COMMVAULT SYSTEMS INC
Form 10-K
May 25, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ   **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2007

<div align="center">or</div>

o   **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-33026

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

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

(732) 870-4000
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o   No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o   No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by the Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of   accelerated filer and large accelerated filer   in rule 12b-2 of the Exchange Act.
Large accelerated filer o   Accelerated filer o   Non-accelerated filer þ

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

The aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant as of September 30, 2006, based upon the closing price of the common stock as reported by The NASDAQ Stock Market on such date was approximately $423 million.

As of April 30, 2007, there were 42,193,268 shares of the registrant s common stock ($0.01 par value) outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to portions of the registrant s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders (the   Proxy Statement), which is expected to be filed not later than 120 days after the registrant s fiscal year ended March 31, 2007. Except as expressly incorporated by reference, the Proxy Statement shall not be deemed to be part of this report on Form 10-K.

COMMVAULT SYSTEMS, INC.

FORM 10-K
FISCAL YEAR ENDED MARCH 31, 2007

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FORWARD-LOOKING STATEMENTS

The discussion throughout this Annual Report on Form 10-K 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, potential, project, intend, could or similar expressions. In particular, state 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 under the heading Risk Factors. Accordingly, you should not place undue reliance on the forward-looking statements contained in this Annual Report on Form 10-K. 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.

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PART I

Item 1.   *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 SAS (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.

Our internet address is www.commvault.com. On this website, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the U.S. Securities and Exchange Commission (SEC): our Annual Reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statements related to our annual stockholders meetings and any amendment to those reports or statements filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings are available on the Investors Relations portion of our web site free of charge. The contents of our web site are incorporated by reference into this Form 10-K or in any other report, statement or document we file with the SEC.

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.

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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 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.

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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.

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 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

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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 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.

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 is 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 assists 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.

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

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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 Corporation (EMC), Hewlett-Packard Company (Hewlett-Packard), International Business Machines Corporation (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, 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 Electronics, Inc. (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.

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 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

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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 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.

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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 includes 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.

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.

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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.

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.

Executive Officers of the Registrant

The following table presents information with respect to our executive officers as of May 24, 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

N. Robert Hammer has served as our Chairman, President and Chief Executive Officer since March 1998. Mr. Hammer was also a venture partner from 1997 until December 2003 of the Sprout Group, the venture capital arm of Credit Suisse s asset management business. Prior to joining the Sprout Group, Mr. Hammer served as the chairman, president and chief executive officer of Norand Corporation, a portable computer systems manufacturer, from 1988 until its acquisition by Western Atlas, Inc. in 1997. Mr. Hammer led Norand following its leveraged buy-out from Pioneer Hi-Bred International, Inc. and through its initial public offering in 1993. Prior to joining Norand, Mr. Hammer also served as chairman, president and chief executive officer of publicly-held Telequest Corporation from 1987 until 1988 and of privately-held Material Progress Corporation from 1982 until 1987. Prior to joining Material Progress Corporation, Mr. Hammer spent 15 years in various sales, marketing and management positions with Celanese Corporation, rising to the level of vice president and general manager of the structural composites materials business. Mr. Hammer obtained his bachelor s degree and master s degree in business administration from Columbia University.

Alan G. Bunte has served as our Executive Vice President and Chief Operating Officer since October 2003 and served as our senior vice president from December 1999 until October 2003. Prior to joining our company, Mr. Bunte was with Norand Corporation from 1986 to January 1998, serving as its senior vice president of planning and business development from 1991 to January 1998. Mr. Bunte obtained his bachelor s and master s degrees in business administration from the University of Iowa.

Louis F. Miceli has served as our Vice President and Chief Financial Officer since April 1997 and has over 30 years of experience in various finance capacities for several high-technology companies. Prior to joining our company, Mr. Miceli served as chief financial officer of University Hospital, part of the University of Medicine and Dentistry of New Jersey (UMDNJ), from 1994 until 1997 and as the corporate controller of UMDNJ from 1992 until 1994. Prior to joining UMDNJ, Mr. Miceli served as the chief financial officer of Syntrex, Inc., a word processing software and hardware manufacturer, from 1985 until 1992, and as its controller from 1980 until 1985. Mr. Miceli began his career as a staff auditor at Ernst & Young LLP, where he served five years. Mr. Miceli obtained his bachelor s degree, *cum laude*, in accounting from Seton Hall University and is a certified public accountant in the State of New Jersey.

Ron Miiller has served as our Vice President of Sales, Americas since January 2005. Prior to his current role, Mr. Miiller served as our Central Region Sales Manager from March 2000 to December 2004. Prior to joining our company, Mr. Miiller served as Director, Central Region Sales for Softworks, Inc., an EMC company, from March 1997 through March 2000, and prior to that Mr. Miiller was with Moore Corporation, a diversified print and electronic

communications company from 1989 through March 1997 in various leadership roles. Mr. Miiller received his bachelor of science degree in marketing from Ball State University in 1989.

Anand Prahlad has served as our Vice President, Product Development since May 2001 and has been with our company since 1994 as a software development and software developer manager and, from February 1999 to

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May 2001, as our senior director of product development. As a software developer, Mr. Prahlad oversaw the development of our QiNetix Galaxy software applications. Prior to joining our company, Mr. Prahlad was a software engineer with Mortgage Guaranty Insurance Corporation, a provider of private mortgage insurance coverage. Mr. Prahlad obtained his bachelor s degree from Jawaharlal Nehru Technological University in India and his master s degree in electrical and computer engineering from Marquette University.

Suresh P. Reddy has served as our Vice President, Worldwide Technical Services & Technical Support since April 2005. Mr. Reddy also served our company from 1990 through March 2005, serving as our Vice President, Worldwide Technical Services from September 2001 through March 2005, as our Western Regional Manager, Technical Services from March 1994 through July 1995 and again from March 1998 until August 2001, as our Director of Technical Services, Europe, Middle East and Asia from August 1995 to February 1998 and as a Systems Engineer from February 1990 to February 1994. Mr. Reddy obtained his bachelor s degree in mechanical engineering from Jawaharlal Nehru Technological University in India and his master s degree in computer sciences from the New Jersey Institute of Technology.

Steven Rose has served as our Vice President, Europe, Middle East and Asia since June 2006. Prior to joining our company, Mr. Rose served as Vice President, United Kingdom and Ireland of Veritas Software Corp. from 2003 to July 2005 and, after Veritas merger with Symantec in July of 2005, as the United Kingdom Managing Director for the combined entity. Prior to joining Veritas, Mr. Rose served as Chief Executive Officer of CopperEye, a United Kingdom based software company, from 2002 to 2003, and prior to that served as Managing Director, Europe for FatWire Corporation, a New York based software company, from 2001 to 2002. Prior to joining FatWire, Mr. Rose served as the Managing Director, Europe of NEON Systems (UK) Ltd., a United Kingdom based company selling software products for systems integration, from 1997 to 2001. Prior to joining NEON Systems, Mr. Rose held several sales, marketing and general management positions with several software and systems companies, including TCAM Systems (UK) Ltd., Royal Blue Technologies, Ltd., and Network Systems Corporation. Mr. Rose attended the Royal Military Academy, Sandhurst and served as an officer in the British Army for six years.

David West has served as our Vice President, Marketing and Business Development since September 2005 and our Vice President, Business Development from August 2000 to September 2005. Prior to joining our company, Mr. West served as a director of strategic alliances from April 1999 to July 2000 and vice president of storage solutions in July 2000 at Legato Systems, Inc., which was subsequently acquired by EMC Corporation. Prior to joining Legato Systems, Mr. West served as vice president of sales at Intelliguard Software, Inc., which was also subsequently acquired by EMC Corporation, from 1990 to April 1999. Mr. West obtained his bachelor s degree in electrical engineering from Villanova University.

Item 1A.   *Risk Factors*

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 incomes 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.

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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, Hewlett-Packard, 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 includes 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.

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 2006 and fiscal 2007, 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;

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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 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

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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.

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

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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 approximately 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 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.

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

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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.

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;

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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 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

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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.

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

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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;

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

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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 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;

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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.

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 Ownership of Our Common Stock

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;

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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;

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. 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 our initial public offering are 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.

Approximately 34.7% of our outstanding common stock has been deposited into a voting trust, which could affect the outcome of stockholder actions.

Approximately 14,577,860 shares of our common stock representing approximately 34.7% of our common stock outstanding, 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 a 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 32.7%, 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.

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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.

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.

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.

Substantially all of our assets are pledged as collateral to secure our term loan.

Our obligations under our term loan are secured by substantially all of our assets. In the event we default under the terms of our term loan, the lenders could accelerate our indebtedness there under and we would be required to repay the entire principal amount of the term loan, which would significantly reduce our cash balances. In the event we do not have sufficient cash available to repay such indebtedness, Silicon Valley Bank could foreclose on its security interest and liquidate some or all of our assets to repay the outstanding principal and interest under our term loan. The liquidation of a significant portion of our assets would reduce the amount of assets available for common stockholders in a liquidation or winding up of our business.

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.

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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.

Item 1B.   *Unresolved Staff Comments*

None.

Item 2.   *Properties*

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.

Item 3.   *Legal Proceedings*

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

Item 4.   *Submission of Matters to a Vote of Security Holders*

None.

PART II

Item 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market for our 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	