

COMMVAULT SYSTEMS INC

Form S-1

May 25, 2007

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As filed with the Securities and Exchange Commission on May 25, 2007
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CommVault Systems, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

7372
*(Primary Standard Industrial
Classification Code Number)*

22-3447504
*(I.R.S. Employer
Identification No.)*

2 Crescent Place
Oceanport, New Jersey 07757
(732) 870-4000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

N. Robert Hammer
Chairman, President and Chief Executive Officer
CommVault Systems, Inc.
2 Crescent Place
Oceanport, New Jersey 07757
(732) 870-4000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to be Registered(1)	Proposed Maximum offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (1)(2)	Amount of Registration Fee
Common Stock, par value \$0.01 per share	8,625,000	\$16.87	\$145,503,750	\$4,467

(1) Includes 1,125,000 shares that may be sold if the over-allotment option being granted to the underwriters is exercised.

(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended, based on the average of the high and low trading prices for the common stock on The NASDAQ Global Market on May 22, 2007.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We and the selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 25, 2007

7,500,000 Shares

CommVault Systems, Inc.

Common Stock

We are selling 300,000 shares of common stock and the selling stockholders named in this prospectus are selling 7,200,000 shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Our common stock is listed on The NASDAQ Global Market under the symbol CVLT. The last reported sale price of our common stock on May 24, 2007 was \$16.37.

The underwriters have an option to purchase a maximum of 1,125,000 additional shares from the selling stockholders to cover over-allotments of shares.

Investing in our common stock involves risks. See Risk Factors on page 8.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to CommVault	Proceeds to Selling Stockholders
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

Delivery of the shares of common stock will be made on or about , 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse

Goldman, Sachs & Co.

Merrill Lynch & Co.

Thomas Weisel Partners LLC

RBC Capital Markets

C.E. Unterberg, Towbin

The date of this prospectus is _____, 2007.

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You should rely only on the information contained in this document or in any free writing prospectus filed with the Securities and Exchange Commission or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read the entire prospectus carefully, especially the risks of investing in our common stock discussed under Risk Factors and our financial statements and the related notes included elsewhere in this prospectus, before making an investment decision. Unless otherwise indicated, the terms CommVault Systems, CommVault, the Company, we, us and our refer to CommVault Systems, Inc. and its subsidiaries.

Our Company

CommVault is a leading provider of data 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 management software applications under the QiNetix (pronounced kinetics) brand. QiNetix is specifically designed to protect and manage data throughout its lifecycle in less time, at lower cost and with fewer resources than alternative solutions. QiNetix provides our customers with:

- high-performance data protection, including backup and recovery;
- disaster recovery of data;
- data migration and archiving;
- global availability of data;
- replication of data;
- creation and management of copies of stored data;
- storage resource discovery (the automated recognition of available storage resources allowing more efficient storage and management of data) and usage tracking (tracking the use of available storage resources);
- data classification (the creation and tracking of key data attributes to enable intelligent, automated policy-based data movement and management); and
- management and operational reports and troubleshooting tools.

We also provide our customers with a broad range of highly-effective professional services that are delivered by our worldwide support and field operations.

QiNetix addresses the markets for backup and recovery, replication, archival and storage management, offering our customers high-performance and comprehensive solutions for data protection, business continuance, corporate compliance and centralized management and reporting.

QiNetix enables our customers to simply and cost-effectively protect and manage their enterprise data throughout its lifecycle, from data center to remote office, covering the leading operating systems, relational databases and applications. In addition to addressing today's data management challenges, our customers can realize lower capital costs through more efficient use of their enterprise-wide storage infrastructure assets, including the automated

movement of data from higher cost to lower cost storage devices throughout its lifecycle and through sharing and better utilization of storage resources across the enterprise. QiNetix can also provide our customers with reduced operating costs through a variety of features, including fast application deployment, reduced training time, lower cost of storage media consumables, proactive monitoring and analysis, simplified troubleshooting and lower administrative costs.

QiNetix is built upon an innovative architecture and a single underlying code base, which we refer to as our Common Technology Engine. This unified architectural design is unique and differentiates us from our competitors, some of which offer similar applications built upon disparate software architectures, which we refer to as point products. We believe our architectural design provides us with significant competitive advantages, including offering the industry's most granular and automated management of data, tiered classification of all data based on its user-defined value and greater product reliability and ease of installation. In addition, we believe we have lower support and development costs and faster time to market for our new data management software applications.

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QiNetix fully interoperates with a wide variety of operating systems, applications, network devices and protocols, storage arrays (methods for storing information on multiple devices), storage formats and tiered storage infrastructures (storage environments in which data is organized and stored on a variety of storage media based on size, age, frequency of access or other factors), providing our customers with the flexibility to purchase and deploy a combination of hardware and software from different vendors. As a result, our customers can purchase and use the optimal hardware and software for their needs, rather than being restricted to the offerings of a single vendor.

We have established a worldwide, multi-channel distribution network to sell our software and services to large global enterprises, small and medium sized businesses and government agencies, both directly through our sales force and indirectly through our global network of value-added resellers, system integrators, corporate resellers and original equipment manufacturers. As of March 31, 2007, we had licensed our data management software to approximately 5,900 registered customers across a variety of industries. A representative sample of well-known customers with a significant deployment of CommVault software includes Ace Hardware Corporation, Centex Homes, Clifford Chance LLP, Cozen O Connor, Halcrow Group Ltd., Newell Rubbermaid Inc., North Fork Bank, Ricoh Company, Ltd., the United Kingdom's Department of International Development and Welch Foods Inc. Each of these customers has at least 125 servers protected by our software.

We derive the majority of our software revenue from our Galaxy Backup and Recovery software application. Sales of Galaxy Backup and Recovery represented approximately 83% of our total software revenue for the fiscal year ended March 31, 2007 and 90% for fiscal 2006. In addition, we derive the majority of our services revenue from customer and technical support associated with our Galaxy Backup and Recovery software application. We anticipate that we will continue to derive a majority of our software and services revenue from our Galaxy Backup and Recovery software application for the foreseeable future.

CommVault's executive management team has led the growth of our business, including the development and release of all our QiNetix software, since its introduction in February 2000. Under the guidance of our management team, we have sustained technical leadership with the introduction of eight new data management applications and have garnered numerous industry awards and recognition for our innovative solutions.

Our Industry

The driving forces for the growth of the data management software industry are the rapid growth of data and the need to protect and manage that data.

Data is widely considered to be one of an organization's most valued assets. The increasing reliance on critical enterprise software applications such as e-mail, relational databases, enterprise resource planning, customer relationship management and workgroup collaboration tools is resulting in the rapid growth of data across all enterprises. New government regulations, such as those issued under the Sarbanes-Oxley Act, the Health Insurance Portability and Accountability Act (HIPAA) and the Basel Committee on Banking Supervision (Basel II), as well as company policies requiring data preservation, are expanding the proportion of data that must be archived and easily accessible for future use. In addition, ensuring the security and integrity of data has become a critical task as regulatory compliance and corporate governance objectives affecting many organizations mandate the creation of multiple copies of data with longer and more complex retention requirements.

The recent innovations in storage and networking technologies, coupled with the rapid growth of data, have caused information technology managers to redesign their data and storage infrastructures to deliver greater efficiency, broaden access to data and reduce costs. The result has been the wide adoption of larger and more complex networked data and storage solutions, such as storage area networks (SANs) (high-speed special-purpose networks (or

subnetworks) that interconnect different kinds of data storage devices with associated data servers) and network-attached storage (NAS) (an environment in which one or more servers are dedicated exclusively to file sharing). In addition to those trends, regulatory compliance and corporate governance objectives are creating larger data archives having much longer retention periods that require

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information technology managers of organizations affected by these objectives to ensure the integrity, security and availability of data.

We believe that these trends are increasing the demand for software applications that can simplify data management, provide secure and reliable access to all data across a broad spectrum of tiered storage and computing systems and seamlessly scale to accommodate growth, while reducing the total cost of ownership to the customer.

Many of our competitors' products were initially designed to manage smaller quantities of data in server-attached storage environments. As a result, we believe they are not as effective managing data in today's larger and more complex networked (SAN and NAS) environments. Given these limitations, we believe our competitors' products cannot be scaled as easily as ours and are more costly to implement and manage than our solutions.

Most data management software solutions are comprised of many individual point products built upon separate underlying architectures. This often requires the user to administer each individual point product using a separate, different user interface and unique set of dedicated storage resources, such as disk and tape drives. The result can be a costly, difficult to manage environment that requires extensive administrative cross-training, offers little insight into storage resource use across the global enterprise, provides modest operational reporting and commands greater storage use. Given these challenges, we believe that there is and will continue to be significant demand for a unified, comprehensive and scalable suite of data management software applications specifically designed to centrally and cost-effectively manage increasingly complex enterprise data environments.

Our Strategy

Our objective is to enhance our position as a leading supplier of data management software and services. Our key strategic initiatives are to continue:

Extending our Technology Leadership, Product Breadth and Addressable Markets. We plan to continuously enhance existing software applications and introduce new information and data management software applications that address emerging data and storage management trends, incorporate advances in hardware and software technologies as they become available and take advantage of market opportunities.

Enhancing and Expanding our Customer Support and Other Professional Services Offerings. We plan to continue creating and delivering innovative services offerings and product enhancements that result in faster deployment of our software, simpler system administration and rapid resolution of problems.

Expanding Distribution Channels and Geographic Markets Served. We plan to continue investing in the expansion of our distribution channels, both geographically and across all enterprises.

Broadening and Developing Strategic Relationships. We plan to broaden our existing relationships and develop new relationships with leading technology partners, including software application and infrastructure hardware vendors. We believe that these types of strategic relationships will allow us to package and distribute our data management software to our partners' customers, increase sales of our software through joint-selling and marketing arrangements and increase our insight into future industry trends.

Company Information

We were incorporated in the State of Delaware in 1996. Our principal executive offices are located at 2 Crescent Place, Oceanport, New Jersey 07757, and our telephone number is (732) 870-4000. Our website address is www.commvault.com. Information contained on our website is not incorporated by reference into this prospectus, and

you should not consider information contained on our website as part of this prospectus.

CommVault Systems, CommVault, CommVault Galaxy, QiNetix and other trademarks or service marks of CommVault appearing in this prospectus are the property of CommVault. This prospectus also

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contains additional trade names, trademarks and service marks of ours and of other companies. We do not intend our use or display of other companies' trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

Certain Principal and Selling Stockholders

Affiliates of Credit Suisse Securities (USA) LLC, an underwriter in this offering, own approximately 35.5% of our common stock as of April 30, 2007 (calculated without giving effect to this offering).

Certain affiliates of Credit Suisse Securities (USA) LLC are selling stockholders in this offering. Those affiliates of Credit Suisse Securities (USA) LLC will sell an aggregate of 7,200,000 shares (or 8,325,000 shares if the underwriters exercise their over-allotment option in full) in this offering and will receive aggregate sale proceeds of \$111.4 million, or \$128.8 million if the underwriters exercise their over-allotment option in full (in each case, based on an offering price of \$16.37 per share, the last sale price of our common stock on The NASDAQ Global Market on May 24, 2007, less underwriting discounts and commissions). Upon completion of the offering and related transactions, affiliates of Credit Suisse Securities (USA) LLC will own approximately 18.3% of our common stock (or approximately 15.6% of our common stock if the underwriters exercise their over-allotment option in full). See **Principal and Selling Stockholders**.

These affiliations present a conflict of interest because Credit Suisse Securities (USA) LLC has an interest in the successful completion of this offering beyond its interest as an underwriter in this offering. The conflict of interest arises due to the interests of its affiliates in this offering as selling stockholders. This offering therefore is being made using a qualified independent underwriter in compliance with the applicable provisions of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc., which are intended to address potential conflicts of interest involving underwriters. See **Underwriting** for a more detailed description of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc. and a description of the independent underwriting procedures that are being used in connection with this offering.

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The Offering

Common stock offered to the public	300,000 shares by us 7,200,000 shares by the selling stockholders
Total offering	7,500,000 shares (or 8,625,000 shares if the underwriters exercise their over-allotment option in full)
Common stock to be outstanding after the offering	42,493,268 shares
NASDAQ Global Market symbol	CVLT
Use of proceeds	We intend to use the estimated net proceeds from the sale of shares by us in this offering of \$4.2 million, together with approximately \$2.1 million of our existing cash and cash equivalents, to pay the outstanding principal and accrued interest under our term loan (an amount equal to \$6.3 million as of June 15, 2007, assuming interest accrued at a rate equal to 7.0% per annum for the applicable period). See Use of Proceeds. We will not receive any proceeds from the sale of common stock by the selling stockholders.
Risk Factors	See Risk Factors elsewhere in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

The number of shares to be outstanding after this offering is based on 42,193,268 shares outstanding as of April 30, 2007, and excludes 3,954,081 shares of common stock available for issuance under our 1996 Stock Option Plan and 2006 Long-Term Stock Incentive Plan, including 7,556,678 shares of common stock issuable upon exercise of outstanding stock options as of April 30, 2007 at a weighted average exercise price of \$6.59 per share.

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The following table sets forth a summary of our historical and pro forma financial data for the periods ended or as of the dates indicated. You should read this table together with the discussion under the headings Risk Factors, Use of Proceeds, Capitalization, Selected Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

We derived the summary historical financial data as of and for each of the three years in the period ended March 31, 2007 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the summary historical financial data for each of the two years in the period ended March 31, 2004 from our audited consolidated financial statements that are not included in this prospectus.

	Year Ended March 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Software	\$ 83,870	\$ 62,422	\$ 49,598	\$ 39,474	\$ 29,485
Services	67,237	47,050	33,031	21,772	14,840
Hardware, supplies and other					94
Total revenues	151,107	109,472	82,629	61,246	44,419
Cost of revenues:					
Software	1,640	1,764	1,497	1,168	932
Services(1)	20,044	13,231	9,975	8,049	6,095
Hardware, supplies and other					72
Total cost of revenues	21,684	14,995	11,472	9,217	7,099
Gross margin	129,423	94,477	71,157	52,029	37,320
Operating expenses:					
Sales and marketing(1)	68,240	51,326	43,248	37,592	29,842
Research and development(1)	23,398	19,301	17,239	16,214	16,153
General and administrative(1)	18,610	12,275	8,955	8,599	6,332
Depreciation and amortization	2,603	1,623	1,390	1,396	1,752
Income (loss) from operations	16,572	9,952	325	(11,772)	(16,759)
Interest expense	(326)	(7)	(14)	(60)	
Interest income	2,600	1,262	346	134	297
Income (loss) before income taxes	18,846	11,207	657	(11,698)	(16,462)
Income tax benefit (expense)(2)	45,408	(451)	(174)		52
Net income (loss)	64,254	10,756	483	(11,698)	(16,410)
Less: accretion of preferred stock dividends	(2,818)	(5,661)	(5,661)	(5,676)	(5,661)
Less: accretion of fair value of preferred stock upon conversion	(102,745)				

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Net income (loss) attributable to common stockholders	\$ (41,309)	\$ 5,095	\$ (5,178)	\$ (17,374)	\$ (22,071)
Net income (loss) attributable to common stockholders per share(3):					
Basic	\$ (1.35)	\$ 0.18	\$ (0.28)	\$ (0.93)	\$ (1.20)
Diluted	\$ (1.35)	\$ 0.17	\$ (0.28)	\$ (0.93)	\$ (1.20)
Weighted average shares used in computing per share amounts:					
Basic	30,670	18,839	18,712	18,601	18,371
Diluted	30,670	30,932	18,712	18,601	18,371

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	As of March 31, 2007 (In thousands)
Balance Sheet Data:	
Cash and cash equivalents	\$ 65,001
Working capital	34,889
Total assets	148,039
Total stockholders' equity	78,322

(1) Includes stock-based compensation expense as follows:

	2007	Year Ended March 31, 2006 2005 2004 2003 (In thousands)			
Cost of services revenue	\$ 100	\$ 25	\$	\$	\$
Sales and marketing	2,736	468			
Research and development	739	137			
General and administrative	2,394	761	21	4	
Total stock-based compensation	\$ 5,969	\$ 1,391	\$ 21	\$ 4	\$

(2) The income tax benefit in fiscal 2007 primarily reflects a \$52.2 million reversal of our deferred income tax valuation allowance partially offset by the recognition of \$5.0 million for certain tax reserves. These adjustments have increased our fiscal 2007 net income by \$47.2 million.

(3) See Note 2 in the consolidated financial statements for a reconciliation of the basic and diluted earnings per share calculation.

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the following risk factors in addition to the other information contained in this prospectus before purchasing our common stock.

Risks Related to Our Business

We have only recently become profitable and we may be unable to sustain future profitability.

We have only recently become profitable, generating net income of \$10.8 million for fiscal 2006 and income before taxes of \$18.8 million in fiscal 2007. In fiscal 2007, we recorded an income tax benefit of \$45.4 million primarily due to the reversal of substantially all of our deferred income tax valuation allowance, which resulted in net income of \$64.3 million. As of March 31, 2007, we had an accumulated deficit of \$104.3 million. We may be unable to sustain or increase profitability on a quarterly or annual basis in the future. We intend to continue to expend significant funds in developing our software and service offerings and for general corporate purposes, including marketing, services and sales operations, hiring additional personnel, upgrading our infrastructure and expanding into new geographical markets. We expect that associated expenses will precede any revenues generated by the increased spending. If we experience a downturn in business, we may incur losses and negative cash flows from operations, which could materially adversely affect our results of operations and capitalization.

Our industry is intensely competitive, and most of our competitors have greater financial, technical and sales and marketing resources and larger installed customer bases than we do, which could enable them to compete more effectively than we do.

The data management software market is intensely competitive, highly fragmented and characterized by rapidly changing technology and evolving standards. Competitors vary in size and in the scope and breadth of the products and services offered. Our primary competitors include CA, Inc. (formerly known as Computer Associates International, Inc.), EMC Corporation (EMC), Hewlett-Packard Company, International Business Machines Corporation (IBM) and Symantec Corporation.

The principal competitive factors in our industry include product functionality, product integration, platform coverage, ability to scale, price, worldwide sales infrastructure, global technical support, name recognition and reputation. The ability of major system vendors to bundle hardware and software solutions is also a significant competitive factor in our industry.

Many of our current and potential competitors have longer operating histories and have substantially greater financial, technical, sales, marketing and other resources than we do, as well as larger installed customer bases, greater name recognition and broader product offerings, including hardware. These competitors can devote greater resources to the development, promotion, sale and support of their products than we can and have the ability to bundle their hardware and software products in a combined offering. As a result, these competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements.

It is also costly and time-consuming to change data management systems. Most of our new customers have installed data management software, which gives an incumbent competitor an advantage in retaining a customer because it already understands the network infrastructure, user demands and information technology needs of the customer, and also because some customers are reluctant to change vendors.

Our current and potential competitors may establish cooperative relationships among themselves or with third parties. If so, new competitors or alliances that include our competitors may emerge that could acquire significant market share. In addition, large operating system and application vendors, such as Microsoft Corporation, have introduced products or functionality that include some of the same functions offered by our software applications. In the future, further development by these vendors could cause our software applications and services to become redundant, which could seriously harm our sales, results of operations and financial condition.

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New competitors entering our markets can have a negative impact on our competitive positioning. In addition, we expect to encounter new competitors as we enter new markets. Furthermore, many of our existing competitors are broadening their operating systems platform coverage. We also expect increased competition from original equipment manufacturers, including those we partner with, and from systems and network management companies, especially those that have historically focused on the mainframe computer market and have been making acquisitions and broadening their efforts to include data management and storage products. We expect that competition will increase as a result of future software industry consolidation. Increased competition could harm our business by causing, among other things, price reductions of our products, reduced profitability and loss of market share.

We may experience a decline in revenues or volatility in our operating results, which may adversely affect the market price of our common stock.

We cannot predict our future revenues or operating results with certainty because of many factors outside of our control. A significant revenue or profit decline, lowered forecasts or volatility in our operating results could cause the market price of our common stock to decline substantially. Factors that could affect our revenues and operating results include the following:

the unpredictability of the timing and magnitude of orders for our software applications during fiscal 2007 and fiscal 2006, a majority of our quarterly revenues was earned and recorded near the end of each quarter;

the possibility that our customers may cancel, defer or limit purchases as a result of reduced information technology budgets;

the possibility that our customers may defer purchases of our software applications in anticipation of new software applications or updates from us or our competitors;

the ability of our original equipment manufacturers and resellers to meet their sales objectives;

market acceptance of our new applications and enhancements;

our ability to control expenses;

changes in our pricing and distribution terms or those of our competitors;

the demands on our management, sales force and services infrastructure as a result of the introduction of new software applications or updates; and

the possibility that our business will be adversely affected as a result of the threat of terrorism or military actions taken by the United States or its allies.

Our expense levels are relatively fixed and are based, in part, on our expectations of our future revenues. If revenue levels fall below our expectations and we are profitable at the time, our net income would decrease because only a small portion of our expenses varies with our revenues. If we are not profitable at the time, our net loss would increase. Therefore, any significant decline in revenues for any period could have an immediate adverse impact on our results of operations for that period. We believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of future performance. In addition, our results of operations could be below expectations of public market analysts and investors in future periods, which would likely cause the market price of our common stock to decline.

We anticipate that an increasing portion of our revenues will depend on our arrangements with original equipment manufacturers that have no obligation to sell our software applications, and the termination or expiration of these arrangements or the failure of original equipment manufacturers to sell our software applications would have a material adverse effect on our future revenues and results of operations.

We have original equipment manufacturer agreements with Dell and Hitachi Data Systems and a reseller agreement with Dell. These original equipment manufacturers sell our software applications and in some cases incorporate our data management software into systems that they sell. A material portion of our revenues is

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generated through these arrangements, and we expect this contribution to grow as a percentage of our total revenues in the future. However, we have no control over the shipping dates or volumes of systems these original equipment manufacturers ship and they have no obligation to ship systems incorporating our software applications. They also 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. These original equipment manufacturers also could choose to develop their own data management software internally and incorporate those products into their systems instead of our software applications. The original equipment manufacturers that we do business with also compete with one another. If one of our original equipment manufacturer partners views our arrangement with another original equipment manufacturer as competing with its products, it may decide to stop doing business with us. Any material decrease in the volume of sales generated by original equipment manufacturers we do business with, as a result of these factors or otherwise, would have a material adverse effect on our revenues and results of operations in future periods.

Sales through our original equipment manufacturer agreements accounted for approximately 13% of our total revenues for fiscal 2007 and approximately 12% of our total revenues for fiscal 2006. Sales through our original equipment manufacturer agreement with Dell accounted for approximately 7% of total revenues for both fiscal 2007 and 2006. If we were to see a decline in our sales through Dell it could have a significant adverse effect on our results of operations.

The loss of key personnel or the failure to attract and retain highly qualified personnel could have an adverse effect on our business.

Our future performance depends on the continued service of our key technical, sales, services and management personnel. We rely on our executive officers and senior management to execute our existing business operations and identify and pursue new growth opportunities. The loss of key employees could result in significant disruptions to our business, and the integration of replacement personnel could be time consuming, cause additional disruptions to our business and be unsuccessful. We do not carry key person life insurance covering any of our employees.

Our future success also depends on our continued ability to attract and retain highly qualified technical, sales, services and management personnel. Competition for such personnel is intense, and we may fail to retain our key technical, sales, services and management employees or attract or retain other highly qualified technical, sales, services and management personnel in the future. Conversely, if we fail to manage employee performance or reduce staffing levels when required by market conditions, our personnel costs would be excessive and our business and profitability could be adversely affected.

Our ability to sell our software applications is highly dependent on the quality of our services offerings, and our failure to offer high quality support and professional services would have a material adverse affect on our sales of software applications and results of operations.

Our services include the assessment and design of solutions to meet our customers' storage management requirements and the efficient installation and deployment of our software applications based on specified business objectives. Further, once our software applications are deployed, our customers depend on us to resolve issues relating to our software applications. A high level of service is critical for the successful marketing and sale of our software. If we or our partners do not effectively install or deploy our applications, or succeed in helping our customers quickly resolve post-deployment issues, it would adversely affect our ability to sell software products to existing customers and could harm our reputation with potential customers. As a result, our failure to maintain high quality support and professional services would have a material adverse effect on our sales of software applications and results of operations.

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We rely on indirect sales channels, such as distributors, value-added resellers, systems integrators and corporate resellers, for the distribution of our software applications, and the failure of these channels to effectively sell our software applications could have a material adverse effect on our revenues and results of operations.

We rely significantly on our value-added resellers, systems integrators and corporate resellers, which we collectively refer to as resellers, for the marketing and distribution of our software applications and services. Resellers are our most significant distribution channel. However, our agreements with resellers are generally not exclusive, are generally renewable annually and in many cases may be terminated by either party without cause. Many of our resellers carry software applications that are competitive with ours. These resellers may give a higher priority to other software applications, including those of our competitors, or may not continue to carry our software applications at all. If a number of resellers were to discontinue or reduce the sales of our products, or were to promote our competitors products in lieu of our applications, it would have a material adverse effect on our future revenues. Events or occurrences of this nature could seriously harm our sales and results of operations. In addition, we expect that a significant portion of our sales growth will depend upon our ability to identify and attract new reseller partners. The use of resellers is an integral part of our distribution network. We believe that our competitors also use reseller arrangements. Our competitors may be more successful in attracting reseller partners and could enter into exclusive relationships with resellers that make it difficult to expand our reseller network. Any failure on our part to expand our network of resellers could impair our ability to grow revenues in the future. Sales through our reseller agreement with Dell accounted for approximately 12% of total revenues for fiscal 2007 and approximately 11% of total revenues for fiscal 2006. Dell accounted for a total of approximately 14% of our accounts receivable balance as of March 31, 2007 as a result of our reseller agreement and our original equipment manufacturer agreement. If we were to see an impairment of our receivable balance from Dell, it could have a significant adverse effect on our results of operations.

Some of our resellers possess significant resources and advanced technical abilities. These resellers, particularly our corporate resellers, may, either independently or jointly with our competitors, develop and market software applications and related services that compete with our offerings. If this were to occur, these resellers might discontinue marketing and distributing our software applications and services. In addition, these resellers would have an advantage over us when marketing their competing software applications and related services because of their existing customer relationships. The occurrence of any of these events could have a material adverse effect on our revenues and results of operations.

Sales of one of our software applications make up a substantial portion of our revenues, and a decline in demand for this software application could have a material adverse effect on our sales, profitability and financial condition.

We derive the majority of our software revenue from our Galaxy Backup and Recovery software application. Sales of Galaxy Backup and Recovery represented 83% of our total software revenue for fiscal 2007 and 90% for fiscal 2006. In addition, we derive the majority of our services revenue from customer and technical support associated with our Galaxy Backup and Recovery software application. As a result, we are particularly vulnerable to fluctuations in demand for this software application, whether as a result of competition, product obsolescence, technological change, budgetary constraints of our customers or other factors. If demand for this software application declines significantly, our sales, profitability and financial condition would be adversely affected.

Our software applications are complex and contain undetected errors, which could adversely affect not only our software applications performance but also our reputation and the acceptance of our software applications in the market.

Software applications as complex as those we offer contain undetected errors or failures. Despite extensive testing by us and by our customers, we have in the past discovered errors in our software applications and will do so in the

future. As a result of past discovered errors, we experienced delays and lost revenues while we corrected those software applications. In addition, customers in the past have brought to

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our attention bugs in our software created by the customers unique operating environments. Although we have been able to fix these software bugs in the past, we may not always be able to do so. Our software products may also be subject to intentional attacks by viruses that seek to take advantage of these bugs, errors or other weaknesses. Any of these events may result in the loss of, or delay in, market acceptance of our software applications and services, which would seriously harm our sales, results of operations and financial condition.

Furthermore, we believe that our reputation and name recognition are critical factors in our ability to compete and generate additional sales. Promotion and enhancement of our name will depend largely on our success in continuing to provide effective software applications and services. The occurrence of errors in our software applications or the detection of bugs by our customers may damage our reputation in the market and our relationships with our existing customers and, as a result, we may be unable to attract or retain customers.

In addition, because our software applications are used to manage data that is often critical to our customers, the licensing and support of our software applications involve the risk of product liability claims. Any product liability insurance we carry may not be sufficient to cover our losses resulting from product liability claims. The successful assertion of one or more large claims against us could have a material adverse effect on our financial condition.

We may not receive significant revenues from our current research and development efforts for several years, if at all.

Developing software is expensive, and the investment in product development may involve a long payback cycle. Our research and development expenses were \$23.4 million, or approximately 15% of our total revenues in fiscal 2007, and \$19.3 million, or 18% of our total revenues in fiscal 2006. Our future plans include significant investments in software research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we do not expect to receive significant revenues from these investments for several years, if at all.

We encounter long sales and implementation cycles, particularly for our larger customers, which could have an adverse effect on the size, timing and predictability of our revenues.

Potential or existing customers, particularly larger enterprise customers, generally commit significant resources to an evaluation of available software and require us to expend substantial time, effort and money educating them as to the value of our software and services. Sales of our core software products to these larger customers often require an extensive education and marketing effort.

We could expend significant funds and resources during a sales cycle and ultimately fail to close the sale. Our sales cycle for all of our products and services is subject to significant risks and delays over which we have little or no control, including:

our customers budgetary constraints;

the timing of our customers budget cycles and approval processes;

our customers willingness to replace their current software solutions;

our need to educate potential customers about the uses and benefits of our products and services; and

the timing of the expiration of our customers current license agreements or outsourcing agreements for similar services.

If we are unsuccessful in closing sales, it could have a material adverse effect on the size, timing and predictability of our revenues.

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If we are unable to manage our growth, there could be a material adverse effect on our business, the quality of our products and services and our ability to retain key personnel.

We have experienced a period of significant growth in recent years. Our revenues increased 38% for fiscal 2007 compared to fiscal 2006 and 32% for fiscal 2006 compared to fiscal 2005. The number of our customers increased significantly during these periods. Our growth has placed increased demands on our management and other resources and will continue to do so in the future. We may not be able to maintain or accelerate our current growth rate, manage our expanding operations effectively or achieve planned growth on a timely or profitable basis. Managing our growth effectively will involve, among other things:

- continuing to retain, motivate and manage our existing employees and attract and integrate new employees;
- continuing to provide a high level of services to an increasing number of customers;
- maintaining the quality of product and services offerings while controlling our expenses;
- developing new sales channels that broaden the distribution of our software applications and services; and
- developing, implementing and improving our operational, financial, accounting and other internal systems and controls on a timely basis.

If we are unable to manage our growth effectively, there could be a material adverse effect on our ability to maintain or increase revenues and profitability, the quality of our data management software, the quality of our services offerings and our ability to retain key personnel. These factors could adversely affect our reputation in the market and our ability to generate future sales from new or existing customers.

We depend on growth in the data management software market, and lack of growth or contraction in this market or a general downturn in economic and market conditions could have a material adverse effect on our sales and financial condition.

Demand for data management software is linked to growth in the amount of data generated and stored, demand for data retention and management (whether as a result of regulatory requirements or otherwise) and demand for and adoption of new storage devices and networking technologies. Because our software applications are concentrated within the data management software market, if the demand for storage devices, storage software applications, storage capacity or storage networking devices declines, our sales, profitability and financial condition would be materially adversely affected. Segments of the computer and software industry have in the past experienced significant economic downturns. The occurrence of any of these factors in the data management software market could materially adversely affect our sales, profitability and financial condition.

Furthermore, the data management software market is dynamic and evolving. Our future financial performance will depend in large part on continued growth in the number of organizations adopting data management software for their computing environments. The market for data management software may not continue to grow at historic rates, or at all. If this market fails to grow or grows more slowly than we currently anticipate, our sales and profitability could be adversely affected.

Our services revenue produces lower gross margins than our software revenue, and an increase in services revenue relative to software revenue would harm our overall gross margins.

Our services revenue, which includes fees for customer support, assessment and design consulting, implementation and post-deployment services and training, was approximately 44% of our total revenues for fiscal 2007, 43% for fiscal 2006 and approximately 40% of our total revenues for fiscal 2005. Our services revenue has lower gross margins than our software revenue. The gross margin of our services revenue was 70.2% for fiscal 2007, 71.9% for fiscal 2006 and 69.8% for fiscal 2005. The gross margin of our software revenue was 98.0% for fiscal 2007, 97.2% for fiscal 2006 and 97.0% for fiscal 2005. An increase in the percentage of total revenues represented by services revenue would adversely affect our overall gross margins.

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The volume and profitability of services can depend in large part upon:

competitive pricing pressure on the rates that we can charge for our services;

the complexity of our customers' information technology environments and the existence of multiple non-integrated legacy databases;

the resources directed by our customers to their implementation projects; and

the extent to which outside consulting organizations provide services directly to customers.

Any erosion of our margins for our services revenue or any adverse change in the mix of our license versus services revenue would adversely affect our operating results.

Our international sales and operations are subject to factors that could have an adverse effect on our results of operations.

We have significant sales and services operations outside the United States, and derive a substantial portion of our revenues from these operations. We also plan to expand our international operations. We generated approximately 30% of our revenues from outside the United States in fiscal 2007 and approximately 29% in fiscal 2006.

Our international operations are subject to risks related to the differing legal, political, social and regulatory requirements and economic conditions of many countries, including:

difficulties in staffing and managing our international operations;

foreign countries may impose additional withholding taxes or otherwise tax our foreign income, impose tariffs or adopt other restrictions on foreign trade or investment, including currency exchange controls;

general economic conditions in the countries in which we operate, including seasonal reductions in business activity in the summer months in Europe and in other periods in other countries, could have an adverse effect on our earnings from operations in those countries;

imposition of, or unexpected adverse changes in, foreign laws or regulatory requirements may occur, including those pertaining to export duties and quotas, trade and employment restrictions;

longer payment cycles for sales in foreign countries and difficulties in collecting accounts receivable;

competition from local suppliers;

costs and delays associated with developing software in multiple languages; and

political unrest, war or acts of terrorism.

Our business in emerging markets requires us to respond to rapid changes in market conditions in those markets. Our overall success in international markets depends, in part, upon our ability to succeed in differing legal, regulatory, economic, social and political conditions. We may not continue to succeed in developing and implementing policies and strategies that will be effective in each location where we do business. Furthermore, the occurrence of any of the foregoing factors may have a material adverse effect on our business and results of operations.

We are exposed to domestic and foreign currency fluctuations that could harm our reported revenues and results of operations.

Our international sales are generally denominated in foreign currencies, and this revenue could be materially affected by currency fluctuations. We generated approximately 30% of our revenues from outside the United States in fiscal 2007 and approximately 29% in fiscal 2006. Our primary exposures are to fluctuations in exchange rates for the U.S. dollar versus the Euro and, to a lesser extent, the Australian dollar, British pound sterling, Canadian dollar, Chinese yuan, Indian rupee and Singapore dollar. Changes in currency exchange rates could adversely affect our reported revenues and could require us to reduce our prices to

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remain competitive in foreign markets, which could also have a material adverse effect on our results of operations. We have not historically hedged our exposure to changes in foreign currency exchange rates and, as a result, we could incur unanticipated gains or losses.

We are currently unable to accurately predict what our long-term effective tax rates will be in the future.

We are subject to income taxes in both the United States and the various foreign jurisdictions in which we operate. Significant judgment is required in determining our worldwide provision for income taxes and, in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. Our long-term effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities or changes in tax laws, as well as other factors. Our judgments may be subject to audits or reviews by local tax authorities in each of these jurisdictions, which could adversely affect our income tax provisions. Furthermore, we have had limited historical profitability upon which to base our estimate of future long-term effective tax rates.

Our management and auditors have identified material weaknesses in the design and operation of our internal controls as of March 31, 2006 and December 31, 2006 which, if our remediation efforts fail, could result in material misstatements in our financial statements in future periods.

Our independent auditors reported to the Audit Committee of the Board of Directors a material weakness in the design and operation of our internal controls as of March 31, 2006. A material weakness is defined by the Public Company Accounting Oversight Board as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The identified material weaknesses related to our revenue recognition procedures for certain multiple-element sales arrangements accounted for under Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9. Specifically, during fiscal 2006 we changed our customary business practice and began to require and utilize a signed Statement of Work documenting the scope of our other professional services offerings greater than \$10,000 (excluding training), in addition to a signed purchase order, when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Persuasive evidence of an arrangement does not exist for such multiple-element sales arrangements until the Statement of Work covering the other professional services is signed by both CommVault and the end-user customer. During fiscal 2006, we recorded software revenue of approximately \$2.5 million and services revenue of approximately \$0.1 million related to certain multiple-element sales arrangement transactions before a signed Statement of Work covering the other professional services was obtained. As a result, we recorded a reduction to revenue and a corresponding increase to deferred revenue of approximately \$2.6 million in fiscal 2006 related to this material weakness. This revenue was subsequently recognized during fiscal 2007. We believe we have remediated this material weakness by implementing new policies and procedures to identify all multiple-element sales arrangements that contain subsequent agreements that must be signed, even if the terms and conditions are the same as the initial purchase order or other persuasive evidence.

At December 31, 2006, we determined that we did not have an effective process in place to evaluate the appropriate revenue recognition treatment for complex contractual arrangements with customers involving multiple agreements. We have taken the following actions that we believe have remediated this identified material weakness: adopted formal procedures whereby all significant contracts are independently reviewed by a Contract Review Committee comprised of key members of our management, legal and finance teams for identification of any complex accounting issues; engage experts to consult with management in conjunction with its selection and evaluation of the appropriate accounting treatment for complex contractual arrangements; and we continue to train technical accounting personnel and enhance supervision with regard to timely review and approval of significant revenue transactions.

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If the remediated policies and procedures we have implemented during fiscal 2007 are insufficient to address the material weaknesses as of March 31, 2006 and December 31, 2006, or if additional material weaknesses or significant deficiencies in our internal controls are discovered in the future, we may fail to meet our future reporting obligations and our financial statements may contain material misstatements. Any such failure could also adversely affect the results of the periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that will be required when the rules of the SEC under Section 404 of the Sarbanes-Oxley Act of 2002 become applicable to us beginning with the required filing of our Annual Report on Form 10-K for fiscal 2008.

We develop software applications that interoperate with operating systems and hardware developed by others, and if the developers of those operating systems and hardware do not cooperate with us or we are unable to devote the necessary resources so that our applications interoperate with those systems, our software development efforts may be delayed or foreclosed and our business and results of operations may be adversely affected.

Our software applications operate primarily on the Windows, UNIX, Linux and Novell Netware operating systems and the hardware devices of numerous manufacturers. When new or updated versions of these operating systems and hardware devices are introduced, it is often necessary for us to develop updated versions of our software applications so that they interoperate properly with these systems and devices. We may not accomplish these development efforts quickly or cost-effectively, and it is not clear what the relative growth rates of these operating systems and hardware will be. These development efforts require substantial capital investment, the devotion of substantial employee resources and the cooperation of the developers of the operating systems and hardware. For some operating systems, we must obtain some proprietary application program interfaces from the owner in order to develop software applications that interoperate with the operating system. Operating system owners have no obligation to assist in these development efforts. If they do not provide us with assistance or the necessary proprietary application program interfaces on a timely basis, we may experience delays or be unable to expand our software applications into other areas.

Our ability to sell to the U.S. federal government is subject to uncertainties which could have a material adverse effect on our sales and results of operations.

Our ability to sell software applications and services to the U.S. federal government is subject to uncertainties related to the government's future funding commitments and our ability to maintain certain security clearances complying with the Department of Defense and other agency requirements. For fiscal 2007 approximately 7% of our revenues and for fiscal 2006 approximately 8% of our revenues were derived from sales where the U.S. federal government was the end user. The future prospects for our business are also sensitive to changes in government policies and funding priorities. Changes in government policies or priorities, including funding levels through agency or program budget reductions by the U.S. Congress or government agencies, could materially adversely affect our ability to sell our software applications to the U.S. federal government, causing our business prospects to suffer.

In addition, our U.S. federal government sales require our employees to maintain various levels of security clearances. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, retain and recruit qualified employees who already hold security clearances. To the extent that we are not able to obtain security clearances or engage employees with security clearances, we may not be able to effectively sell our software applications and services to the U.S. federal government, which would have an adverse effect on our sales and results of operations.

Protection of our intellectual property is limited, and any misuse of our intellectual property by others could materially adversely affect our sales and results of operations.

Our success depends significantly upon proprietary technology in our software, documentation and other written materials. To protect our proprietary rights, we rely on a combination of:

patents;

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copyright and trademark laws;

trade secrets;

confidentiality procedures; and

contractual provisions.

These methods afford only limited protection. Despite this limited protection, any issued patent may not provide us with any competitive advantages or may be challenged by third parties, and the patents of others may seriously impede our ability to conduct our business. Further, our pending patent applications may not result in the issuance of patents, and any patents issued to us may not be timely or broad enough to protect our proprietary rights. We may also develop proprietary products or technologies that cannot be protected under patent law.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our software applications or to obtain and use information that we regard as proprietary. Policing unauthorized use of our software applications is difficult, and we expect software piracy to continue to be a persistent problem. In licensing our software applications, we typically rely on shrink wrap licenses that are not signed by licensees. We also rely on click wrap licenses which are downloaded over the internet. We may have difficulty enforcing these licenses in some jurisdictions. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Our attempts to protect our proprietary rights may not be adequate. Our competitors may independently develop similar technology, duplicate our software applications or design around patents issued to us or other intellectual property rights of ours. Litigation may be necessary in the future to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and management attention. In addition, from time to time we are participants or members of various industry standard-setting organizations or other industry technical organizations. Our participation or membership in such organizations may, in some circumstances, require us to enter into royalty or licensing agreements with third parties regarding our intellectual property under terms established by those organizations which we may not find favorable.

Additionally, the loss of key personnel involved with developing, managing or maintaining our intellectual property could have an adverse effect on our business.

Claims that we misuse the intellectual property of others could subject us to significant liability and disrupt our business, which could have a material adverse effect on our results of operations and financial condition.

Because of the nature of our business, we may become subject to material claims of infringement by competitors and other third parties with respect to current or future software applications, trademarks or other proprietary rights. We expect that software developers will increasingly be subject to infringement claims as the number of software applications and competitors in our industry segment grows and the functionality of software applications in different industry segments overlaps. Any such claims, whether meritorious or not, could be time-consuming, result in costly litigation, cause shipment delays or require us to enter into royalty or licensing agreements with third parties, which may not be available on terms that we deem acceptable, if at all. Any of these claims could disrupt our business and have a material adverse effect on our results of operations and financial condition.

We may not be able to respond to rapid technological changes with new software applications and services offerings, which could have a material adverse effect on our sales and profitability.

The markets for our software applications are characterized by rapid technological changes, changing customer needs, frequent new software product introductions and evolving industry standards. The introduction of software applications embodying new technologies and the emergence of new industry standards could make our existing and future software applications obsolete and unmarketable. As a result, we may not be able to accurately predict the lifecycle of our software applications, and they may become obsolete before we

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receive the amount of revenues that we anticipate from them. If any of the foregoing events were to occur, our ability to retain or increase market share in the data management software market could be materially adversely affected.

To be successful, we need to anticipate, develop and introduce new software applications and services on a timely and cost-effective basis that keep pace with technological developments and emerging industry standards and that address the increasingly sophisticated needs of our customers. We may fail to develop and market software applications and services that respond to technological changes or evolving industry standards, experience difficulties that could delay or prevent the successful development, introduction and marketing of these applications and services or fail to develop applications and services that adequately meet the requirements of the marketplace or achieve market acceptance. Our failure to develop and market such applications and services on a timely basis, or at all, could have a material adverse effect on our sales and profitability.

We cannot predict our future capital needs and we may be unable to obtain additional financing to fund acquisitions, which could have a material adverse effect on our business, results of operations and financial condition.

We may need to raise additional funds in the future in order to acquire complementary businesses, technologies, products or services. Any required additional financing may not be available on terms acceptable to us, or at all. If we raise additional funds by issuing equity securities, you may experience significant dilution of your ownership interest, and the newly-issued securities may have rights senior to those of the holders of our common stock. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund additional interest expense. If additional financing is not available when required or is not available on acceptable terms, we may be unable to successfully develop or enhance our software and services through acquisitions in order to take advantage of business opportunities or respond to competitive pressures, which could have a material adverse effect on our software and services offerings, revenues, results of operations and financial condition. We have no plans, nor are we currently considering any proposals or arrangements, written or otherwise, to acquire a business, technology, product or service.

Acquisitions involve risks that could adversely affect our business, results of operations and financial condition.

We may pursue acquisitions of businesses, technologies, products or services that we believe complement or expand our existing business. Acquisitions involve numerous risks, including:

diversion of management's attention during the acquisition and integration process;

costs, delays and difficulties of integrating the acquired company's operations, technologies and personnel into our existing operations and organization;

adverse impact on earnings as a result of amortizing the acquired company's intangible assets or impairment charges related to write-downs of goodwill related to acquisitions;

issuances of equity securities to pay for acquisitions, which may be dilutive to existing stockholders;

potential loss of customers or key employees of acquired companies;

impact on our financial condition due to the timing of the acquisition or our failure to meet operating expectations for acquired businesses; and

assumption of unknown liabilities of the acquired company.

Any acquisitions of businesses, technologies, products or services may not generate sufficient revenues to offset the associated costs of the acquisitions or may result in other adverse effects.

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Our use of open source software could negatively affect our business and subjects us to possible litigation.

Some of the products or technologies acquired, licensed or developed by us may incorporate so-called open source software, and we may incorporate open source software into other products in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, the Common Public License, Apache-style licenses, Berkley Software Distribution or BSD-style licenses and other open source licenses. We monitor our use of open source software to avoid subjecting our products to conditions we do not intend. Although we believe that we have complied with our obligations under the various applicable licenses for open source software that we use, there is little or no legal precedent governing the interpretation of many of the terms of certain of these licenses, and therefore the potential impact of these terms on our business is somewhat unknown and may result in unanticipated obligations regarding our products and technologies. The use of such open source software may ultimately subject some of our products to unintended conditions which may negatively affect our business, financial condition, operating results, cash flow and ability to commercialize our products or technologies.

Some of these open source licenses may subject us to certain conditions, including requirements that we offer our products that use the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and/or that we license such modifications or derivative works under the terms of the particular open source license. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations. If our defenses were not successful, we could be enjoined from the distribution of our products that contained the open source software and required to make the source code for the open source software available to others, to grant third parties certain rights of further use of our software or to remove the open source software from our products, which could disrupt the distribution and sale of some of our products. In addition, if we combine our proprietary software with open source software in a certain manner, under some open source licenses we could be required to release the source code of our proprietary software. If an author or other third party that distributes open source software were to obtain a judgment against us based on allegations that we had not complied with the terms of any such open source licenses, we could also be subject to liability for copyright infringement damages and breach of contract for our past distribution of such open source software.

Risks Relating to the Offering

The price of our common stock may be highly volatile and may decline regardless of our operating performance.

The market price of our common stock could be subject to significant fluctuations in response to:

variations in our quarterly or annual operating results;

changes in financial estimates, treatment of our tax assets or liabilities or investment recommendations by securities analysts following our business;

the public's response to our press releases, our other public announcements and our filings with the SEC;

changes in accounting standards, policies, guidance or interpretations or principles;

sales of common stock by our directors, officers and significant stockholders;

announcements of technological innovations or enhanced or new products by us or our competitors;

our failure to achieve operating results consistent with securities analysts' projections;

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the operating and stock price performance of other companies that investors may deem comparable to us;

broad market and industry factors; and

other events or factors, including those resulting from war, incidents of terrorism or responses to such events.

The market prices of software companies have been extremely volatile. Stock prices of many software companies have often fluctuated in a manner unrelated or disproportionate to the operating performance of such companies. In the past, following periods of market volatility, stockholders have often instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and the attention of management from our business.

Future sales of our common stock, or the perception that such future sales may occur, may cause our stock price to decline and impair our ability to obtain capital through future stock offerings.

A substantial number of shares of our common stock are available for sale into the public market after this offering. The occurrence of such sales, or the perception that such sales could occur, could materially and adversely affect our stock price and could impair our ability to obtain capital through an offering of equity securities. The shares of common stock sold in this offering will be freely tradable, except for any shares sold to our affiliates which are subject to the volume limitations and other restrictions of Rule 144 promulgated under the Securities Act.

In connection with this offering, all members of our senior management, our directors and the selling stockholders have entered into written lock-up agreements providing in general that, for a period of 90 days from the date of this prospectus, they will not, among other things, sell their shares without the prior written consent of Credit Suisse Securities (USA) LLC and Goldman, Sachs & Co. However, these lock-up agreements are subject to a number of specified exceptions. See *Shares Eligible for Future Sale Lock-up Agreements* for more information regarding these lock-up agreements. Upon the expiration of the lock-up period, an additional shares of our common stock will be tradable in the public market subject, in most cases, to volume and other restrictions under federal securities laws. In addition, as of April 30, 2007, options exercisable for an aggregate of approximately 4,824,707 shares of our common stock are outstanding. We have entered into agreements with the holders of approximately shares of our common stock under which, subject to the applicable lock-up agreements, we may be required to register those shares.

Credit Suisse Securities (USA) LLC, an underwriter in this offering, has an interest in the successful completion of this offering beyond the underwriting discounts and commissions it will receive.

Affiliates of Credit Suisse Securities (USA) LLC, an underwriter in this offering, will receive proceeds from this offering. Affiliates of Credit Suisse Securities (USA) LLC own approximately 35.5% of our common stock as of April 30, 2007 (calculated without giving effect to this offering). See *Principal and Selling Stockholders and Certain Relationships and Related Party Transactions* for a more complete description of those affiliates ownership of our capital stock.

In addition, certain affiliates of Credit Suisse Securities (USA) LLC are selling stockholders in this offering. Those affiliates of Credit Suisse Securities (USA) LLC will sell an aggregate of 7,200,000 shares (or 8,325,000 shares if the underwriters exercise their over-allotment option in full) in this offering and will receive aggregate sale proceeds of \$111.4 million, or \$128.8 million if the underwriters exercise their over-allotment option in full (in each case, based on an offering price of \$16.37 per share, the last sale price of our common stock on The NASDAQ Global Market on May 24, 2007), less underwriting discounts and commissions. Upon completion of the offering and related transactions, affiliates of Credit Suisse Securities (USA) LLC will own approximately 18.3% of our common stock (or

approximately 15.6% of our common stock if the underwriters exercise their over-allotment option in full). See Principal and Selling Stockholders.

These affiliations present a conflict of interest because Credit Suisse Securities (USA) LLC has an interest in the successful completion of this offering beyond its interest as an underwriter in this offering. The

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conflict of interest arises due to the interests of its affiliates in this offering as selling stockholders. This offering therefore is being made using a qualified independent underwriter in compliance with the applicable provisions of Rule 2720 of the Conduct Rules of the National Association of Securities Dealers, Inc., which are intended to address potential conflicts of interest involving underwriters. See *Underwriting* for a more detailed description of the independent underwriting procedures that are being used in connection with the offering.

Approximately 17.4% of our outstanding common stock has been deposited into a voting trust, which could affect the outcome of stockholder actions.

Upon completion of this offering, approximately 7,377,860 shares of our common stock (or 6,252,860 shares if the underwriters exercise their over-allotment option in full) representing approximately 17.4% of our common stock outstanding (or 14.7% if the underwriters exercise their over-allotment option in full), is subject to a voting trust agreement pursuant to which the shares are voted by an independent voting trustee.

The voting trust agreement requires that the trustee cause the shares subject to the voting trust to be represented at all stockholder meetings for purposes of determining a quorum, but the trustee is not required to vote the shares on any matter and any determination whether to vote the shares is required by the voting trust agreement to be made by the trustee without consultation with the owners. The voting trust agreement does not provide any criteria that the trustee must use in determining whether or not to vote on a matter. If, however, the trustee votes the shares on any matter subject to a stockholder vote, including proposals involving the election of directors, changes of control and other significant corporate transactions, the shares will be voted in the same proportion as votes cast for or against those proposals by our other stockholders. As long as these shares continue to be held in the voting trust, if the trustee determines to vote the shares on a particular matter, the voting power of all other stockholders will be magnified by the operation of the voting trust. With respect to matters such as the election of directors, Delaware law provides that the requisite stockholder vote is based on the shares actually voted. Accordingly, with respect to these matters, the voting trust makes it possible to control the majority vote of our stockholders with only 41.3% of our common stock (or 42.7% if the underwriters exercise their over-allotment option in full), an amount equal to 50% of our outstanding common stock not held in voting trust. In addition, with respect to other matters, including the approval of a merger or acquisition of our company or substantially all of our assets, a majority or other specified percentage of our outstanding shares of common stock must be voted in favor of the matter in order for it to be adopted. If the trustee does not vote the shares subject to the voting trust on these matters, the effect of the non-vote would be equivalent to a vote against the matter, making it substantially more difficult to achieve stockholder approval of the matter. See *Description of Capital Stock - Voting Trust Agreement* for more information regarding the voting trust agreement.

Certain provisions in our charter documents and agreements and Delaware law may inhibit potential acquisition bids for CommVault and prevent changes in our management.

Our certificate of incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in management that our stockholders might deem advantageous. Specific provisions in our certificate of incorporation include:

our ability to issue preferred stock with terms that the board of directors may determine, without stockholder approval;

a classified board in which only a third of the total board members will be elected at each annual stockholder meeting;

advance notice requirements for stockholder proposals and nominations; and

limitations on convening stockholder meetings.

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As a result of these and other provisions in our certificate of incorporation, the price investors may be willing to pay in the future for shares of our common stock may be limited.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, which imposes certain restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock. Further, certain of our employment agreements and incentive plans provide for vesting of stock options and/or payments to be made to the employees thereunder if their employment is terminated in connection with a change of control, which could discourage, delay or prevent a merger or acquisition at a premium price. See Management Employment Agreements, Change of Control Agreements and Employee Benefit Plans and Description of Capital Stock Anti-Takeover Effects of Provisions of our Certificate of Incorporation and Bylaws and Delaware Business Combination Statute.

We do not expect to pay any dividends in the foreseeable future.

We do not anticipate paying any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

We will continue to incur increased costs as a result of being a public company.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. The Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 and new NASDAQ rules promulgated in response to the Sarbanes-Oxley Act regulate corporate governance practices of public companies. Compliance with these public company requirements has increased our costs and we expect that it will continue to increase our costs and make some activities more time consuming. For example, in fiscal 2007 we created a new internal Disclosures and Controls Committee, and adopted new internal controls and disclosure controls and procedures. In addition, we will continue to incur additional expenses associated with our SEC reporting requirements. A number of those requirements will require us to carry out activities we have not done previously. For example, under Section 404 of the Sarbanes-Oxley Act, for our annual report on Form 10-K for fiscal year ending March 31, 2008, we will need to document and test our internal control procedures, our management will need to assess and report on our internal control over financial reporting and our registered public accounting firm will need to issue an opinion on that assessment and the effectiveness of those controls. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our registered public accounting firm identify a material weakness or significant deficiency in our internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us. Our management and auditors have identified material weaknesses in the design and operation of our internal controls as of March 31, 2006 and December 31, 2006. We believe we have remediated these material weaknesses by implementing new policies and procedures during fiscal 2007. We also expect that it will be difficult and expensive to maintain and renew director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Advocacy efforts by stockholders and third parties may also prompt even more changes in governance and reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. In some cases, you can identify these statements by our use of forward-looking words such as may, will, should, anticipate, estimate, expect, plan, believe, predict, intend, could or similar expressions. In particular, statements regarding our plans, strategies, prospects and expectations regarding our business are forward-looking statements. You should be aware that these statements and any other forward-looking statements in this document reflect only our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Many of these risks, uncertainties and assumptions are beyond our control, and may cause actual results and performance to differ materially from our expectations. Important factors that could cause our actual results to be materially different from our expectations include the risks and uncertainties set forth in this prospectus under the heading Risk Factors. Accordingly, you should not place undue reliance on the forward-looking statements contained in this prospectus. These forward-looking statements speak only as of the date on which the statements were made. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents**USE OF PROCEEDS**

We estimate that the net proceeds from the sale of shares by us in the offering (based on an offering price of \$16.37 per share, the last sale price of our common stock as reported on The NASDAQ Global Market on May 24, 2007), after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us, will be \$4.2 million. We intend to use these proceeds, together with approximately \$2.1 million of our existing cash and cash equivalents, to pay the outstanding principal and accrued interest under our term loan (an amount equal to \$6.3 million as of June 15, 2007, assuming interest accrued at a rate equal to 7.0% per annum for the applicable period) as soon as practicable after the receipt of such proceeds. Borrowings under our term loan require principal and interest to be repaid in quarterly installments over a 24-month period through September 1, 2008, subject to acceleration, at the discretion of the lender. Interest accrues at a rate equal to the 30-day LIBOR plus 1.50%. We incurred the indebtedness under our term loan to pay amounts due our former preferred stockholders upon conversion of the preferred shares into shares of common stock, which occurred in connection with our initial public offering.

We will not receive any proceeds from the sale of common stock by the selling stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock is listed and traded on The NASDAQ Global Market under the symbol CVLT. Prior to September 22, 2006, no established public trading market for our common stock existed. The following table sets forth, for the periods indicated, the high and the low closing sales prices of our common stock, as reported on The NASDAQ Global Market:

	Sales Price Per Share	
	High	Low
Fiscal Year Ending March 31, 2007		
Second Quarter (September 22, 2006 through September 30, 2006)	\$ 18.15	\$ 14.74
Third Quarter	20.74	16.25
Fourth Quarter	20.85	15.00
Fiscal Year Ending March 31, 2008		
First Quarter (April 1, 2007 through May 24, 2007)	\$ 18.23	\$ 14.97

See the cover page of this prospectus for the last sales price of our common stock reported on The NASDAQ Global Market as of May 24, 2007. As of April 30, 2007, there were 42,193,268 shares of our common stock outstanding held by 288 holders of record. The number of record holders does not represent the actual number of beneficial owners of shares of our common stock because shares are frequently held in street name by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

DIVIDEND POLICY

We have never paid cash dividends on our common stock, and we intend to retain our future earnings, if any, to fund the growth of our business. We therefore do not anticipate paying any cash dividends on our common stock in the foreseeable future. Our future decisions concerning the payment of dividends on our common stock will depend upon our results of operations, financial condition and capital expenditure plans, as well as any other factors that the board

of directors, in its sole discretion, may consider relevant.

Table of Contents**CAPITALIZATION**

The following table sets forth our cash and cash equivalents, term loan and capitalization as of March 31, 2007:

on an actual basis; and

on an as adjusted basis after giving affect to the completion of this offering at an assumed offering price of \$16.37 per share, the last reported sale price of our common stock on May 24, 2007, and the use of proceeds therefrom as discussed under Use of Proceeds.

You should read this table together with the discussion under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in the prospectus.

	As of March 31, 2007	
	Actual	As Adjusted(1)
	(In thousands, except share and per share amounts)	
Cash and cash equivalents(2)	\$ 65,001	\$ 61,674
Term loan	\$ 7,500	\$
Stockholders equity:		
Preferred stock, \$0.01 par value per share, 50,000,000 shares authorized, no shares issued or outstanding	\$	\$
Common stock, par value \$0.01 per share, 250,000,000 shares authorized, 41,967,710 shares issued and outstanding, actual; 250,000,000 shares authorized, 42,267,710 shares issued and outstanding, as adjusted	420	423
Additional paid-in capital	182,297	186,510
Accumulated deficit	(104,333)	(104,333)
Accumulated other comprehensive loss	(62)	(62)
Total stockholders equity	78,322	82,538
Total capitalization	\$ 78,322	\$ 82,538

(1) A \$1.00 increase (decrease) in the assumed offering price per share would increase (decrease) each of cash, additional paid-in capital and total capitalization by \$0.3 million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

- (2) The As Adjusted column does not give effect to the payment of accrued interest in connection with the prepayment of the term loan.

Share information above excludes 4,065,321 shares of common stock available for issuance under our 1996 Stock Option Plan and 2006 Long-Term Stock Incentive Plan, including 7,670,996 shares of common stock issuable upon exercise of outstanding stock options as of March 31, 2007 at a weighted average exercise price of \$6.39 per share.

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You should read the following selected financial data together with the discussion under Risk Factors, Management's Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

We derived the statement of operations data for each of the three years in the period ended March 31, 2007 and the balance sheet data as of March 31, 2007 and March 31, 2006 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the statement of operations data for each of the two years in the period ended March 31, 2004 and the balance sheet data as of March 31, 2005, 2004 and 2003 from our audited consolidated financial statements that are not included in this prospectus.

	Year Ended March 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Software	\$ 83,870	\$ 62,422	\$ 49,598	\$ 39,474	\$ 29,485
Services	67,237	47,050	33,031	21,772	14,840
Hardware, supplies and other					94
Total revenues	151,107	109,472	82,629	61,246	44,419
Cost of revenues:					
Software	1,640	1,764	1,497	1,168	932
Services	20,044	13,231	9,975	8,049	6,095
Hardware, supplies and other					72
Total cost of revenues	21,684	14,995	11,472	9,217	7,099
Gross margin	129,423	94,477	71,157	52,029	37,320
Operating expenses:					
Sales and marketing	68,240	51,326	43,248	37,592	29,842
Research and development	23,398	19,301	17,239	16,214	16,153
General and administrative	18,610	12,275	8,955	8,599	6,332
Depreciation and amortization	2,603	1,623	1,390	1,396	1,752
Income (loss) from operations	16,572	9,952	325	(11,772)	(16,759)
Interest expense	(326)	(7)	(14)	(60)	
Interest income	2,600	1,262	346	134	297
Income (loss) before income taxes	18,846	11,207	657	(11,698)	(16,462)
Income tax benefit (expense)(1)	45,408	(451)	(174)		52
Net income (loss)	64,254 (2,818)	10,756 (5,661)	483 (5,661)	(11,698) (5,676)	(16,410) (5,661)

Less: accretion of preferred stock dividends					
Less: accretion of fair value of preferred stock upon conversion	(102,745)				
Net income (loss) attributable to common stockholders	\$ (41,309)	\$ 5,095	\$ (5,178)	\$ (17,374)	\$ (22,071)
Net income (loss) attributable to common stockholders per share(2):					
Basic	\$ (1.35)	\$ 0.18	\$ (0.28)	\$ (0.93)	\$ (1.20)
Diluted	\$ (1.35)	\$ 0.17	\$ (0.28)	\$ (0.93)	\$ (1.20)
Weighted average shares used in computing per share amounts:					
Basic	30,670	18,839	18,712	18,601	18,371
Diluted	30,670	30,932	18,712	18,601	18,371

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	2007	2006	As of March 31, 2005 (In thousands)	2004	2003
Balance Sheet Data:					
Cash and cash equivalents	\$ 65,001	\$ 48,039	\$ 24,795	\$ 22,958	\$ 7,611
Working capital	34,889	24,139	13,441	13,164	5,633
Total assets	148,039	72,568	47,513	41,779	26,489
Cumulative redeemable convertible preferred stock:					
Series A through E, at liquidation value		99,168	93,507	87,846	82,170
Total stockholders' equity (deficit)	78,322	(73,664)	(81,010)	(75,910)	(75,561)

- (1) The income tax benefit in fiscal 2007 primarily reflects a \$52.2 million reversal of our deferred income tax valuation allowance partially offset by the recognition of \$5.0 million for certain tax reserves. These adjustments have increased our fiscal 2007 net income by \$47.2 million.
- (2) See Note 2 in the consolidated financial statements for a reconciliation of the basic and diluted earnings per share calculation.

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**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 prospectus. Except for the historical information contained herein, this discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed below; accordingly, investors should not place undue reliance upon our forward-looking statements. See Risk Factors and Forward-Looking Statements for a discussion of these risks and uncertainties.

Overview

CommVault is a leading provider of data 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 management software applications under the QiNetix brand. QiNetix is specifically designed to protect and manage 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 reporting. We also provide our customers with a broad range of highly effective services that are delivered by our worldwide support and field operations.

History and Background

We began operations in 1988 as a development group within Bell Labs and were later designated as an AT&T Network Systems strategic business unit. We were formed to develop automated backup, archiving and recovery products for AT&T's internal use. These products were comprised of internally developed software integrated with third party hardware. Our business became a part of Lucent Technologies, which was created by and later spun-off from AT&T. Donaldson, Lufkin & Jenrette Merchant Banking and the Sprout Group funded and completed a management buyout of our Company from Lucent in May 1996. After the buyout, we continued to sell our software products integrated with third party hardware, primarily UNIX servers and optical and magnetic tape libraries. These combined hardware and software products were marketed as ABARS, or Automated Backup and Recovery Solution, through 1997, at which time we renamed the products Vault 98.

In April 1998, our board of directors and a new management team changed our strategic direction. We believed that the data management software industry would shift from local, server-attached environments to more complex and widely distributed data networks. We believed that a broad suite of data management software applications built upon an innovative architecture and a single underlying code base would more easily and cost-effectively manage data in this complex networked environment. We also believed that our competitors would address this opportunity by adapting their legacy platforms and by developing or acquiring new applications built upon dissimilar underlying software architectures. We believed, and continue to believe, that managing data with this type of loosely integrated solution would be more difficult and costly for the customer. We also recognized that our legacy Vault 98 technology was too limited to address the broader data management market opportunity. This vision resulted in an almost two-year development project that culminated in the introduction of our Galaxy data protection software in February 2000. Galaxy represented the first of our software applications built upon our new architectural platform, and we now market it as one of the applications in our QiNetix software suite. The introduction of Galaxy also marked the beginning of the phasing out of both our Vault 98 products and the sale of third party hardware. We substantially completed the phase-out of our sales of Vault 98 products and third party hardware in September 2001.

We have spent the past seven years developing, enhancing and introducing the following eight applications as part of our QiNetix software suite, all of which are built upon our unified architectural design: QiNetix Galaxy Backup and Recovery (released in 2000), QiNetix DataMigrator (released in 2002), QiNetix QuickRecovery (released in 2002), QiNetix DataArchiver (released in 2003), QiNetix StorageManager (released in 2003), QiNetix QNet (released in 2003), QiNetix Data Classification (released in 2005) and QiNetix ContinuousDataReplicator (released June 2006). In addition to QiNetix Galaxy, the subsequent release

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of our other QiNetix software has substantially increased our addressable market. As of March 31, 2007, we had licensed our software applications to approximately 5,900 registered customers.

We completed our initial public offering on September 27, 2006 in which 12,777,778 shares of common stock were sold to the public at a price of \$14.50 per share. We sold 6,148,148 shares and certain of our stockholders sold 6,629,630 shares in the offering. After deducting the underwriting discounts and commissions and the other offering expenses, our net proceeds from the initial public offering were approximately \$80.2 million. In conjunction with the initial public offering, we also sold 102,640 shares of common stock in a concurrent private placement at the initial public offering price pursuant to preemptive rights that arose as a result of the initial public offering. Our net proceeds from the concurrent private placement were approximately \$1.5 million. We used the net proceeds of the offering and the private placement, together with borrowings under our term loan and \$10.1 million of our existing cash and cash equivalents, to pay \$101.8 million in satisfaction of amounts due on our Series A, B, C, D and E preferred stock upon their conversions into common stock, which occurred upon the closing of the offering. In conjunction with the offering, all of our outstanding shares of preferred stock were converted into 16,019,480 shares of our common stock.

We currently derive the majority of our software revenue from our Galaxy Backup and Recovery software application. Sales of Galaxy Backup and Recovery represented approximately 83% of our total software revenue for fiscal 2007 and 90% in fiscal 2006. In addition, we derive the majority of our services revenue from customer and technical support associated with our Galaxy Backup and Recovery software application. We anticipate that we will continue to derive a majority of our software and services revenue from our Galaxy Backup and Recovery software application for the foreseeable future.

Given the nature of the industry in which we operate, our software applications are subject to obsolescence. We continually develop and introduce updates to our existing software applications in order to keep pace with technological developments, 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 the majority of our 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 corporate resellers bundle or sell our software applications together with their own products, and our value-added resellers sell our software applications independently. Our software revenue was 56% of our total revenues for fiscal 2007, 57% for fiscal 2006 and 60% for fiscal 2005. Software revenue generated through direct distribution channels was approximately 31% of total software revenue in fiscal 2007, 32% in fiscal 2006 and 38% in fiscal 2005. Software revenue generated through indirect distribution channels was approximately 69% of total software revenue in fiscal 2007, 68% in fiscal 2006 and 62% in fiscal 2005. We have no current plans to focus future growth on one distribution channel versus another. The failure of our indirect distribution channels to effectively sell our software applications could have a material adverse effect on our revenues and results of operations.

We have original equipment manufacturer agreements with Dell and Hitachi Data Systems pursuant to which they have agreed 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 and Hitachi Data Systems have no obligation to recommend or offer our software applications exclusively or at all, and they

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have no minimum sales requirements and can terminate our relationship at any time. An increasing amount of our software revenue is related to arrangements with original equipment manufacturers that have no obligation to sell our software applications. A material portion of our software revenue is generated through these arrangements, and we expect this contribution to grow in the future.

We recently signed an original equipment manufacturer agreement with Bull SAS (Bull) pursuant to which they have agreed to market, sell and support our software applications and services. To date, we have not generated any revenue through Bull, but expect this contribution to occur in the future.

We also recently signed a wide-ranging distribution agreement with Arrow Electronics, Inc. (Arrow) covering our North American commercial markets. We expect that many of our value-added reseller partners will be transitioned to Arrow and that revenues currently generated through our reseller channel will be largely transitioned to Arrow in fiscal 2008.

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. 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. We expect the number of software transactions over \$0.1 million to increase throughout fiscal 2008, although the size and timing of any particular software transaction is more difficult to forecast. Such software transactions typically represent approximately 30% to 35% of our total software revenue in any given period.

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 44% of our total revenues for fiscal 2007, 43% for fiscal 2006 and 40% for fiscal 2005. The gross margin of our services revenue was 70.2% for fiscal 2007, 71.9% for fiscal 2006 and 69.8% for fiscal 2005. Our services revenue has lower gross margins than our software revenue. An increase in the percentage of total revenues represented by services revenue would 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;

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

Our operating expenses are as follows:

Sales and Marketing, consists primarily of salaries, commissions, employee benefits and other direct and indirect business expenses, including travel 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 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 and benefits for our executive, accounting, human resources, legal, information systems and other administrative personnel. Also included in this

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category are other general corporate expenses, such as outside legal and accounting services 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.

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

We recognize revenue in accordance with the provisions of Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9, and related interpretations. 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 making 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, or elements: software licenses and services. Services include customer support, consulting, assessment and design services, installation services and training. A typical sales arrangement includes both of these elements.

For sales arrangements involving multiple elements, we recognize revenue using the residual method as described in SOP 98-9. Under the residual method, we allocate and defer revenue for the undelivered elements based on relative 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).

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

upon the receipt of a royalty report or purchase order from that original equipment manufacturer partner.

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support and bug fixes or

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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 and, in certain cases, we use stated 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 generally evidenced by a signed 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 or weekly 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 that 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 in accordance with SOP 98-9. 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 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.

We have offered limited price protection under certain original equipment manufacturer agreements. Any right to a future refund from such price protection is entirely within our control. We estimate that the likelihood of a future payout due to price protection is remote.

During the preparation of our financial statements for fiscal 2006 and as of December 31, 2006, we became aware of material weaknesses related to our revenue recognition procedures for certain multiple-element sales arrangements accounted for under Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9. During fiscal 2006, we changed our customary business practice and began to require and utilize a signed Statement of Work documenting the scope of our other professional services offerings greater than \$10,000 (excluding training), in addition to a signed purchase order, when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Persuasive evidence of an arrangement does not exist for such multiple-element sales arrangements until the Statement of Work covering the other professional services is signed by both CommVault and the end-user customer. During fiscal 2006, we recorded software revenue of approximately \$2.5 million and services revenue of approximately \$0.1 million related to certain multiple-element sales arrangement transactions before a signed Statement of Work covering the other professional services was obtained. As a result, we recorded a reduction to revenue and a corresponding increase to deferred revenue of approximately \$2.6 million in

fiscal 2006 related to this material weakness. The revenue was subsequently recognized during fiscal 2007. We believe we have remediated the material weakness by related to multiple-element sales arrangements containing a Statement of Work.

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At December 31, 2006, we determined that we did not have an effective process in place to evaluate the appropriate revenue recognition treatment for complex contractual arrangements with customers involving multiple agreements. We have taken the following actions that we believe have remediated this identified material weakness: adopted formal procedures whereby all significant contracts are independently reviewed by a Contract Review Committee comprised of key members of our management, legal and finance teams for identification of any complex accounting issues; engage experts to consult with management in conjunction with its selection and evaluation of the appropriate accounting treatment for complex contractual arrangements; and we continue to train technical accounting personnel and enhance supervision with regard to timely review and approval of significant revenue transactions.

See **Risk Factors** **Risks Relating to Our Business** Our management and auditors have identified material weaknesses in the design and operation of our internal controls as of March 31, 2006 and December 31, 2006 which, if our remediation efforts fail, could result in material misstatements in our financial statements in future periods for more information about these material weaknesses.

Stock-Based Compensation

As of March 31, 2007, we maintain two stock-based compensation plans, which are described more fully in Note 9 of our *Notes to Consolidated Financial Statements*. Prior to April 1, 2006, we accounted for our stock option plan under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by FASB Statement No. 123, (SFAS 123), *Accounting for Stock-Based Compensation*. Stock-based employee compensation cost was recognized in the Statement of Operations for the years ended March 31, 2006 and 2005 to the extent stock options granted had an exercise price that was less than the fair value of the underlying common stock on the date of grant. In Note 2 of our consolidated financial statements, we have presented the pro forma effect on net income (loss) attributable to common stockholders as if we had applied the fair value recognition of SFAS 123.

On April 1, 2006, we adopted the fair value recognition provisions of SFAS Statement No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) using the modified prospective method and therefore we have not restated our financial results for prior periods. Under this transition method, stock-based compensation costs during the year ended March 31, 2007 includes the portion related to stock options vesting in the period for (1) all options granted prior to, but not vested as of April 1, 2006, based on the grant date fair value in accordance with the original provisions of SFAS 123 and (2) all options granted subsequent to April 1, 2006, based on the grant date fair value estimated in accordance with SFAS 123(R). As a result of adopting SFAS 123(R) on April 1, 2006, our income before income taxes and net income for fiscal 2007 is \$3.9 million and \$2.5 million lower, respectively, than if we had continued to account for stock-based compensation under APB Opinion No. 25, *Accounting for Stock Issued to Employees*. As of March 31, 2007, we have only granted non-qualified stock options under our stock-based compensation plans. We anticipate that future grants under our stock-based compensation plans will include both non-qualified stock options and restricted stock units.

Upon adoption of SFAS 123(R), we selected the Black-Scholes option pricing model for determining the estimated fair value for stock-based awards. The fair value of stock option awards subsequent to April 1, 2006 is amortized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Expected volatility was calculated based on reported data for a peer group of publicly traded companies for which historical information was available. We will continue to use peer group volatility information until our historical volatility is relevant to measure expected volatility for future option grants. The average expected life was determined according to the SEC shortcut approach as described in SAB 107, *Disclosure about Fair Value of Financial Instruments*, which is the mid-point between the vesting date and the end of the contractual term. 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 a historical analysis of our actual stock option forfeitures.

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

	Year Ended March 31, 2007
Dividend yield	None
Expected volatility	48% - 55%
Weighted average expected volatility	51%
Risk-free interest rates	4.45% - 5.04%
Expected life (in years)	6.25

The following table presents the exercise price and fair value per share for grants issued during fiscal 2006 and 2007:

Grant Date	Options Granted	Exercise Price	Fair Value per Common Share	Intrinsic Value
Fiscal Year 2006:				
May 5, 2005	359,750	\$ 4.50	\$ 6.92	\$ 2.42
July 29, 2005	461,375	4.70	8.36	3.66
September 19, 2005	800,000	4.70	9.18	4.48
November 3, 2005	374,500	6.70	10.34	3.64
January 26, 2006	334,350	7.50	11.08	3.58
March 2, 2006	163,625	8.10	12.84	4.74
Fiscal Year 2007:				
April 20, 2006	150,000	\$ 11.70	\$ 12.98	\$ 1.28
May 3, 2006	89,750	12.60	13.08	0.48
July 27, 2006	145,600	12.74	12.74	
September 12, 2006	135,375	13.50	13.50	
October 13, 2006	30,875	18.85	18.85	
November 14, 2006	47,500	17.60	17.60	
December 14, 2006	39,000	19.99	19.99	
January 15, 2007	34,000	19.84	19.84	
February 14, 2007	63,500	16.26	16.26	
March 14, 2007	25,250	16.27	16.27	

Prior to July 27, 2006, the exercise prices for options granted were set by our board of directors based upon our internal valuation model. Our internal valuation model used a consistent formula based on 12-month projected revenues in periods where we were not profitable and alternatively 12-month projected earnings when we started to achieve profitability on a regular basis. Our internal valuation was based on multiples (either revenue or earnings) of a comparable group of publicly traded companies in our market sector. In connection with the preparation of the financial statements for our initial public offering, we performed a retrospective determination of fair value of our common stock underlying stock option grants from January 1, 2005 through May 3, 2006. The retrospective determination of fair value of our common stock utilized the probability weighted expected returns (PWER) method described in the AICPA Technical Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as

Compensation (Practice Aid).

Under the PWER method, the value of our common stock was estimated based upon an analysis of future values for the enterprise assuming various future outcomes. In our situation, the future outcomes included two scenarios: (i) we become a public company (public company scenario) and (ii) we remain a private company (remains private scenario). We used a low probability assumption for our January 2005 grants and this percentage increased as significant milestones were achieved and as discussions with our investment bankers increased as we prepared for the initial public offering process. An increase in the probability assessment for an initial public offering increased the value ascribed to our common stock.

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Under the public company scenario, fair value per common share was calculated using our expected pre-initial public offering valuation and a risk-adjusted discount rate ranging from 20% to 25% based on the estimated timing of our potential initial public offering. The risk-adjusted discount rate was based on the inherent risk of a hypothetical investment in our common stock. An appropriate rate of return required by a hypothetical investor was determined based on: (1) well established venture capital rates of return published in the Practice Aid for firms engaged in bridge financing in anticipation of a later IPO and (2) our calculated cost of capital. Based on this data, we used a risk-adjusted discount rate of 25% for the January 2005 valuation date and lowered such a rate to 20% for the subsequent valuation dates based on the decreased inherent risk of investing in our common stock as we continued to develop our products and achieved increased levels of profitability. In general, the closer a company gets to an initial public offering, the higher the probability assessment weighting is for the public company scenario. If different discount rates had been used, the valuations would have been different.

Determining the fair value of the common stock of a private enterprise requires complex and subjective judgments. As such, under the remains private scenario, our retrospective estimates of enterprise value were based upon a combination of the income approach and the market approach. The significant portion of the value derived under the income approach is based upon the calculation of the terminal value, which in this analysis is based on data from publicly traded guideline companies. In addition, the income approach allows for the full utilization of the our net operating loss carryforwards as it is a forward looking model, as compared to the market approach that focuses on historical results. Lastly, based on our stage of development and our ability to generate profits only recently, it was more likely that a potential investor in our common stock would place the bulk of their emphasis on future expectations rather than on historical performance. As such, it was our opinion that the income approach provided a much more meaningful indication of value and we therefore placed greater emphasis upon the conclusion as rendered by this approach and relatively less weight upon the value determined by the market approach. Accordingly, we applied a weight of 80% to the income approach and a weight of 20% to the market approach. If different weights were applied to the income and market approach, the valuations would have been different.

Under the income approach, our enterprise value was based on the present value of our forecasted operating results. The assumptions underlying the estimates were consistent with the business plan used by our management. Similar to the public company scenario, a risk-adjusted discount rate ranging from 20% to 25% was used based on the inherent risk of an investment in CommVault. If different discount rates had been used, the valuations would have been different.

Under the market approach, our estimated enterprise value was developed based revenue multiples of comparable companies. Specifically, a search was conducted for companies with a similar Standard Industrial Classification code. This search revealed numerous publicly-traded companies in this industry. From this total population of over 500 guideline companies, eight companies were selected as comparable companies for inclusion in the valuation analysis based on scope and breadth of product offerings, annual revenue, stage of development, prospects for growth and risk profiles. Although each of the comparable companies differ in some respects from us, they are generally influenced by similar business and economic conditions and are considered to offer alternative investment opportunities. If different comparable companies were used, the valuations would have been different.

The fair value of our common stock under the remains private scenario was determined by reducing the total estimated remains private enterprise value by the liquidation preferences that our Series A through E cumulative redeemable convertible preferred stock had and the conversion preferences that our Series AA, BB and CC convertible preferred stock had as well as a discount for lack of marketability of 35% assuming we remained a private company. We had one significant restriction on the marketability of our common stock related to the blocking rights that our Series CC preferred stockholders had if we were to conduct an IPO that has an offering price of less than \$6.26 per share, on an as adjusted basis. In addition, there was also no guarantee of future dividends being paid. After considering these factors, as well as the results of a number of empirical studies, IRS Revenue Ruling 77-287

involving the issue of discounts for lack of marketability and certain other company specific factors (such as the prospects for liquidity absent an IPO and the estimated volatility of our common stock), a 35% discount for lack of marketability was deemed appropriate to apply to

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the common stock. If a different discount for lack of marketability was used, the valuations would have been different.

Valuation models require the input of highly subjective assumptions. Because, prior to our initial public offering, our common stock had characteristics significantly different from that of publicly traded common stock and because changes in the subjective input assumptions could have materially affected the fair value estimate, in management's opinion, the existing models did not necessarily provide a reliable, single measure of the fair value of our common stock.

The foregoing valuation methodologies are not the only valuation methodologies available and were not used to value our common stock after the initial public offering. We cannot assure you of any particular valuation of our stock. Accordingly, investors are cautioned not to place undue reliance on the foregoing valuation methodologies as an indicator of future stock prices.

In conjunction with each of the factors noted below, the primary factors that contributed to the difference between the fair value of our common stock as of each grant date prior to July 27, 2006 and our initial offering price of \$14.50 per share included:

The continued execution of our business model which had resulted in total revenues increasing 32% in fiscal 2006 compared to fiscal 2005 and 52% in the three months ended June 30, 2006 compared to the three months ended June 30, 2005. We had experienced such revenue growth in both the United States and in our international operations.

Software revenue generated through our original equipment manufacturer agreements had increased approximately \$8.5 million, or 425%, in fiscal 2006 compared to fiscal 2005 due to higher revenue from our arrangement with Dell as well as revenue generated from an original equipment manufacturer arrangement we entered into with Hitachi Data Systems in March 2005.

We had achieved our fourth consecutive quarter of profitability for the three months ended June 30, 2006.

As of June 30, 2006, we had licensed our software applications to approximately 4,300 registered customers representing an increase of approximately 50% compared to March 31, 2005.

We had continued to enhance our QiNetix software suite with the introduction of QiNetix Data Classification in 2005 and QiNetix ContinuousDataReplicator in 2006. In addition, we have released numerous enhancements to our existing QiNetix software applications.

The passage of time between grant dates, which led to the shifting of the time periods that such valuations are based upon.

The probability weighting of being able to proceed with an IPO with an offering price of no less than \$6.26 per share, on an as adjusted basis, which is the minimum offering price without being potentially blocked by the Series CC preferred stockholders.

In January 2006, we engaged investment bankers to initiate the process of an initial public offering and began drafting a registration statement.

The reassessed fair value of our common stock underlying 359,750 options granted to employees on May 5, 2005 was determined to be \$6.92 per share. The increase in fair value as compared to the January 27, 2005 value was primarily due to the following:

For the three months ended March 31, 2005, we had the most profitable quarter in our history at that time, generating earnings of approximately \$1.6 million;

We achieved our first fiscal year of profitability for the year ended March 31, 2005;

We entered into an original equipment manufacturer arrangement with Hitachi Data Systems in March 2005; and

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The possibility of an initial public offering remained relatively low and a probability estimate of 30% was assigned under the PWER method as a result of the significant milestones to be achieved.

The reassessed fair value of our common stock underlying 461,375 options granted to employees on July 29, 2005 was determined to be \$8.36 per share. The increase in fair value as compared to the May 5, 2005 value was primarily due to the following:

For the three months ended June 30, 2005, revenues and earnings exceeded budget;

We increased our earnings forecast for the remainder of fiscal 2006; and

We increased the probability estimate for the initial public offering scenario under the PWER method to 40% as a result of our revenues and earnings exceeding budget.

The reassessed fair value of our common stock underlying 800,000 options granted to employees on September 19, 2005 was determined to be \$9.18 per share. On September 19, 2005, our compensation committee awarded options to several key executives. The underlying assumptions that were in place as of the July 29, 2005 grant date were still in place on September 19, 2005, except we increased the probability estimate for the initial public offering scenario under the PWER method to 50% as a result of moving closer to a potential initial public offering and anticipating a profitable quarter ending September 30, 2005.

The reassessed fair value of our common stock underlying 374,500 options granted to employees on November 3, 2005 was determined to be \$10.34 per share. The increase in fair value as compared to the September 19, 2005 value was primarily due to the following:

For the three and six months ended September 30, 2005, earnings exceeded our original budget and revised forecasts;

In the six months ended September 30, 2005, we started to achieve substantial revenue growth from our original equipment manufacturer arrangements with Dell and Hitachi Data Systems; and

We increased the probability estimate for the initial public offering scenario under the PWER method to 60% as a result of our earnings exceeding forecast and the substantial revenue growth we achieved from our original equipment manufacturer agreements.

The reassessed fair value of our common stock underlying 334,350 options granted to employees on January 26, 2006 was determined to be \$11.08 per share. The increase in fair value as compared to the November 3, 2005 value was primarily due to the following:

On January 10, 2006, we initiated the process of an initial public offering when we held an organizational meeting; as a result, we increased the initial public offering scenario to 65% under the PWER method;

We achieved consecutive quarters of profitability for the first time;

For the three and nine months ended December 31, 2005, earnings exceeded our original budget and revised forecasts; and

We continued to generate cash flows from operations significantly exceeding budgeted, revised forecast and prior year amounts.

Despite holding an organizational meeting on January 10, 2006, we only increased the initial public offering scenario from 60% at November 3, 2005 to 65% at January 26, 2006 for two primary reasons. First, we needed to conduct an initial public offering at an offering price of at least \$6.26 per share otherwise it would potentially be blocked by the Series CC preferred stockholders. There was no assurance as of January 26, 2006 that such an offering price could be obtained. It was our belief that we first needed to achieve our forecasted results for the quarter and fiscal year ending March 31, 2006 before we would be able to obtain such a minimum price per share. Secondly, while we formally initiated the offering process on January 10, 2006, there was no assurance that we would actually proceed with the actual offering. We had also

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initiated an offering process once before in early 2004, but subsequently decided to not proceed with an actual offering.

The reassessed fair value of our common stock underlying 163,625 options granted to employees on March 2, 2006 was determined to be \$12.84 per share. On March 2, 2006, our compensation committee awarded options to certain strategic new hires. The underlying assumptions that were in place as of the January 26, 2006 grant date were still in place on March 2, 2006, except that we increased the probability estimate for the initial public offering scenario under the PWER method to 90% as a result of the imminence of our potential initial public offering and anticipating our fiscal 2006 earnings would exceed forecast and budget amounts.

The reassessed fair value of our common stock underlying 150,000 options and 89,750 options granted to employees on April 20, 2006 and May 3, 2006 was determined to be \$12.98 per share and \$13.08 per share, respectively. The increase in fair value as of April 20, 2006 and May 3, 2006 as compared to the March 2, 2006 value was primarily due to the following:

We achieved our third quarter of consecutive profitability and completed our most profitable fiscal year for the year ended March 31, 2006; and

We continued to generate cash flows from operations significantly exceeding budgeted and prior year amounts.

We maintained a 90% probability estimate for the initial public offering scenario under the PWER method for the April 20, 2006 and May 3, 2006 common stock valuations.

We estimated the fair value of our common stock on July 27, 2006 based on a contemporaneous valuation using the PWER method. We estimated the fair value of our common stock on September 12, 2006 based on the midpoint of the estimated offering range contained in our registration statement on Form S-1 related to our initial public offering. The fair market value of our common stock subsequently to the closing of our initial public offering on September 27, 2006 was based on the publicly traded price as reported by The NASDAQ Stock Market.

As of March 31, 2007, there was approximately \$15.1 million of unrecognized stock-based compensation expense related to non-vested stock option awards that are expected to be recognized over a weighted average period of 2.58 years. The intrinsic value of the options outstanding as of March 31, 2007, was \$75.7 million, of which \$51.1 million related to vested options and \$24.6 million related to unvested options.

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. We record this amount as a provision or benefit for taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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 net deferred tax assets and tax reserves. As of March 31, 2007, we had deferred tax assets of approximately \$52.2 million, which were primarily related to federal, state and foreign net operating loss carryforwards and federal and state research tax credit 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 March 31, 2007, we maintained a valuation allowance for deferred tax assets of approximately \$1.3 million primarily related to net operating loss carryforwards in certain international jurisdictions as there is not sufficient evidence to enable us to conclude that it is more likely than not that such deferred tax assets will be realized. In addition, in evaluating the exposure associated with various filing positions, we record estimated tax reserves for probable exposures. Based on our evaluation of

current tax positions, we believe we have appropriately accrued for probable exposures and have tax reserves of approximately \$5.0 million recorded within accrued liabilities. If our actual results differ from our estimates, our provision for income taxes could be materially impacted.

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

Research and development expenditures are charged to operations as incurred. SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed*, requires capitalization of certain software development costs subsequent to the establishment of technological feasibility. 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 historically have been 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:

	For the Year Ended March 31,		
	2007	2006	2005
Revenues:			
Software	56%	57%	60%
Services	44	43	40
Total revenues	100%	100%	100%
Cost of revenues:			
Software	1%	2%	2%
Services	13	12	12
Total cost of revenues	14%	14%	14%
Gross margin	86%	86%	86%

Fiscal year ended March 31, 2007 compared to fiscal year ended March 31, 2006***Revenues***

Total revenues increased \$41.6 million, or 38%, from \$109.5 million in fiscal 2006 to \$151.1 million in fiscal 2007.

Software Revenue. Software revenue increased \$21.4 million, or 34%, from \$62.4 million in fiscal 2006 to \$83.9 million in fiscal 2007. Software revenue represented 56% of our total revenues in fiscal 2007 compared to 57% in fiscal 2006. The increase in software revenue was primarily the result of broader acceptance of our software applications and increased revenue from our expanding base of existing customers. Revenue through our resellers and our direct sales force contributed \$10.3 million and \$6.1 million, respectively, to our overall increase in software revenue. Furthermore, revenue through our original equipment manufacturers contributed \$5.0 million to our overall increase in software revenue primarily due to higher revenue from our arrangements with Dell and Hitachi Data Systems. Software revenue transactions greater than \$0.1 million increased approximately \$4.9 million during fiscal 2007 compared to fiscal 2006. The increase is primarily due to a larger volume and higher average dollar amount of transactions of this type. Movements in foreign exchange rates accounted for approximately \$1.3 million, or 6%, of

the \$21.4 million increase in software revenue.

Services Revenue. Services revenue increased \$20.2 million, or 43%, from \$47.1 million in fiscal 2006 to \$67.2 million in fiscal 2007. Services revenue represented 44% of our total revenues in fiscal 2007 compared to 43% in fiscal 2006. The increase in services revenue was primarily due to a \$16.0 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. Movements in foreign exchange rates accounted for approximately \$0.9 million, or 4%, of the \$20.2 million increase in services revenue.

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Cost of Revenues

Total cost of revenues increased \$6.7 million, or 45%, from \$15.0 million in fiscal 2006 to \$21.7 million in fiscal 2007. Total cost of revenues represented 14% of our total revenues in both fiscal 2007 and fiscal 2006.

Cost of Software Revenue. Cost of software revenue decreased approximately \$0.1 million, or 7%, from \$1.8 million in fiscal 2006 to \$1.6 million in fiscal 2007. Cost of software revenue represented 2% of our total software revenue in fiscal 2007 compared to 3% in fiscal 2006. The decrease is primarily due to lower translation and third-party media costs, partially offset by higher third-party royalties.

Cost of Services Revenue. Cost of services revenue increased \$6.8 million, or 51%, from \$13.2 million in fiscal 2006 to \$20.0 million in fiscal 2007. Cost of services revenue represented 30% of our services revenue in fiscal 2007 compared to 28% in fiscal 2006. The increase in cost of services revenue was primarily the result of higher employee compensation and travel expenses totaling approximately \$3.5 million resulting from higher headcount and increased sales as well as higher third party outsourcing costs of approximately \$0.9 million.

Operating Expenses

Sales and Marketing. Sales and marketing expenses increased \$16.9 million, or 33%, from \$51.3 million in fiscal 2006 to \$68.2 million in fiscal 2007. The increase was primarily due to a \$7.1 million increase in employee compensation resulting from higher headcount, a \$2.3 million increase in stock-based compensation expense due to the adoption of SFAS 123(R), a \$2.2 million increase in commission expense on higher revenue levels and a \$1.9 million increase in travel and entertainment expenses due to increased headcount. Movements in foreign exchange rates accounted for approximately \$0.7 million, or 4%, of the \$16.9 million increase in sales and marketing expenses.

Research and Development. Research and development expenses increased \$4.1 million, or 21%, from \$19.3 million in fiscal 2006 to \$23.4 million in fiscal 2007. The increase was primarily due to \$2.0 million of higher employee compensation resulting from higher headcount, a \$0.6 million increase in stock-based compensation due to the adoption of SFAS 123(R) and a \$0.5 million increase in legal expenses associated with patent registration of our intellectual property.

General and Administrative. General and administrative expenses increased \$6.3 million, or 52%, from \$12.3 million in fiscal 2006 to \$18.6 million in fiscal 2007. The increase was primarily due to a \$2.5 million increase in employee compensation resulting from higher headcount, a \$1.7 million increase in accounting, compliance and insurance costs associated with being a public company and a \$1.6 million increase in stock-based compensation expense due to the adoption of SFAS 123(R).

Depreciation and Amortization. Depreciation expense increased \$1.0 million, or 60%, from \$1.6 million in fiscal 2006 to \$2.6 million in fiscal 2007. This reflects higher depreciation associated with increased capital expenditures primarily for product development and other computer-related equipment.

Interest Expense

Interest expense increased \$0.3 million, from zero in fiscal 2006 to \$0.3 million in fiscal 2007. The increase was due to interest incurred on the term loan facility we entered into in connection with the payments due to the holders of the Series A through E stock at the time of our initial public offering.

Interest Income

Interest income increased \$1.3 million, from \$1.3 million in fiscal 2006 to \$2.6 million in fiscal 2007. The increase was due to higher interest rates and higher cash balances in our deposit accounts.

Table of Contents*Income Tax Benefit (Expense)*

Income tax benefit (expense) was an expense of \$0.5 million in fiscal 2006 compared to a benefit of \$45.4 million in fiscal 2007. The income tax expense in fiscal 2006 is primarily due to alternative minimum taxes due to the U.S. federal government as well as various state income taxes. The income tax benefit in fiscal 2007 primarily reflects a \$52.2 million reversal of our deferred income tax valuation allowance partially offset by the recognition of approximately \$5.0 million for certain tax reserves. Until the fourth quarter of fiscal 2007, we had recorded a valuation allowance to fully reserve our net deferred tax assets based on our assessment that the realization of the net deferred tax assets did not meet the more likely than not criterion under SFAS No. 109, *Accounting for Income Taxes*. As of March 31, 2007, we determined that based upon a number of factors, including our cumulative taxable income over the past three fiscal years and expected profitability in future years, that certain of our deferred tax assets were more likely than not realizable through future earnings. Accordingly, as of March 31, 2007 we reversed substantially all of our deferred income tax valuation allowance and recorded a corresponding tax benefit of \$52.2 million. In addition, based on our evaluation of current tax positions during the fourth quarter of fiscal 2007, we recorded a tax charge of \$5.0 million to appropriately accrue for probable exposures associated with various filing positions.

Fiscal year ended March 31, 2006 compared to fiscal year ended March 31, 2005*Revenues*

Total revenues increased \$26.8 million, or 32%, from \$82.6 million in fiscal 2005 to \$109.5 million in fiscal 2006.

Software Revenue. Software revenue increased \$12.8 million, or 26%, from \$49.6 million in fiscal 2005 to \$62.4 million in fiscal 2006. Software revenue represented 57% of our total revenues in fiscal 2006 compared to 60% in fiscal 2005. The increase in software revenue was primarily the result of broader acceptance of our software applications and increased revenue from our expanding base of existing customers. Revenue through our original equipment manufacturers contributed \$8.5 million to our overall increase in software revenue primarily due to higher revenue from our arrangement with Dell as well as revenue generated from an original equipment manufacturer arrangement we entered into with Hitachi Data Systems in March 2005. Furthermore, revenue through our resellers contributed \$3.6 million and revenue through our direct sales force contributed \$0.7 million to our overall increase in software revenue. Software revenue transactions greater than \$0.1 million contributed approximately \$3.8 million to our overall increase in software revenue.

Services Revenue. Services revenue increased \$14.0 million, or 42%, from \$33.0 million in fiscal 2005 to \$47.1 million in fiscal 2006. Services revenue represented 43% of our total revenues in fiscal 2006 compared to 40% in fiscal 2005. The increase in services revenue was primarily due to a \$12.1 million increase in revenue from customer support agreements as a result of sales of software to new customers and renewal agreements from our installed software base.

Cost of Revenues

Total cost of revenues increased \$3.5 million, or 31%, from \$11.5 million in fiscal 2005 to \$15.0 million in fiscal 2006. Total cost of revenues represented 14% of our total revenues in both fiscal 2006 and fiscal 2005.

Cost of Software Revenue. Cost of software revenue increased \$0.3 million, or 18%, from \$1.5 million in fiscal 2005 to \$1.8 million in fiscal 2006. Cost of software revenue represented 3% of our total software revenue in both fiscal 2006 and fiscal 2005. The increase in cost of software revenue was primarily the result of higher third party royalty costs associated with higher software revenue.

Cost of Services Revenue. Cost of services revenue increased \$3.3 million, or 33%, from \$10.0 million in fiscal 2005 to \$13.2 million in fiscal 2006. Cost of services revenue represented 28% of our services revenue in fiscal 2006 and 30% in fiscal 2005. The increase in cost of services revenue was primarily the result of higher employee compensation of \$1.9 million resulting from higher headcount and increased sales.

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Operating Expenses

Sales and Marketing. Sales and marketing expenses increased \$8.1 million, or 19%, from \$43.2 million in fiscal 2005 to \$51.3 million in fiscal 2006. The increase was primarily due to a \$3.5 million increase in employee compensation resulting from higher headcount, a \$2.0 million increase in commission expense on higher revenue levels and a \$0.5 million increase in stock-based compensation resulting from the issuance of stock options in fiscal 2006 with an exercise price below fair market value.

Research and Development. Research and development expenses increased \$2.1 million, or 12%, from \$17.2 million in fiscal 2005 to \$19.3 million in fiscal 2006. The increase was primarily due to \$1.1 million of higher employee compensation resulting from higher headcount and \$0.3 million of increased legal expenses primarily associated with patent registration of our intellectual property.

General and Administrative. General and administrative expenses increased \$3.3 million, or 37%, from \$9.0 million in fiscal 2005 to \$12.3 million in fiscal 2006. The increase was primarily due to a \$1.5 million increase in employee compensation resulting from higher headcount, a \$0.8 million increase in stock-based compensation resulting from both the issuance of stock options in fiscal 2006 with an exercise price below fair market value and the acceleration of the vesting period for certain stock options and a \$0.5 million increase in recruiting costs.

Depreciation and Amortization. Depreciation expense increased \$0.2 million, or 17%, from \$1.4 million in fiscal 2005 to \$1.6 million in fiscal 2006. This reflects higher depreciation associated with increased capital expenditures primarily for product development and other computer-related equipment.

Interest Income

Interest income increased \$0.9 million, from \$0.3 million in fiscal 2005, to \$1.3 million in fiscal 2006. The increase was due to higher interest rates and higher cash balances in our deposit accounts.

Income Tax Benefit (Expense)

Income tax expense increased from \$0.2 million in fiscal 2005 to \$0.5 million in fiscal 2006 as a result of alternative minimum taxes due to the U.S. federal government as well as various state income taxes.

Liquidity and Capital Resources

We intend to use the estimated net proceeds from the proposed sale of shares by us in this offering of \$4.2 million, together with approximately \$2.1 million of our existing cash and cash equivalents, to pay the outstanding principal and accrued interest under our team loan (an amount equal to \$6.3 million as of June 15, 2007, assuming interest accrued at a rate equal to 7.0% per annum for the applicable period) as soon as practicable after the receipt of such proceeds.

As of March 31, 2007, we had \$65.0 million of cash and cash equivalents. We have historically financed our operations primarily through the private placements of preferred equity securities and common stock and, to a much lesser extent, through funds from operations. On September 27, 2006, we completed our initial public offering and related concurrent private placement and generated net proceeds of approximately \$81.7 million. We used the net proceeds, together with net borrowings of \$10.0 million under our term loan and \$10.1 million of our existing cash and cash equivalents, to pay \$101.8 million in satisfaction of amounts due on our Series A, B, C, D and E preferred stock upon its conversions into common stock as discussed below.

Upon the closing of our initial public offering, our Series A, B, C, D and E preferred stock converted into 6,332,508 shares of our common stock and also received \$101.8 million consisting of:

\$14.85 per share, or \$47.0 million in the aggregate; and

accumulated and unpaid dividends of \$1.788 per share per year since the date the shares of preferred stock were issued, or \$54.8 million in the aggregate.

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The outstanding shares of Series AA, BB and CC preferred stock converted into a total of 9,686,972 shares of common stock.

In May 2006, we entered into a \$20.0 million term loan facility (the term loan) in connection with the payments due to the holders of our Series A, B, C, D and E preferred stock upon our initial public offering. As of March 31, 2007, there was \$7.5 million outstanding under the term loan. The term loan is secured by substantially all of our assets. Borrowings under the term loan bear interest at a rate equal to the 30-day LIBOR plus 1.50% with principal and interest to be repaid in quarterly installments over a 24-month period, subject to acceleration, at the discretion of the lender. The term loan requires us to maintain a quick ratio, as defined in the term loan agreement, of at least 1.50 to 1. We are in compliance with the quick ratio covenant as of March 31, 2007.

Net cash provided by operating activities was \$30.6 million in fiscal 2007, \$25.9 million in fiscal 2006, and \$3.8 million in fiscal 2005. In fiscal 2007, cash generated by operating activities was primarily due to net income adjusted for the impact of non-cash charges and an increase in deferred services revenue and accrued liabilities, partially offset by an increase in accounts receivable due to higher revenues. We anticipate that as our revenues continue to grow, accounts receivable and deferred services revenue balances should continue to grow as well. In fiscal 2006 and 2005, cash provided by operating activities was primarily due to net income adjusted for the impact of noncash charges and an increase in deferred services revenue.

Net cash used in investing activities was \$4.2 million in fiscal 2007, \$2.8 million in fiscal 2006, and \$1.9 million in fiscal 2005. Cash used in investing activities in each period was due to purchases of property and equipment. The increase in capital expenditures is primarily related to the growth in our business as we continue to invest in and enhance our global infrastructure. We anticipate that as our business grows we will continue to explore opportunities to invest in our global infrastructure.

Net cash used in financing activities was \$9.0 million in fiscal 2007. Net cash provided by (used in) financing activities was minimal in fiscal 2006 and 2005. The cash used in financing activities in fiscal 2007 was primarily due to the cash use of \$101.8 million in satisfaction of amounts due on our Series A, B, C, D and E preferred stock upon its conversions into common stock, partially offset proceeds generated of approximately \$82.2 million from our initial public offering and concurrent private placement, net of underwriting fees and offering costs. In addition, we incurred net borrowings of \$7.5 million in fiscal 2007 under our term loan in connection with the payments due to the holders of our Series A, B, C, D and E preferred stock upon our initial public offering.

Working capital increased \$10.8 million from \$24.1 million as of March 31, 2006 to \$34.9 million as of March 31, 2007. The increase in working capital is primarily due to a \$17.0 million increase in cash and cash equivalents, a \$9.6 million increase in the recognized amount of our current portion of deferred tax assets and a \$3.8 million increase in our accounts receivable. These increases were partially offset by an \$7.5 million increase in accrued liabilities primarily due to a charge to record certain tax reserves, our net borrowing of \$7.5 million under our term loan used in connection with the payments due to the holders of our Series A, B, C, D and E preferred stock upon our initial public offering, and a \$6.4 million increase in deferred revenue. The increase in cash and cash equivalents is primarily due to net income generated during the period adjusted for the impact of non-cash charges and the increase in deferred revenue, partially offset by the net cash used in connection with the transactions associated with our initial public offering.

Working capital increased \$10.7 million from \$13.4 million as of March 31, 2005 to \$24.1 million as of March 31, 2006, primarily due a \$23.2 million increase in cash and cash equivalents, partially offset by a \$10.5 million increase in deferred revenue and a \$2.2 million increase in accrued liabilities during the fiscal year ended March 31, 2006. The increase in cash and cash equivalents is primarily due to higher net income, stronger collection efforts of our accounts

receivable and the increase in deferred revenue.

We believe that our existing cash, cash equivalents and cash from operations will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. We cannot assure you that this will be the case or that our assumptions regarding revenues and expenses underlying this belief will be accurate. We may seek additional funding through public or private financings or

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other arrangements during this period. Adequate funds may not be available when needed or may not be available on terms favorable to us, or at all. If additional funds are raised by issuing equity securities, dilution to existing stockholders will result. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund additional interest expense. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

Summary Disclosures about Contractual Obligations and Commercial Commitments

Our material capital commitments consist of obligations under facilities and operating leases. We anticipate that we will experience an increase in our capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure and personnel and additional resources devoted to building our brand name and marketing and sales force.

We generally do not enter into binding purchase commitments. The following table summarizes our existing long-term contractual obligations as of March 31, 2007 (dollars in thousands):

	Total	Payments Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	4-5 Years	
Operating lease obligations	\$ 12,453	\$ 2,766	\$ 4,230	\$ 3,323	\$ 2,134
Term Loan(1)	7,500	5,000	2,500		
Total	\$ 19,953	\$ 7,766	\$ 6,730	\$ 3,323	\$ 2,134

- (1) Borrowings under our term loan require principal and interest to be repaid in quarterly installments over a 24-month period through September 1, 2008, subject to acceleration, at the discretion of the lender. We intend to use the estimated net proceeds from the sale of shares by us in this offering of \$4.2 million, together with approximately \$2.1 million of our existing cash and cash equivalents, to pay the outstanding principal and accrued interest under our term loan (an amount equal to \$6.3 million as of June 15, 2007, assuming interest accrued at a rate equal to 7.0% per annum for the applicable period) as soon as practicable after the receipt of such proceeds.

We offer a 90-day limited product warranty for our software. To date, costs relating to this product warranty have not been material.

Off-Balance Sheet Arrangements

As of March 31, 2007, we had no off-balance sheet arrangements.

Indemnifications

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

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition

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threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We were required to adopt the provisions of FIN 48 on April 1, 2007. We are evaluating the impact of this statement on our financial statements and currently expect the cumulative effect of adopting FIN 48 will result in an increase to beginning accumulated deficit of approximately \$1.0 million to \$2.0 million as of the beginning of fiscal 2008.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact of this Statement on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of SFAS No. 115*, (SFAS 159). SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of this Statement on our financial statements.

Quantitative and Qualitative Disclosures about Market Risk***Interest Rate Risk***

As of March 31, 2007, our cash and cash equivalents balance consisted primarily of money market funds. Due to the short-term nature of these investments, we are not subject to any material interest rate risk on these balances.

As of March 31, 2007, we have \$7.5 million outstanding under our term loan used in connection with the payments due to the holders of our Series A, B, C, D and E preferred stock upon our initial public offering. Borrowings under the term loan bear interest at a rate equal to the 30-day LIBOR plus 1.50%. Our interest rate exposure is related changes in the LIBOR. A 1% increase in LIBOR would cause our interest expense to increase by approximately \$0.1 million over the next twelve months based on our term loan balance outstanding at March 31, 2007.

Foreign Currency Risk

As a global company, we face exposure to adverse movements in foreign currency exchange rates. Our international sales are generally denominated in foreign currencies, and this revenue could be materially affected by currency fluctuations. Sales outside of the United States were approximately 30% in fiscal 2007 and approximately 29% in fiscal 2006. Our primary exposures are to fluctuations in exchange rates for the U.S. dollar versus the Euro and, to a lesser extent, the Australian dollar, British pound sterling, Canadian dollar and Chinese yuan, Indian rupee and Singapore dollar. Changes in currency exchange rates could adversely affect our reported revenues and require us to reduce our prices to remain competitive in foreign markets, which could also have a material adverse effect on our results of operations. Historically, we have periodically reviewed and revised the pricing of our products available to our customers in foreign countries and we have not maintained excess cash balances in foreign accounts. To date, we have not hedged our exposure to changes in foreign currency exchange rates and, as a result, could incur unanticipated gains or losses.

We estimate that a 10% change in foreign exchange rates would impact our reported operating profit by approximately \$1.7 million annually. This sensitivity analysis disregards the possibilities that rates can move in

opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

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BUSINESS

Company Overview

CommVault is a leading provider of data 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 management software applications under the QiNetix (pronounced kinetics) brand. QiNetix is specifically designed to protect and manage data throughout its lifecycle in less time, at lower cost and with fewer resources than alternative solutions while minimizing the cost and complexity of managing that data. QiNetix provides our customers with:

high-performance data protection, including backup and recovery;

disaster recovery of data;

data migration and archiving;

global availability of data;

replication of data;

creation and management of copies of stored data;

storage resource discovery and usage tracking;

data classification; and

management and operational reports and troubleshooting tools.

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 professional services that are delivered by our worldwide support and field operations.

QiNetix enables our customers to simply and cost-effectively protect and manage their enterprise data throughout its lifecycle, from data center to remote office, covering the leading operating systems, relational databases and applications. In addition to addressing today's data management challenges, our customers can realize lower capital costs through more efficient use of their enterprise-wide storage infrastructure assets, including the automated movement of data from higher cost to lower cost storage devices throughout its lifecycle and through sharing and better utilization of storage resources across the enterprise. QiNetix also can provide our customers with reduced operating costs through a variety of features, including fast application deployment, reduced training time, lower cost of storage media consumables, proactive monitoring and analysis, simplified troubleshooting and lower administrative costs.

QiNetix is built upon an innovative architecture and a single underlying code base that consists of:

an indexing engine that systematically identifies and organizes all data, users and devices accessible to our software products;

a cataloging engine that contains a global database describing the nature of all data, such as the users, applications and storage with which it is associated;

a policy engine that enables customers to set rules to automate the management of data;

a data movement engine that transports data using network communication protocols; and

a media management engine that controls and catalogs disk, tape and optical storage devices, as well as the data written to them.

We refer to this single, unified code base underlying each of our QiNetix applications as our Common Technology Engine. Each data management software application within our QiNetix suite is designed to be best-in-class and is fully integrated into our Common Technology Engine. Our unified architectural design is unique and differentiates our products from those of our competitors, some of whom offer similar applications built upon disparate underlying software architectures, which we refer to as point products. We believe the disparate underlying software architectures of their products inhibit our competitors' ability to match the seamless management, interoperability and scalability of our internally-developed, unified suite and common user interface.

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We have established a worldwide, multi-channel distribution network to sell our software and services to large global enterprises, small and medium sized businesses and government agencies, 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 original equipment manufacturer partners include Dell, Hitachi Data Systems and, more recently, Bull and Incentra Solutions, Inc. As of March 31, 2007, we had licensed our data management software to approximately 5,900 registered customers.

CommVault's executive management team has led the growth of our business, including the development and release of all our QiNetix software, since its introduction in February 2000. Under the guidance of our management team, we have sustained technical leadership with the introduction of eight new data management applications and have garnered numerous industry awards and recognition for our innovative solutions.

Certain financial information with respect to geographic segments is contained in Note 11 to our consolidated financial statements set forth in Item 8.

Industry Background

The driving forces for the growth of the data management software industry are the rapid growth of data and the need to protect and manage that data.

Data is widely considered to be one of an organization's most valued assets. The increasing reliance on critical enterprise software applications such as e-mail, relational databases, enterprise resource planning, customer relationship management and workgroup collaboration tools is resulting in the rapid growth of data across all enterprises. New government regulations, such as those issued under the Sarbanes-Oxley Act, the Health Insurance Portability and Accountability Act (HIPAA) and the Basel Committee on Banking Supervision (Basel II), as well as company policies requiring data preservation, are expanding the proportion of data that must be archived and easily accessible for future use. In addition, ensuring the security and integrity of the data has become a critical task as regulatory compliance and corporate governance objectives affecting many organizations mandate the creation of multiple copies of data with longer and more complex retention requirements.

In addition to rapid data growth, data storage has transitioned from being server-attached to becoming widely distributed across local and global networked storage systems. Data previously stored on primary disk and backed up on tape is increasingly being backed up, managed and stored on a broader array of storage tiers ranging from high-cost, high-performance disk systems to lower-cost mid-range and low-end disk systems to tape libraries. This transition has been driven by the growth of data, the pervasive use of distributed critical enterprise software applications, the decrease in disk cost and the demand for 24/7 business continuity.

The recent innovations in storage and networking technologies, coupled with the rapid growth of data, have caused information technology managers to redesign their data and storage infrastructures to deliver greater efficiency, broaden access to data and reduce costs. The result has been the wide adoption of larger and more complex networked data and storage solutions, such as storage area networks (SANs) and network-attached storage (NAS). In addition to those trends, regulatory compliance and corporate governance objectives are creating larger data archives having much longer retention periods that require information technology managers of organizations affected by these objectives to ensure the integrity, security and availability of data.

We believe that these trends are increasing the demand for software applications that can simplify data management, provide secure and reliable access to all data across a broad spectrum of tiered storage and computing systems and seamlessly scale to accommodate growth, while reducing the total cost of ownership to the customer.

Limitations of Competing Data Management Software Products and Solutions

Many of our competitors' products were initially designed to manage smaller quantities of data in server-attached storage environments. As a result, we believe they are not as effective managing data in today's larger and more complex networked (SAN and NAS) environments. Given these limitations, we

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believe our competitors' products cannot be scaled as easily as ours and are more costly to implement and manage than our solutions.

Most data management software solutions are comprised of many individual point products built upon separate underlying architectures. This often requires the user to administer each individual point product using a separate, different user interface, and unique set of dedicated storage resources, such as disk and tape drives. The result can be a costly, difficult to manage environment that requires extensive administrative cross-training, offers little insight into storage resource use across the global enterprise, provides modest operational reporting and commands greater storage use. As a result, we believe competing data management software products do not fully address the following key requirements in today's data management environment:

Effective Management of Widely Distributed and Networked Data. Most existing information and data management software products were designed to manage local server-attached storage environments, and do not as easily or effectively manage data in today's heterogeneous, widely distributed and tiered storage architectures.

Ease of Data Management Application Integration. A number of vendors offering point products have attempted to address distributed and networked storage management requirements, but these disparate products are not easily integrated with other data management applications and can result in additional costs to the user, including storage infrastructure costs and higher implementation, training, administration, maintenance and support costs.

Global Scalability. Data management solutions consisting of combinations of point products initially designed to address server-attached storage environments have underlying software architectures that are both cumbersome to deploy and more difficult to scale across networked storage and geographic boundaries.

Centralized Data Management. Most data management solutions consisting of combinations of point products lack the ability to comprehensively manage all data management applications across the global enterprise from a single, unified point of control.

Ability to Effectively Prioritize Stored Data Across Applications. Several existing solutions include combinations of point products that attempt to manage data based on its assigned priority in a tiered storage environment. However, these offerings lack a specifically designed tiered storage management architecture that can seamlessly integrate the classification, indexing and cataloging of data with features that enable user-defined policies and automated migration of data across a tiered storage environment.

Lower Total Cost of Ownership. The inherent limitations of many data management software products can result in increased capital and operating costs. These costs are related to the increased use of storage hardware and media, additional infrastructure requirements (such as servers and storage network devices) and higher personnel costs, including implementation, training, administration, maintenance and support.

We believe that there is and will continue to be significant demand for a unified, comprehensive and scalable suite of data management software applications specifically designed to centrally and cost-effectively manage increasingly complex enterprise data environments.

Our Software

We provide our customers with a unified, comprehensive and scalable suite of data management software applications that are fully integrated into our Common Technology Engine. Our software enables centralized protection and

management of globally distributed data while reducing the total cost of managing, moving, storing and assuring secure access to that data from a single browser-based interface. We provide our customers with high-performance data protection, including backup and recovery, disaster recovery of data, data migration and archiving, global data availability, replication of data, creation and management of copies

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of stored data, storage resource discovery and usage tracking, data classification, management and operational reports and troubleshooting tools.

Our software fully interoperates with a wide variety of operating systems, applications, network devices, protocols, storage arrays, storage formats and tiered storage infrastructures, providing our customers with the flexibility to purchase and deploy a combination of hardware and software from different vendors. As a result, our customers can purchase and use the optimal hardware and software for their needs, rather than being restricted to the offerings of a single vendor. Key benefits of our software and related services include:

Dynamic Management of Widely Distributed and Networked Data. Our software is specifically designed to optimize management of data on tiered storage and widely distributed data environments, including SAN and NAS. Our architecture enables the creation of policies that automate the movement of data based on business goals for availability, recoverability and disaster tolerance. User-defined policies determine the storage media on which data should reside based on its assigned value.

Unified Suite of Applications Built upon a Common Technology Engine. All of our software applications share common components of our underlying software code, which drives significant cost savings versus the point products or loosely integrated solutions offered by our competitors. In addition, we believe that each of the individual data management applications in our suite of software applications delivers superior performance, functionality and total cost of ownership benefits. These solutions can be delivered to our customers either as part of our unified suite or as stand-alone applications. We also believe that our architecture will allow us to more rapidly introduce new applications that will enable us to expand beyond our current addressable market.

Global Scalability and Seamless Centralized Data Management. Our software is highly scalable, enabling our customers to keep pace with the growth of data and technologies deployed in their enterprises. We use the same underlying software architecture for large global enterprise, small and medium sized business and government agency deployments. We offer a centralized, browser-based management console from which policies automatically move data according to users' needs for data access, availability and cost objectives. With QiNetix, our customers can automate the discovery, management and monitoring of enterprise-wide storage resources and applications.

State-of-the-Art Customer Support Services. We offer 24/7 global technical support. Our support operations center at our Oceanport, New Jersey headquarters is complemented by local support resources, including centers in Europe, Australia, India and China. Our worldwide customer support organization provides comprehensive local and remote customer care to effectively address issues in today's complex storage networking infrastructures. Our customer support process includes the expertise of product development, field and customer support engineers. In addition, we incorporate into our software many self-diagnostic and troubleshooting capabilities and provide automated web-based support capabilities to our customers. Furthermore, we have implemented a voice-over-IP telephony system to tie our worldwide support centers together with an integrated call center messaging and trouble ticket management system.

Superior Professional Services. We are committed to providing high-value, superior professional services to our customers. Our Global Professional Services group provides complete business solutions that complement our software sales and improve the overall user experience. Our end-to-end services include assessment and design, implementation, post-deployment and training services. These services help our customers improve the protection, disaster recovery, availability, security and regulatory compliance of their global data assets while minimizing the overall cost and complexity of their data infrastructures.

Lower Total Cost of Ownership. Our software solutions built on our common architecture enable our customers to realize compelling total cost of ownership benefits, including reduced capital costs, operating expenses and support costs.

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Our Strategy

Our objective is to enhance our position as a leading supplier of data management software and services. Our key strategic initiatives are to continue:

Extending our Technology Leadership, Product Breadth and Addressable Markets. We intend to use our technology base, internal development capabilities and strategic industry relationships to extend our technology leadership in providing software to manage globally distributed data. Specifically, we plan to continuously enhance existing software applications and introduce new data management software applications that address emerging data and storage management trends, incorporate advances in hardware and software technologies as they become available and take advantage of market opportunities.

Enhancing and Expanding our Customer Support and Other Professional Services Offerings. We plan to continue investing in the people, partners, technologies, software and services enhancements necessary to provide our customers with the industry's most comprehensive product support and professional services. We intend to continue creating and delivering innovative services offerings and product enhancements that result in faster deployment of our software, simpler system administration and rapid resolution of problems. We also intend to enhance our web-based support initiatives and broaden our global support infrastructure.

Expanding Distribution Channels and Geographic Markets Served. We plan to continue investing in the expansion of our distribution channels, both geographically and across all enterprises. We intend to maintain and grow our direct sales force as well as our distribution relationships, including those with value-added resellers, corporate resellers, systems integrators and original equipment manufacturers. We have made significant investments to extend our global reach, such as establishing sales and support offices in China and a development and support office in India. We intend to continue making investments to extend our global reach and increase our distribution throughout the Americas, Europe, Australia and Asia.

Broadening and Developing Strategic Relationships. We plan to broaden our distribution and technology partnerships to increase existing product sales and introduce new applications. Our unified platform simplifies integration with our partners' solutions and the implementation of unique functionality to meet their needs. We also intend to broaden our existing relationships and develop new relationships with leading technology partners, including software application and infrastructure hardware vendors. We believe that these types of strategic relationships will allow us to package and distribute our data management software to our partners' customers, increase sales of our software through joint-selling and marketing arrangements and increase our insight into future industry trends.

Products

Our suite of software applications is comprised of eight distinct data management software applications, all of which share our Common Technology Engine. Each application (other than Data Classification and

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QNet) can be used individually or in combination with other applications of our unified suite. The following table summarizes the components of our unified suite:

Qinetix Suite of Data Management Applications	Functionality
Galaxy Backup and Recovery	High-performance backup and restoration of enterprise data
QuickRecovery	Recovery of files and applications by taking advantage of snapshot technologies
ContinuousDataReplicator	Continuous capture of changes to data and copying of those changes to a secondary location for disaster recovery and fast recovery of individual files
DataMigrator	Active migration and archiving of data to less expensive secondary storage indexed for search and retrieval
DataArchiver	Archiving and indexing of e-mail messages and attachments for compliance and legal discovery purposes
Data Classification	Creation of a catalog of key attributes about primary data to enable intelligent, automated policy-based data movement and management
StorageManager	Storage resource discovery and usage tracking of applications, files, organizations and individual users
QNet	Consolidated management and reporting on data management service levels and data movement operations

Galaxy Backup and Recovery

Galaxy provides high-performance backup of enterprise applications and data for restoration when information is accidentally deleted, when disks fail, when servers need to be rebuilt or for disaster recovery of servers. Policies define when and how data is protected and stored, providing efficient use of storage devices and media, including drive and device sharing.

QuickRecovery

QuickRecovery recovers application data and files from disks to minimize disruption of a customer's operations. Using snapshot technologies to create one or more point-in-time recovery images, QuickRecovery offers users the ability to rapidly recover data from alternative points in time. The software incorporates block-level data movement and features a simple interface that creates, tracks, administers and manages point-in-time snapshots of data for testing, recovery and/or business continuance.

ContinuousDataReplicator

ContinuousDataReplicator continuously captures file-level changes to data and copies those changes to a secondary system to protect from disk, server or site loss. The software retains multiple point-in-time copies of the data at the secondary location, offering flexible recovery options back to the primary location. ContinuousDataReplicator reduces risk of lost data and can simplify a customer's operations by centralizing data from many remote office locations into a single location, leveraging systems and personnel expertise rather than having to duplicate resources at every location.

DataMigrator

DataMigrator actively moves less-used or older data from higher-cost primary storage to less expensive secondary storage and indexes it for search and retrieval purposes without disrupting how applications or end users access information. By shrinking the amount of data stored on primary storage, DataMigrator can also

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reduce the amount of time needed for backup and information technology administration, while improving computing system performance. A single, comprehensive capacity management solution for Windows, UNIX, Linux, Microsoft Exchange, Novell Netware and other environments, DataMigrator can help reduce capital expenditures on new primary storage.

DataArchiver

DataArchiver archives and indexes e-mail messages and attachments to help organizations meet compliance, regulatory and legal discovery requirements. The software offers extensive search capabilities to rapidly locate and retrieve e-mail messages. Full-text indexing and keyword searching allows administrators and compliance officers to find and retrieve e-mail messages by searching e-mail header data along with message and attachment content.

Data Classification

Data Classification creates a catalog of key attributes of unstructured data stored on primary computing systems, complementing the indexing of applications and data on secondary storage resources provided by other QiNetix applications. The software enhances how administrators can manage data by offering a broad set of attributes, instead of just its physical location. Data Classification helps enterprises more precisely organize and manage tiered classes of data throughout its lifecycle. Currently, Data Classification can only be used in combination with our other products.

StorageManager

StorageManager discovers, tracks and reports on primary disk storage by users, enterprises, files and applications. Its comprehensive view of hosts, applications and storage resources provides detailed reports on disk storage assets, usage, trends and costs. The software also offers the ability to view links between logical entities (such as applications and files) and physical storage resources. StorageManager enables enterprises to better use storage resources that they already have, as well as plan ahead for future needs.

QNet

QNet consolidates management and reporting of data management service levels and data movement operations within a single browser interface. QNet collects information from our data management applications and can correlate it to primary and secondary storage use, including data characteristics, giving an end-to-end lifecycle view of data. In addition, QNet can project secondary storage resource consumption, enabling users to determine if they have sufficient storage capacity and help plan for future needs. The software also provides operational reports detailing performance versus operation service level objectives. QNet can only be used in combination with our other products.

Our suite includes intelligent operations management capabilities (iQ Ops) to simplify the management of complex data and network and storage information technology operations. iQ Ops provides proactive and reactive monitoring and reporting functions, alert notification and analysis enabling customers to quickly detect, troubleshoot and resolve potential problems. Combined with the reliability and resiliency features of our Common Technology Engine, iQ Ops enables our customers to improve overall operations with higher system availability.

CommVault and our software applications have received numerous industry awards and recognition. Since July 2005, CommVault has been placed in the Leaders Quadrant of the Gartner Enterprise Backup/Recovery Software market Magic Quadrant. In September 2006, CommVault received the highest possible rating, Strong Positive, in Gartner's Market Scope for Enterprise Backup/Recovery Software 2006 report. Also in 2005, our Galaxy software earned top rating over its direct competitors and was awarded the Diogenes Labs-Storage magazine Quality Award in the enterprise backup and recovery software category. In 2004, our software suite was voted an Innovation Award Winner

and in 2005, the best solution by senior IT executives at the Midsize Enterprise Summit. Storage magazine and SearchStorage.com gave our QiNetix suite the 2003 Gold Medal for Backup and Disaster Recovery Software. Storage magazine and SearchStorage.com similarly gave our Galaxy software the 2002 Gold Medal for Backup and Disaster

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Recovery Software. In 2003, our software applications were named by Network Magazine as Backup/Recovery Software Product of the Year and by eWEEK and PC Magazine as Best of Show Enterprise Storage at the CeBit America trade show. In 2002, our Galaxy software was named by Microsoft Certified Professional Magazine as Editor's Choice: Products We Love for backup. We believe that these awards increase our market recognition and enhance selling efforts.

Services

A comprehensive global offering of customer support and other professional services is critical to the successful marketing, sale and deployment of our software. From planning to deployment to operations, we offer a complete set of technical services, training and support options that maximize the operational benefits of our suite of software applications. Our commitment to superior customer support is reflected in the breadth and depth of our services offerings as well as in our ongoing initiatives to engineer resiliency, automation and serviceability features directly into our products.

We have established a global customer support organization built specifically to handle our expanding customer base. We offer multiple levels of customer support that can be tailored to the customer's response needs and business sensitivities. Our customer support services consist of:

Real-Time Support. Our support staff are available 24/7 by telephone to provide first response and manage the resolution of customer issues. In addition to phone support, our customers have access to an online product support database for help with troubleshooting and operational questions. Innovative use of web-based diagnostic tools provides problem analysis and resolution often without the need for onsite support personnel. Our software design is also an important element in our comprehensive customer support, including root cause problem analysis, intelligent alerting and troubleshooting assistance. Our software is directly linked to our online support database allowing customers to analyze problems without engaging our technical support personnel.

Significant Network and Hardware Expertise. Our support engineers have extensive knowledge of complex applications, servers and networks. We proactively take ownership of the customer's problem, regardless of whether the issue is directly related to our products or to those of another vendor. We have also developed and maintain a knowledge library of storage systems and software products to further enable our support organization to quickly and effectively resolve customer problems.

Global Operations. We enhanced our Oceanport, New Jersey support operations with a new state-of-the-art technical support center which became operational in April 2006. We also have established key support operations in Hyderabad, India, Oberhausen, Germany and Shanghai, China, which are complemented by regional support centers in other worldwide locations. Furthermore, we have implemented a voice-over-IP telephony system to tie our worldwide support centers together with an integrated call center messaging and trouble ticket management system. We have designed our support infrastructure to be able to scale with the increasing globalization of our customers.

We also provide a wide range of other professional services that consist of:

Assessment and Design Services. Our assessment and design services assist customers in determining data and storage management requirements, designing solutions to meet those requirements and planning for successful implementation and deployment.

Implementation and Post-deployment Services. Our professional services team helps customers efficiently configure, install and deploy our QiNetix suite based on specified business objectives. Our SystemCare Review Services group assist our customers with assessing the post-deployment operational performance of our QiNetix suite.

Training Services. We provide global onsite and offsite training for our products. Packaged or customized customer training courses are available in instructor-led or computer-based formats. We offer in-depth training and certification for our resellers in pre- and post-sales support methodologies, including web access to customizable documentation and training materials.

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Strategic Relationships

An important element of our strategy is to establish relationships with third parties to assist us in developing, marketing, selling and implementing our software and services. We believe that strategic and technology-based relationships with industry leaders are fundamental to our success. We have forged numerous relationships with software application and hardware vendors to enhance our combined capabilities and to create the optimal combination of data management applications. This approach enhances our ability to expand our product offerings and customer base and to enter new markets. We have established the following types of strategic relationships:

Product and Technology Relationships. We maintain strategic product and technology relationships with major industry leaders to ensure that our software applications are integrated with, supported by and add value to our partners' hardware and software products. Collaboration with these market leaders allows us to provide applications that enable our customers to improve data management efficiency.

Our significant strategic relationships include Dell, Hitachi Data Systems and Microsoft. In addition to these relationships, we maintain relationships with a broad range of industry vendors to verify and demonstrate the interoperability of our software applications with their equipment and technologies. These vendors include Brocade Communications Systems, Inc., Cisco Systems, Inc., EMC, Hewlett-Packard, IBM, Network Appliance, Inc., Novell, Inc., Oracle Corporation and SAP AG.

Distributors, Value-Added Reseller, Systems Integrator, Corporate Reseller and Original Equipment Manufacturer Relationships. Our corporate resellers bundle or sell our software applications together with their own products, and our value-added resellers resell our software applications independently. As of March 31, 2007, we had approximately 300 reseller partners and systems integrators distributing our software worldwide.

In order to broaden our market coverage, we have original equipment manufacturer distribution agreements with Dell and Hitachi Data Systems and, more recently, Bull and Incentra Solutions, Inc. Under these agreements, the original equipment manufacturers sell, market and support our software applications and services independently and/or incorporate our software applications into their own hardware products. Our original equipment manufacturer agreements do not contain any minimum purchase or sale commitments. In addition to our original equipment manufacturer agreement with Dell, we also have a corporate reseller agreement with the Dell Software and Peripherals division. We have also signed a distribution agreement with Arrow covering North American commercial markets. We believe that this relationship will enable us to reach more resellers and end-users and will increase the amount of resources focused on our reseller channel.

Customers

We sell our suite of data management software applications and related services directly to large global enterprises, small and medium sized businesses and government agencies, and indirectly through value-added resellers, systems integrators, corporate resellers and original equipment manufacturer partners. As of March 31, 2007, we had licensed our software applications to approximately 5,900 registered customers in a broad range of industries, including banking, insurance and financial services, government, healthcare, pharmaceuticals and medical services, technology, legal, manufacturing, utilities and energy. A representative sample of well-known customers with a significant deployment of CommVault software includes Ace Hardware Corporation, Centex Homes, Clifford Chance LLP, Cozen O'Connor, Halcrow Group Ltd., Newell Rubbermaid Inc., North Fork Bank, Ricoh Company, Ltd., the United Kingdom's Department of International Development and Welch Foods Inc.

Sales through our original equipment manufacturer agreement with Dell accounted for approximately 7% of our total revenues for both fiscal 2007 and 2006. Sales through our reseller agreement with Dell accounted for approximately 12% of our total revenues for fiscal 2007 and 11% of our total revenues for fiscal 2006. Dell is an original equipment manufacturer and a reseller that purchases software from us for resale to its customers, but is not the end user of our software. Sales to the U.S. federal government accounted for

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approximately 7% of our total revenues for fiscal 2007 and approximately 8% of our total revenues for fiscal 2006.

Technology

Our Common Technology Engine serves as a major differentiator versus our competitors' data management software products. Our Common Technology Engine's unique indexing, cataloging, data movement, media management and policy technologies are the source of the performance, scale, management, cost of ownership benefits and seamless interoperability inherent in all of our data management software applications. Additional options enable content search, data encryption and auditing features to support data discovery and compliance requirements. Each of these applications shares a common architecture consisting of three core components: intelligent agent software, data movement software and command and control software. These components may be installed on a single host server, or each may be distributed over many servers in a global network. Additionally, the modularity of our software provides deployment flexibility. The ability to share storage resources across multiple data management applications provides easier data management and lower total cost of ownership. We participate in industry standards groups and activities that we believe will have a direct bearing on the data management software market.

Our software architecture consists of integrated software components that are grouped together to form a CommCell. Components of a CommCell are as follows:

one CommServe;

one or more MediaAgents; and

one or more iDataAgents.

Each highly scalable CommCell may be configured to reflect a customer's geographic, organizational or application environment. Multiple CommCells can be aggregated into a single, centralized view for policy-based management across a customer's local or global information technology environment.

CommServe. The CommServe acts as the command and control center of the CommCell and handles all requests for activity between MediaAgent and iDataAgent components. The CommServe contains the centralized event and job managers and the index catalog. This database includes information about where data resides, such as the library, media and content of data. The centralized event manager logs all events, providing unified notification of important events. The job manager automates and monitors all jobs across the CommCell.

MediaAgent. The MediaAgent is a media independent module that is responsible for managing the movement of data between the iDataAgents and the physical storage devices. Our MediaAgents communicate with a broad range of storage devices, generating an index for use by each of our software applications. The MediaAgent software supports most storage devices, including automated magnetic tape libraries, tape stackers and loaders, standalone tape drives and magnetic storage devices, magneto-optical libraries, virtual tape libraries, DVD-RAM and CD-RW devices.

iDataAgent. The iDataAgent is a software module that resides on the server or other computing device and controls the data being protected, replicated, migrated or archived, often referred to simply as the client software. iDataAgents communicate with most open and network file systems and enterprise relational databases and applications, such as Microsoft Exchange, Microsoft SharePoint, Notes Domino Server, GroupWise, Oracle, Informix, Sybase, DB2 and SAP, to generate application aware indexes pertinent to granular recovery of application objects. The agent software contains the logic necessary to extract (or recover)

data and send it to (or receive it from) the MediaAgent software.

Sales and Marketing

We sell our data and storage management software applications and related services to large global enterprises, small and medium sized businesses and government agencies. We sell through our worldwide direct sales force and our global network of value-added resellers, systems integrators, corporate resellers and

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original equipment manufacturer partners. As of March 31, 2007, we had 176 employees in sales and marketing. These employees are located in the Americas, Europe, Australia, Africa and Asia.

We have a variety of marketing programs designed to create brand recognition and market awareness for our product offerings and for sales lead generation. Our marketing efforts include active participation at trade shows, technical conferences and technology seminars; advertising; publication of technical and educational articles in industry journals; sales training; and preparation of competitive analyses. In addition, our strategic partners augment our marketing and sales campaigns through seminars, trade shows and joint advertising campaigns. Our customers and strategic partners provide references and recommendations that we often feature in our advertising and promotional activities.

Research and Development

Our research and development organization is responsible for the design, development, testing and certification of our data management software applications. As of March 31, 2007, we had 215 employees in our research and development group, of which 48 are located at our Hyderabad, India development center. Our engineering efforts support product development across all major operating systems, databases, applications and network storage devices. A substantial amount of our development effort goes into certification, integration and support of our applications to ensure interoperability with our strategic partners' hardware and software products. We have also made substantial investments in the automation of our product test and quality assurance laboratories. We spent \$23.4 million on research and development activities in fiscal 2007, \$19.3 million in fiscal 2006 and \$17.2 million in fiscal 2005.

Competition

The data storage management market is intensely competitive, highly fragmented and characterized by rapidly changing technology and evolving standards. We currently compete with other providers of data management software as well as large storage hardware manufacturers that have developed or acquired their own data management software products. These manufacturers have the resources and capabilities to develop their own data management software applications, and many have been making acquisitions and broadening their efforts to include broader data management and storage products. These manufacturers and/or our other current and potential competitors may establish cooperative relationships among themselves or with third parties, creating new competitors or alliances. Large operating system and application vendors, including Microsoft, have introduced products or functionality that include some of the same functions offered by our software applications. In the future, further development by these vendors could cause our software applications and services to become redundant.

The following are our primary competitors in the data management software applications market, each of which has one or more products that compete with a part of or our entire software suite:

CA (formerly known as Computer Associates International, Inc.);

EMC;

Hewlett-Packard;

IBM; and

Symantec.

The principal competitive factors in our industry include product functionality, product integration, platform coverage, ability to scale, price, worldwide sales infrastructure, global technical support, name recognition and reputation. The ability of major system vendors to bundle hardware and software solutions is also a significant competitive factor in our industry. Although many of our competitors have greater resources, a larger installed customer base and greater name recognition, we believe we compete favorably on the basis of these competitive factors.

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Intellectual Property and Proprietary Rights

Our success and ability to compete depend on our continued development and protection of our proprietary software and other technologies. We rely primarily on a combination of trade secret, patent, copyright and trademark laws, as well as contractual provisions, to establish and protect our intellectual property rights. We provide our software to customers pursuant to license agreements that impose restrictions on use. These license agreements are primarily in the form of shrink-wrap or click-wrap licenses, which are not negotiated with or signed by our end user customers. These measures may afford only limited protection of our intellectual property and proprietary rights associated with our software. We also enter into confidentiality agreements with employees and consultants involved in product development. We routinely require our employees, customers and potential business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our software, technology or business plans.

As of May 15, 2007, we had 15 issued patents and 113 pending patent applications in the United States, as well as 21 issued patents in foreign countries and 76 pending foreign patent applications. Pending patent applications may receive unfavorable examination and are not guaranteed allowance as issued patents. We may elect to abandon or otherwise not pursue prosecution of certain pending patent applications due to patent examination results, economic considerations, strategic concerns or other factors. We will continue to assess appropriate occasions to seek patent and other intellectual property protection for innovative aspects of our technology that we believe provide us a significant competitive advantage.

Despite our efforts to protect our trade secrets and proprietary rights through patents and license and confidentiality agreements, unauthorized parties may still attempt to copy or otherwise obtain and use our software and technology. In addition, we intend to expand our international operations and effective patent, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries. If we fail to protect our intellectual property and other proprietary rights, our business could be harmed.

We have entered into an original equipment manufacturer agreement with Critical Technologies, Inc. whereby we embed Critical Technologies' indexing software in our software applications for sale, as an option, to our customers. Our agreement with Critical Technologies expires on March 31, 2008 unless prior thereto either party gives at least 90 days notice of termination. In addition to our agreement with Critical Technologies, we currently resell certain software from Microsoft, including Microsoft SQL Server, used in conjunction with our software applications pursuant to an independent software vendor royalty license and distribution agreement that we have and plan to continue renewing annually. We also currently resell certain other software from Microsoft, including Windows Preinstallation Environment software, used in conjunction with our software applications, pursuant to an agreement with Microsoft that expires January 31, 2008. We have entered into and expect to enter into agreements with additional third parties to license their technology for use with our software applications.

Some of the products or technologies acquired, licensed or developed by us may incorporate so-called open source software and we may incorporate open source software into other products in the future. The use of such open source software may ultimately subject some products to unintended conditions which may negatively affect our business, financial condition, operating results, cash flow and ability to commercialize our products or technologies.

From time to time, we are participants or members of various industry standard-setting organizations or other industry technical organizations. Our participation or membership in such organizations may, in some circumstances, require us to enter into royalty or licensing agreements with third parties regarding our intellectual property under terms established by those organizations, which we may find unfavorable.

In the United States, we own or have common law trademark rights in the following marks: CommVault, the CV logo, CommVault Systems, Solving Forward, SIM, Singular Information Management, CommVault Galaxy, Unified Data Management, QiNetix, Quick Recovery, QR, QNet, GridStor, Vault Tracker, Quick Snap, QSnap, Recovery Director, CommServe, CommCell, and InnerVault. We also have several other trademarks and are actively pursuing trademark registrations in several foreign jurisdictions.

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Employees

As of March 31, 2007, we had 727 employees worldwide, including 176 in sales and marketing, 215 in research and development, 90 in general and administration and 246 in customer services and support. None of our employees are represented by a labor union. We have never experienced a work stoppage and believe our relationship with our employees is good.

Facilities

Our principal administrative, sales, marketing, customer support and research and development facility is located at our headquarters in Oceanport, New Jersey. We currently occupy approximately 116,000 square feet of office space in the Oceanport facility under the terms of an operating lease expiring in July 2013. We believe that our current facility is adequate to meet our needs for at least the next 12 months. We believe that suitable additional facilities will be available as needed on commercially reasonable terms. In addition, we have offices in the United States in Arizona, California, Florida, Georgia, Illinois, Massachusetts, New York, Oregon, Texas, Virginia and Washington; and outside the United States in Ottawa, Ontario; Mississauga, Ontario; Calgary, Alberta; Reading, United Kingdom; Oberhausen, Germany; Utrecht, Netherlands; Beijing, China; Shanghai, China; Sydney, Australia; Col. Marte, Mexico; and Hyderabad, India.

Legal Proceedings

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

Table of Contents**MANAGEMENT****Directors and Executive Officers**

The following table presents information with respect to our directors and executive officers as of May 25, 2007:

Name	Age	Position
N. Robert Hammer	65	Chairman, President and Chief Executive Officer
Alan G. Bunte	53	Executive Vice President and Chief Operating Officer
Louis F. Miceli	57	Vice President and Chief Financial Officer
Ron Miiller	40	Vice President of Sales, Americas
Anand Prahlad	39	Vice President, Product Development
Suresh P. Reddy	44	Vice President, Worldwide Technical Services & Support
Steven Rose	49	Vice President, Europe, Middle East and Asia
David West	41	Vice President, Marketing and Business Development
Frank J. Fanzilli, Jr.(1)		