gross margin for the six months ended June 30, 2013 were $9,013, an increase of $2,693, or 42.6%, from the $6,320 reported for the six months ended June 30, 2012. Gross margins as a percentage of revenues were 73.4% and 75.6% for the six months ended June 30, 2013 and 2012, respectively. Absent PeopleCube, gross margin as a percentage of revenues would have increased to 78.8%. PeopleCube accounted for 32.7% of year to date 2013 consolidated revenues and realized an overall gross margin of 62.5%.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2013 were $3,448, an increase of $1,114 or 47.7%, from the $2,334 reported for the three months ended June 30, 2012. SG&A expenses as a percentage of revenues were 54.8% and 55.5% for the three months ended June 30, 2013 and 2012, respectively. The increase of $1,114 was primarily due to approximately $992 of PeopleCube expenses, which business we acquired in the third quarter of 2012, and were therefore not present in the second quarter of 2012. Additionally, ADI's SG&A expenses increased approximately $325, primarily due to an increase in sales and marketing salaries and benefits due to increased headcount and increased commissions due to increased sales, offset by a decrease in the remainder of SG&A expenses of $203.

Selling, general and administrative ("SG&A") expenses for the six months ended June 30, 2013 were $6,724, an increase of 2,257 or 50.5%, from the $4,467 reported for the six months ended June 30, 2012. SG&A expenses as a percentage of revenues were 54.8% and 53.5% for the six months ended June 30, 2013 and 2012, respectively. The increase of $2,257 was driven by the $1,926 of PeopleCube expenses not present in the second quarter of 2012. Additionally ADI and Legiant's SG&A expenses increased $523 due primarily to an increase in ADI's sales and marketing salaries and benefits due to increased headcount and increased commissions due to increased sales, offset by a decrease of the remaining SG&A expenses of $183.

Throughout its operations, Asure continues to evaluate any unnecessary SG&A expenses and plans to further reduce expenses as appropriate.

Research and Development

Research and development ("R&D") expenses for the three months ended June 30, 2013 were $664, an increase of $73, or 12.4%, from the $591 reported for the three months ended June 30, 2012. R&D expenses as a percentage of revenues were 10.5% and 14.1% for the three months ended June 30, 2013 and 2012, respectively. Absent PeopleCube, which had R&D expenses of $252 which were not present in the second quarter of 2012, R&D expenses would have decreased $179 from the prior year second quarter.

Research and development ("R&D") expenses for the six months ended June 30, 2013 were $1,364, an increase of $183, or 15.5%, from the $1,181 reported for the six months ended June 30, 2012. R&D expenses as a percentage of revenues were 11.1% and 14.1% for the six months ended June 30, 2013 and 2012, respectively. PeopleCube had R&D expenses of $530 which were not present in the second quarter of 2012. These were offset by a decrease in professional fees of $223 and salaries and headcount of $59, as well as a decrease in R&D expenses of $43 due to the closure of India and Canada operations in 2012.

Asure continues to improve its products and technologies through organic improvements and through acquired intellectual property. The workforce product line continued to innovate by adding mobile solutions, world class SaaS hosting infrastructure and a proprietary time clock product set. The proprietary time clock product set includes multiple models which incorporate keypad and touch screen user interfaces, as well as proximity card, bar code card, and biometric data input. The workforce software product lines continued to evolve through quarterly feature releases and monthly maintenance releases. These product releases continued to serve client requests, and in management's

view, maintain a technological edge with competition.

Additionally, Asure continues to develop Meeting Room Manager and released in June 2012 a new version that enhanced the Microsoft Outlook Plug-in, Web and Interactive LCD interfaces, allowed assigned delegates the ability to schedule meetings on behalf of others and provided more sophisticated conflict resolution options for scheduling recurring meetings via Microsoft Outlook.

Asure's development efforts for future releases and enhancements are driven by feedback received from our existing and potential customers and by gauging market trends. Management believes we have the appropriate development team to design and further improve our workforce management solutions.

Amortization of Intangible Assets in Operating Expenses

Amortization expenses for the three months ended June 30, 2013 were $582, an increase of $290, or 99.3%, from the $292 reported for the three months ended June 30, 2012. Amortization expenses as a percentage of revenues were 9.2% and 6.9% for the three months ended June 30, 2013 and 2012, respectively. Amortization expenses for the six months ended June 30, 2013 were $1,164, an increase of $578 or 98.6% compared to $586, reported for the six months ended June 30, 2012. Amortization expenses as a percentage of revenues were 9.5% and 7.0% for the six months ended June 30, 2013 and 2012, respectively. These increases are due to the amortization of intangibles acquired in the acquisition of PeopleCube in July 2012.

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Income Tax Expense

Income tax expense for the three months ended June 30, 2013 was $42, a decrease of $78, or 65.0%, from the $120 reported for the three months ended June 30, 2012. The decrease in income tax expense is due primarily to a one-time charge of $60 in the three months ended June 30, 2012 for income taxes associated with closing the Company's India operations.

Income tax expense for the six months ended June 30, 2013 was $81, a decrease of $85, or 51.2%, from the $166 reported for the six months ended June 30, 2012, respectively. The decrease in income tax expense is due primarily to a one-time charge of $60 in the six months ended June 30, 2012 for income taxes associated with closing the Company's India operations.

Other Income and Expense

Other expense for the three months ended June 30, 2013 was $648, an increase of $448, or 224.0%, from the $200 reported for the three months ended June 30, 2012. Other expense as a percentage of revenues was 10.3% and 4.8% for the three months ended June 30, 2013 and 2012, respectively. This increase is primarily due to the increase in interest expense on the senior note payable entered into in conjunction with the purchase of PeopleCube in July 2012. Other expense for the three months ended June 30, 2013 is composed primarily of interest expense on notes payable of $520 and amortization of OID of $125. Other expense for the three months ended June 30, 2012 is comprised of amortization of OID and derivative mark-to-market of $56 and quarterly interest on notes payable of $118.

Other expense for the six months ended June 30, 2013 was $1,349, an increase of $259, or 23.8%, from the $1,090 reported for the six months ended June 30, 2012. Other expense as a percentage of revenues was 11.0% and 13.0% for the six months ended June 30, 2013 and 2012, respectively. The increase in other expense is due to primarily to an increase in debt which resulted in increased interest on notes payable of $812, offset by a decrease in amortization of OID and derivative mark-to-market of $316 and a decrease of loss on debt conversion of $198.

Net Loss

We generated a net loss of $569, or $(0.10) per share, during the three months ended June 30, 2013, compared to a net loss of $323 or $(0.06) per share reported for the three months ended June 30, 2012. Net loss as a percentage of total revenues was 9.0% for the three months ended June 30, 2013 compared to net loss of 7.7% of total revenues for the three months ended June 30, 2012.

We generated a net loss of $1,669, or $(0.31) per share, during the six months ended June 30, 2013, compared to a net loss of $1,170 or $(0.24) per share reported for the six months ended June 30, 2012. Net loss as a percentage of total revenues was 13.6% for the six months ended June 30, 2013 compared to net loss of 14.0% of total revenues for the six months ended June 30, 2012.

We intend to continue to implement our corporate strategy for growing the software and services business by modestly investing in areas that directly generate revenue and positive cash flows for the Company. However, uncertainties and challenges remain, especially during this macroeconomic environment downturn, and there can be no assurance that we can successfully grow our revenues or achieve profitability during the remainder of fiscal year 2013.

LIQUIDITY AND CAPITAL RESOURCES

JUNE 30,

	2013	DECEMBER 31, 2012
	(in thousands)	
Working capital deficit	$ (6,148)	$ (9,251)
Cash, cash equivalents and short-term investments	3,295	2,177

	FOR THE SIX MONTHS ENDED JUNE 30, 2013	2012
	(in thousands)	
Cash provided by operating activities	$ 796	$ 938
Cash used in investing activities	(245)	(79)
Cash provided by (used in) financing activities	517	(459)

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Working capital deficit was ($6,148) on June 30, 2013, a decrease of $3,103 from $(9,251) on December 31, 2012. The change in the working capital deficit was due to an increase in cash and cash equivalents of $1,118, a decrease in the current portion of notes payable of $2,000, as well as a decrease in accounts payable of $605, offset by an increase in accrued compensation and benefits of $336. These changes are primarily attributable to the sale of common stock in May 2013 for proceeds net of fees and expenses of approximately $3,500, as well as the acquisition of ADI and Legiant in 2011 and PeopleCube in July 2012.

Cash provided by operating activities was $796 for the six months ended June 30, 2013 primarily due to the net loss of $(1,669) which was offset by depreciation and amortization of $1,523, an increase in accrued expenses and deferred revenue of $1,093. Cash provided by operating activities was $938 for the six months ended June 30, 2012 primarily due to a loss of ($1,170) which was offset by the non-cash loss on debt conversion of $198, depreciation and amortization of $819, interest expense on amortization of OID and derivative mark-to-market of $591, and an increase in accounts payable of $400.

Cash used in investing activities was $245 for the six months ended June 30, 2013 due to net purchases of property. Cash used in investing activities was $79 for the six months ended June 30, 2012 due to net purchases of property and equipment of $151 which was offset by collection of notes receivable for $72.

Cash provided by financing activities was $517 for the six months ended June 30, 2013. This consisted of the sale of common stock of $3,461 offset by payments on notes payable of $2,726 and payments on capital leases of $43. Cash used in financing activities was $459 for the six months ended June 30, 2012 which was primarily related to payments on conversion of subordinated notes payable of $222 and payments on capital leases and notes payable of $308 which was offset by proceeds from exercise of options $16 and $55 from proceeds on the line of credit.

We lease office space and equipment under non-cancelable operating leases that expire at various dates through 2016. Certain leases obligate Asure to pay property taxes, maintenance and insurance and include escalation clauses. Approximately $699 or 50.0% of our total operating lease obligations relate to our corporate office facility at Wild Basin in Austin, Texas.

As of June 30, 2013, Asure's principal source of liquidity consisted of approximately $3,295 of current cash and cash equivalents as well as future cash generated from operations. Subject to the matters discussed below, we believe that we currently have and/or will generate sufficient cash for our operational needs, including any required debt payments, for at least the next twelve months. We continue to reduce expenses and may utilize some of our cash balances in the short-term to reduce our long-term costs. We currently project that we can generate positive cash flows from our operating activities in 2013.

Our management team is focused on growing our existing product offering as well as our customer base to increase our recurring customer revenues and is also seeking additional strategic acquisitions for the near future, although we have no current agreements to acquire any technology or business. At present, we plan to fund any future acquisition with equity, existing cash, cash generated from future operations and/or cash or debt raised from outside sources.

We cannot assure that we can grow our cash balances or limit our cash consumption and thus maintain sufficient cash balances for our planned operations or future acquisitions. Future business demands may lead to cash utilization at levels greater than recently experienced. We may need to raise additional capital in the future. However, we cannot assure that we will be able to raise additional capital on acceptable terms, or at all. Management believes that we have sufficient capital and liquidity to fund and cultivate the growth of our current and future operations for at least the next 12 months and to maintain compliance with the terms of our debt agreements and related covenants or to obtain compliance through debt repayments made with the available cash on hand.

CRITICAL ACCOUNTING POLICIES

There were no material changes to our critical accounting policies and estimates since December 31, 2012. For additional information on critical accounting policies, refer to “Management’s Discussion and Analysis” in our 2012 Annual Report on Form 10-K.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 under the Exchange Act and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Control and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for us. Based on an evaluation under the supervision and with the participation of our management, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of as of June 30, 2013 to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Change in Internal Controls over Financial Reporting

During the period ended June 30, 2013, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In December 2012, we demanded a purchase price adjustment from PeopleCube Holding B.V. and Meeting Maker Holding B.V., the sellers of the capital stock of Meeting Maker – United States, Inc. (dba PeopleCube) that we purchased in July 2012, based on matters we discovered after closing. Both parties have agreed for the post-closing adjustment to be resolved by an Independent Accountant consistent with the purchase agreement. In January 2013, we filed a claim in federal court seeking contractual indemnification for the sellers' breach of warranties and representations made in the purchase agreement. The sellers simultaneously filed a claim in the state court of Massachusetts alleging that we did not comply with certain provisions of the purchase agreement. In May 2013, the sellers amended their original complaint to allege misrepresentations and omissions by us in connection with the purchase transaction. The sellers seek an unspecified amount of damages and the trebling of such damages once calculated. We have filed a counterclaim in Massachusetts for breach of warranties and representations. We believe the sellers' claims for damages are without merit and we are defending against them vigorously.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 . MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	

	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from Asure Software, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, formatted in XBRL (Extensible Business Reporting Language): (1) the Condensed Consolidated Balance Sheets, (2) the Condensed Consolidated Statements of Comprehensive Loss, (3) the Condensed Consolidated Statements of Cash Flows, and (4) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith

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SIGNATURES

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

ASURE SOFTWARE, INC.

August 14, 2013	By:	/s/ PATRICK GOEPEL Patrick Goepel Chief Executive Officer
August 14, 2013	By:	/s/ JENNIFER CROW Jennifer Crow Chief Financial Officer

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