

COMMVault SYSTEMS INC

Form 10-K

May 17, 2011

**Table of Contents**

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

**Form 10-K**

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

**For the fiscal year ended March 31, 2011**

**or**

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

**Commission File Number: 1-33026**

**CommVault Systems, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**22-3447504**

*(I.R.S. Employer  
Identification No.)*

**2 Crescent Place**

**Oceanport, New Jersey**

*(Address of principal executive offices)*

**07757**

*(Zip Code)*

**(732) 870-4000**

*(Registrant's telephone number, including area code)*

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

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

**Title of each class  
Common Stock, \$0.01 par value**

**Name of each exchange on which registered  
The NASDAQ Stock Market**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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  No

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.) Yes  No

Indicate by check mark 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

Edgar Filing: COMMVault SYSTEMS INC - Form 10-K

statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if smaller reporting company)

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

As of September 30, 2010, the last business day of the Registrant's most recently completed second fiscal quarter; the aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant (based upon the closing price of the common stock as reported by The NASDAQ Stock Market) was approximately \$1.0 billion. As of April 29, 2011, there were 44,037,335 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 2011 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, 2011. 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, 2011**  
**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
<u>Item 1. Business</u>	4
<u>Item 1A. Risk Factors</u>	15
<u>Item 1B. Unresolved Staff Comments</u>	27
<u>Item 2. Properties</u>	27
<u>Item 3. Legal Proceedings</u>	27
<u>Item 4. [Removed and Reserved]</u>	27
<b><u>PART II</u></b>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
<u>Item 6. Selected Financial Data</u>	30
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	45
<u>Item 8. Financial Statements and Supplementary Data</u>	47
<u>Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	70
<u>Item 9A. Controls and Procedures</u>	70
<u>Item 9B. Other Information</u>	72
<b><u>PART III</u></b>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	72
<u>Item 11. Executive Compensation</u>	72
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	72
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	72

<u>Item 14. Principal Accountant Fees and Services</u>	73
--	----

**PART IV**

<u>Item 15. Exhibits and Financial Statement Schedules</u>	73
--	----

<u>SIGNATURES</u>	77
-------------------	----

Exhibit 21.1

Exhibit 23.1

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

**Table of Contents**

**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, statements regarding our plans, strategies, prospects and expectations regarding our business are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. 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.

**Table of Contents**

**PART I**

**Item 1. Business**

**Company Overview**

CommVault is a leading provider of data and information management software applications and related services. CommVault was incorporated in 1996 as a Delaware corporation. We develop, market and sell data and information management software applications under the Simpana® brand. Our Simpana software is a platform with licensable modules that work together seamlessly, sharing a single code and common function set, to deliver Backup and Recovery, Archive, Replication, Search and Resource Management capabilities across physical, virtual and cloud environments. With a single platform approach, Simpana software is specifically designed to protect, manage and access data throughout its lifecycle in less time, at lower cost and with fewer resources than alternative solutions. Our Simpana software provides our customers with:

- high-performance data protection, including backup and recovery;
- data migration and archiving;
- snapshot management and replication of data;
- integrated source and target data deduplication;
- e-discovery and compliance solutions;
- protection, recovery and discovery of data in virtual server environments;
- enterprise-wide search capabilities; and
- management and operational reports, remote services and troubleshooting tools.

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

Simpana software enables our customers to simply and cost effectively protect and manage their enterprise data throughout its lifecycle, from the mobile worker to the remote office to the data center, covering the leading operating systems, relational databases, virtualized environments and applications. In addition to addressing today's data and information 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. Simpana 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, and lower administrative overhead.

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

- 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;
- 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;
- an indexing engine that systematically identifies and organizes all data, users and devices accessible to our software modules; and
- a media management engine that controls, catalogs and moves data to the most efficient tier of storage including disk, tape, optical and cloud storage devices.

## **Table of Contents**

We refer to this single, unified code base underlying each of our Simpana applications as our Common Technology Platform. Each data and information management module within our Simpana platform is designed to be best-in-class and is fully integrated into our Common Technology Platform. Our single platform is unique and differentiates us from our competitors, some of whom address the market by offering multiple and disparate point products. We believe that the disparate and point product approach forces users to install and maintain separate products requiring their own infrastructure, training, maintenance and management which can result in a complex and costly environment for customers who are looking for solutions that will improve operations, minimize risk and reduce overall costs. 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 primarily include Dell, Inc. ( Dell ) and Hitachi Data Systems. As of March 31, 2011, we had licensed our data and information management software to approximately 14,000 registered customers.

CommVault's executive management team has led the growth of our business, including the development and release of all our software, since its introduction as Galaxy backup and recovery in February 2000. Under the guidance of our management team, we have sustained technical leadership with the introduction of new data and information 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](http://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 not 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 and information management software industry are the rapid growth of data; the need to reliably protect and quickly access that data; and the ability to effectively manage the emerging regulations around compliance and e-discovery.

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, availability 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 and more recently emerging cloud storage services. 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.



**Table of Contents**

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 virtualized environments coupled with larger and more complex networked data and storage solutions, such as storage area networks ( SANs ) and network-attached storage ( NAS ). We also believe cloud computing, in its various forms, will represent a major new long term industry trend in the way that applications are delivered, data is stored and information is retrieved. We believe that these trends are increasing the demand for software applications that can simplify data and information 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.

**Our Software**

We provide our customers with a single, scalable platform of data and information management software modules that are fully integrated into our Common Technology Platform. 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; data migration and archiving; snapshot management and replication of data; integrated source and target data deduplication; e-discovery and compliance solutions; protection, recovery and discovery of data in virtual server environments; enterprise-wide search capabilities; and management and operational reports, remote services and troubleshooting tools.

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.

*Single Software Platform Delivering Applications Built upon a Common Technology Platform.* 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 and information management applications in our Simpana software delivers superior performance, functionality and total cost of ownership benefits. These solutions can be delivered to our customers either as part of our single platform 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 and Information 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 our Simpana software, our customers can automate the discovery, management and monitoring of enterprise-wide storage resources and applications.

*Integrated Source and Target Data Deduplication.* Our software brings a universal approach to deduplication by integrating and embedding deduplication throughout a customer's data infrastructure: from clients to disk to tape, across all data types, sources and platforms, and across all backup and archive data sets and storage tiers, including VMware and Microsoft Hyper-V virtualized environments. Our unique and flexible data and information management architecture ensures that deduplication capabilities scale with an

organizations enterprise data growth with minimal footprint.

*Cloud Computing.* Our software provides seamless integration with certain trusted cloud storage providers and extends the unified data and information management capabilities of our Simpana software platform to the cloud. The combination of key partner offerings and our Simpana software reduces the complexity of moving and managing data in the cloud while also easing top business concerns regarding security, reliability and robust performance. Our integrated cloud storage connector enables customers to move on-premises backup and archive data into, and out of, private and public cloud storage.

**Table of Contents**

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

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

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

**Simpana Software Modules**

Simpana software is comprised of five distinct data and information management software application modules. Simpana software modules share a common platform that provides back-end services and advanced capabilities, like encryption; integrated source and target data deduplication; content indexing; policy-based automation; data classification; e-discovery and role-based security. Our technology is shared by all Simpana software modules and breaks through traditional data silos to allow a complete view of all managed data and enables shared servers, networks and devices. The following table summarizes the modules of our Simpana software:

<b>Simpana Software Application Modules</b>	<b>Functionality</b>
<b>Backup and Recovery</b>	High-performance backup and restoration of enterprise data for file systems, applications, databases and virtual machine systems
<b>Archive</b>	Integrated data archiving solution that optimizes data tiering and improves information governance  Enterprise-wide storage optimization for email and files reducing space on primary storage
<b>Replication</b>	Protection of critical applications and data with snapshots and real-time replication
<b>Storage Resource Management</b>	Solutions to analyze, discover, track, trend, and report on physical and virtual storage usage
<b>Search</b>	Web browser allows search, sort, select and retrieval of corporate files and information from online, archive, and backup data copies

## **Table of Contents**

### ***Backup and Recovery***

The Simpana Backup and Recovery application module delivers reliable data protection, multiple recovery options and sophisticated data retention capabilities for both enterprise protection as well as small- and medium-business protection. Our Backup and Recovery solution is designed for fast, easy deployment within an existing infrastructure. The Simpana Backup and Recovery software products allow users to easily browse and find data, and then recover it reliably, rapidly and efficiently. Compatible with a wide variety of applications and platforms, our Backup and Recovery software provides easy-to-use data protection and retention that supports corporate and federal policies. We believe that our Backup and Recovery application is the foundation of a modern data management solution that allows enterprises to better manage information assets and recover data. Our Simpana Backup and Recovery application module has been optimized to protect data and information assets wherever they reside: in physical, virtual, and cloud environments.

### ***Archive***

The Simpana Archive application is an integrated data archiving solution that optimizes data tiering and improves information governance. With built-in tiered storage and multi-platform support including Microsoft Exchange servers, IBM Lotus systems, and Microsoft SharePoint data, comprehensive archive management is simplified. Archiving network attached storage (NAS), e-mail and file system data reclaims space on primary storage, reduces the amount of data to be backed up and allows enterprises to keep more copies of its data to meet recovery time objectives and recovery point objectives. Archived data is retained for compliance and eDiscovery purposes while maintaining transparent end-user access. The benefits of our Archive application include the ability to reclaim primary storage, manage data retention and address information governance needs; provide visibility with non-intrusive data collection from physical and virtual environments with integrated storage resource management; enforce retention and disposition policies to meet policy requirements and reduce risk; enable a proactive and legally defensible information management strategy from a common interface; and allow seamless migration of archived data into public or private clouds.

### ***Replication***

The Simpana Replication application module enables enterprises to create replica copies of production data quickly, efficiently and cost-effectively using a combination of host-based replication and snapshot technologies. These copies of data can be immediately accessed for rapid recovery, be used to create multiple recovery points or to perform traditional backups without impacting server performance. Resuming business with minimal loss of data and being able to create multiple points-in-time during the normal business day enables enterprises to get back to business with minimal disruption. Our replication solution allows enterprises to meet recovery point and recovery time objectives without taking production systems offline by leveraging continuous capture byte-level replication to continuously protect data. Our replication module recovers files or applications to a specific point-in-time. Finally, Simpana replication software can eliminate exposures from site disaster, costly off-site tape storage and lower total cost of ownership by leveraging remote or virtual sites for disaster recovery.

### ***Storage Resource Management***

The Simpana Storage Resource Management ( SRM ) application provides capabilities that analyze, discover, track, trend, and report on physical and virtual storage usage. SRM provides insight into data across file systems, applications, databases and geographies, all from a single console. Our SRM software solution is fully integrated into backup and archive operations and delivers intuitive reporting and predictive capabilities across an enterprise. Our SRM solutions provide enterprises with the ability to analyze and view physical and virtual storage utilizations and maximize their usage; make informed decisions on how best to deploy an application in a virtualized environment; identify stale data and make informed decisions on archiving rules and storage policies; leverage file-level analytics for physical and virtual environments; reclaim physical and virtual storage capacities using integrated archiving actions within SRM reports; and produce chargeback reports based on physical and virtual machine capacities.

### ***Search***

The Simpana Search module leverages a single console to search across multiple data types from a single platform. This ensures that all data sources are accounted across online, archive and backup copies. Simpana Search software is an intuitive and ergonomic web interface to search, sort, select and retrieve corporate files and information over any

source across the enterprise. Simpana Search software allows users to intelligently mine into information based on meaning and the characteristics of the information itself, including frequently used keywords and phrases, date ranges and use of files and attachments.

Simpana Search software serves multiple stakeholders, such as legal or compliance teams, records managers, knowledge workers as well as IT teams and end-users. It includes capabilities designed to assist organizations in responding to legal discovery actions and compliance audits, including classification and preservation features as well as data analytics, review, filtering and workflow. All these capabilities enable higher levels of business productivity, competitiveness and reduced risk by offering users direct access to data.

**Table of Contents****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. 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.* Our global customer support headquarters is located at our state-of-the-art technical support center in Oceanport, NJ. We also have established key support operations in Hyderabad, India; Oberhausen, Germany; Sydney, Australia and Shanghai, China, which are complemented by regional support centers in other worldwide locations. Our cloud-based support system creates a virtual global support center combining these locations to allow for the fastest possible resolution times for customer incidents. We have designed our support infrastructure to be able to scale with the increasing globalization of our customers.

*Enhanced Support Options.* We offer several enhanced customer support services such as Business Critical Support (BCS), Remote Operations Management Service (ROMS) and Residency Services. Our BCS service is for customers with critical support needs and builds on our 24/7 real-time support deliverables and includes various levels of enhanced services to ensure dedicated support and customized reporting. Our ROMS services provide an innovative web-based integrated support automation system that provides customers with overnight, weekend and holiday monitoring. Through a user-friendly, intuitive web dashboard, users can access and track real-time alert, trend and storage usage reports anytime, anywhere. Our Residency Services offer customers staff-augmentation options to assist with the rapid expert deployment of the Simpana software suite.

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

*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 Simpana suite based on specified business objectives. Our SystemCare Review Services group assists our customers with assessing the post-deployment operational performance of our Simpana suite.

*Training Services.* We provide global onsite training, offsite training and self-paced online alternatives 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.

## **Table of Contents**

### **Strategic Relationships**

An important element of our strategy is to establish relationships with third parties to assist us in developing, marketing, selling and implementing our software and services. We believe that strategic and technology-based relationships with industry leaders are fundamental to our success. We have forged numerous relationships with software application and hardware vendors to enhance our combined capabilities and to create the optimal combination of data and information 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 and information management efficiency. Our significant strategic relationships include Dell, Hitachi Data Systems McAfee and Microsoft. In addition to these relationships, we maintain relationships with a broad range of industry operating system, application and infrastructure vendors to verify and demonstrate the interoperability of our software applications with their equipment and technologies.

*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, 2011, we had approximately 780 reseller partners and systems integrators distributing our software worldwide.

In order to broaden our market coverage, we have original equipment manufacturer distribution agreements primarily with Dell and Hitachi Data Systems. 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.

Additionally, we have distribution agreements covering our North American commercial and U.S. Federal Government markets with Arrow Enterprise Computing Solutions, Inc. ( Arrow ), a subsidiary of Arrow Electronics, Inc., and Avnet Technology Solutions ( Avnet ), a subsidiary of Avnet Inc. Pursuant to these distribution agreements, Arrow's and Avnet's primary role is to enable a more efficient and effective distribution channel for our products and services by managing our reseller partners and leveraging their own industry experience.

### **Customers**

We sell Simpana 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, 2011, we had licensed our software applications to approximately 14,000 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 reseller agreement and original equipment manufacturer agreement with Dell accounted for approximately 23% of our total revenues for fiscal 2011 and 24% for fiscal 2010. 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 generated through our distribution agreement with Arrow accounted for approximately 25% of our total revenue in fiscal 2011 and 24% in fiscal 2010. Sales to the U.S. Federal Government accounted for approximately 8% of our total revenues in fiscal 2011 and 9% in fiscal 2010.



**Table of Contents****Technology**

Our Common Technology Platform serves as a major differentiator versus our competitors' data and information management software products. Our Common Technology Platform'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 and information management software applications. Additional options enable content search, data encryption and auditing features to support data discovery and compliance requirements. Each of these applications shares a common architecture consisting of three core components: intelligent agent software, data movement software and command and control software. These components may be installed on a single host server, or each may be distributed over many servers in a global network. Additionally, the modularity of our software provides deployment flexibility. The ability to share storage resources across multiple data and information management applications provides easier data and information 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 and information 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 Simpana data and information 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 distributors, value-added resellers, systems integrators, corporate resellers and original equipment manufacturer partners. As of March 31, 2011, we had 362 employees in sales and marketing. These employees are primarily located in North America, 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; public relations; social media; industry analyst relations;

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 public relations and advertising campaigns. Our customers and strategic partners provide references and recommendations that we often feature in our advertising and promotional activities.

## **Table of Contents**

### **Research and Development**

Our research and development organization is responsible for the design, development, testing and certification of our data and information management software applications. As of March 31, 2011, we had 326 employees in our research and development group, of which 105 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 \$37.0 million on research and development activities in fiscal 2011, \$33.4 million in fiscal 2010 and \$30.7 million in fiscal 2009.

### **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 and information management software as well as large storage hardware manufacturers that have developed or acquired their own data and information management software products. These manufacturers have the resources and capabilities to develop their own data and information management software applications, and many have been making acquisitions and broadening their efforts to include broader data and information 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 some features of our software applications to become redundant.

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

- CA;
- EMC;
- Hewlett-Packard;
- IBM; and
- Symantec.

The principal competitive factors in our industry include product functionality, product performance, 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.

Our unique product architecture is one of the primary reasons why we compete so successfully. Whereas other competitive solutions in the market are based on multiple, disparate products, our modular offering is based on a single, unified, underlying code base resulting in favorable efficiencies in functionality, integration, scalability and support. Our focused approach to data and information management and our ability to respond to customer feedback also drives the functionality and features of our products, which we believe lead the industry in terms of performance and usability, as evidenced by numerous industry awards we have received in the past 12 months such as the 2011 Gartner Magic Quadrant for Enterprise Disk-Based Backup and Recovery; 2011 DCIG Best in Class Virtual Server Backup Software; 2011 Info-Tech Research Group's Champion for Enterprise Backup Software; the 2010 Storage Magazine/SearchStorage.com Quality Awards for Enterprise-class Backup and Recovery software; and 2010 Gartner Magic Quadrant for Enterprise Information Archiving.

## **Table of Contents**

From a customer perspective, highly integrated products such as ours, which are based on a single, unified, underlying code base, are easier and less expensive to deploy, operate and manage. This flexibility, in turn, makes it significantly easier to scale our products over a customer's entire IT environment. Supporting and enhancing our products is made more efficient due to this single, unified, underlying code base, unlike our competitors who are required to support and enhance multiple, disparate products, most of which are based on differing underlying software codes. Supporting multiple, disparate products places larger demands on our competitors' internal human and operational capital. We believe our Simpna product, because of its unique architecture, creates a compelling functional, integration, scalability and support advantage. We continue to expand our worldwide sales infrastructure and increase our distribution throughout the Americas, Europe, Middle East/Africa, Australia and Asia to meet the needs of our business.

Some of our competitors have greater financial resources and may have the ability to offer their products at lower prices than ours. In addition, some of our competitors have greater name recognition than us, which could provide them a competitive advantage at some customers. Some of our competitors also have longer operating histories, have substantially greater technical, sales, marketing and other global resources than we do, as well as a larger installed customer base and broader product offerings, including hardware. As a result, these competitors can devote greater resources to the development, promotion, sale and support of their products than we can.

### **Intellectual Property and Proprietary Rights**

Our success and ability to compete depend on our continued development and protection of our proprietary software and other technologies. We rely primarily on a combination of trade secret, patent, copyright and trademark laws, as well as contractual provisions, to establish and protect our intellectual property rights. We provide our software to customers pursuant to license agreements that impose restrictions on use. These license agreements are primarily in the form of shrink-wrap or click-wrap licenses, which are not negotiated with or signed by our end-user customers. These measures may afford only limited protection of our intellectual property and proprietary rights associated with our software. We also enter into confidentiality agreements with employees and consultants involved in product development. We routinely require our employees, customers and potential business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our software, technology or business plans. As of March 31, 2011, we had 118 issued patents and 174 pending patent applications in the United States, as well as 55 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 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 Pre-installation Environment software, used in conjunction with our software applications, pursuant to an agreement with Microsoft that expires May 31, 2012. 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.

**Table of Contents**

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

**Employees**

As of March 31, 2011, we had 1,268 employees worldwide, including 362 in sales and marketing, 326 in research and development, 136 in general and administration and 444 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 15, 2011:

<b>Name</b>	<b>Age</b>	<b>Position</b>
N. Robert Hammer	69	Chairman, President and Chief Executive Officer
Alan G. Bunte	57	Executive Vice President and Chief Operating Officer
Louis F. Miceli	61	Senior Vice President and Chief Financial Officer
Ron Miiller	44	Senior Vice President of Worldwide Sales
David West	45	Senior Vice President, Marketing and Business Development
Steven Rose	53	Vice President, EMEA

*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. Since January 2008, Mr. Bunte has also served as a director of CommVault. 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 Senior Vice President and Chief Financial Officer since April 2011. Prior to his current role, Mr. Miceli served as our Vice President and Chief Financial Officer from April 1997 to March 2011. Mr. Miceli 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 & Ernst LLP (currently 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 Senior Vice President of Worldwide Sales since April 2011. Prior to his current role, Mr. Miiller served as our Vice President of Sales, Americas from January 2005 to March 2011 and 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.

**Table of Contents**

*David West* has served as our Senior Vice President, Marketing and Business Development since April 2011. Prior to his current role, Mr. West served as Vice President, Marketing and Business Development from September 2005 to March 2011 and 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.

*Steven Rose* has served as our Vice President, EMEA 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.

**Item 1A. Risk Factors**

*You should consider each of the following factors as well as the other information in this Annual Report in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations. If any of the following risks actually occurs, our business and financial results could be harmed. In that case, the trading price of our common stock could decline. You should also refer to the other information set forth in this Annual Report, including our financial statements and the related notes.*

**Risks Related to Our Business**

***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 and information management software market is intensely competitive, highly fragmented and characterized by rapidly changing technology and evolving standards, changing customer requirements and frequent new product introductions. Competitors vary in size and in the scope and breadth of the products and services offered. Our primary competitors include CA, 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. If we are unable to address these competitive factors, our competitive position could weaken and we could experience a decline in revenues that could adversely affect our business.

Most 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.



## **Table of Contents**

It is also costly and time-consuming to change data and information management systems. Most of our new customers have installed data and information 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 and information 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 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 and information 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.

***Volatility in the global economy could adversely impact our continued growth, results of operations and our ability to forecast future business.***

As our business has expanded globally, we have become increasingly subject to the risks arising from adverse changes in domestic and global economic and political conditions. The global economic conditions have been volatile in recent fiscal years and have resulted in slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions and liquidity concerns. There has also been increased volatility in foreign exchange markets. We believe that our sales and results of operations were impacted by these economic factors. These factors make it difficult for our customers, our vendors and us to accurately forecast and plan future business activities. In addition, these factors could cause customers to slow or defer spending on our software and services products, which would delay and lengthen sales cycles and negatively affect our results of operations. We cannot predict the timing or duration of any economic slowdown or the timing or strength of a subsequent economic recovery on either a worldwide basis or in our industry.



**Table of Contents**

***We rely on indirect sales channels, such as value-added resellers, systems integrators, corporate resellers, distributors and original equipment manufacturers, 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, generally do not contain minimum sales requirements 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 own, 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. If we fail to manage our resellers successfully, there may be conflicts between resellers, or they could fail to perform as we anticipate, which could reduce our sales. In addition, we expect that a significant portion of our sales growth will depend upon our ability to identify and attract new reseller partners. 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.

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

In addition, we have distribution agreements covering our North American commercial markets and our U.S. Federal Government market with Arrow Enterprise Computing Solutions, Inc. ( Arrow ), a subsidiary of Arrow Electronics, Inc., and Avnet Technology Solutions ( Avent ), a subsidiary of Avnet, Inc. Pursuant to these distribution agreements, these distributors primary role is to enable a more efficient and effective distribution channel for our products and services by managing our reseller partners and leveraging their own industry experience. Many of our North American resellers have been transitioned to either Arrow or Avnet. Sales through our distribution agreement with Arrow accounted for approximately 25% of our total revenues for fiscal 2011 and approximately 24% for fiscal 2010. Arrow accounted for a total of approximately 32% of our accounts receivable balance as of March 31, 2011 as a result of our reseller agreement. Avnet's total revenue contribution was not material for fiscal 2011 and 2010 and its accounts receivable balance was not material as of March 31, 2011. If Arrow or Avnet were to discontinue or reduce the sales of our products or if our agreement with Arrow or Avnet was terminated, and if we were unable to take back the management of our reseller channel or find another North American distributor to replace Arrow or Avnet, then it could have a material adverse effect on our future revenues.

Sales through Dell as a result of our reseller agreement and as well as our original equipment manufacturer agreement, which is discussed below, accounted for approximately 23% of total revenues for fiscal 2011 and approximately 24% of total revenues for fiscal 2010. Dell also accounted for a total of approximately 25% of our accounts receivable balance as of March 31, 2011. 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.

Our original equipment manufacturer agreements are primarily with Dell and Hitachi Data Systems. Our original equipment manufacturers sell our software applications and in some cases incorporate our data and information management software into systems that they sell. A material portion of our revenues is generated through these arrangements. 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 and information 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 10% of our total revenues for both fiscal 2011 and fiscal 2010.

**Table of Contents**

***In periods of worsening economic conditions, our exposure to credit risk and payment delinquencies on our accounts receivable significantly increases.***

Our outstanding accounts receivables are generally not secured. In addition, our standard terms and conditions permit payment within a specified number of days following the receipt of our product. During the recent economic downturn, certain of our customers and resellers have faced or may face liquidity concerns which could result in our customers or resellers not to be able to satisfy their payment obligations to us, which would have a material adverse effect on our financial condition, operating results and cash flows. While we have procedures to monitor and limit exposure to credit risk on our receivables and have not suffered any material losses to date, there can be no assurance such procedures will continue to effectively limit our credit risk and avoid future losses.

***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, particularly software transactions greater than \$100,000 in recent fiscal years, a majority of our quarterly revenues was earned and recorded near the end of each quarter;
- the possibility that our customers may cancel, defer or limit purchases as a result of reduced information technology budgets;
- the possibility that our customers may defer purchases of our software applications in anticipation of new software applications or updates from us or our competitors;
- the ability of our original equipment manufacturers and resellers to meet their sales objectives;
- market acceptance of our new applications and enhancements;
- our ability to control expenses;
- changes in our pricing and distribution terms or those of our competitors; and
- the demands on our management, sales force and services infrastructure as a result of the introduction of new software applications or updates.

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. 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 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.

## **Table of Contents**

We could expend significant funds and resources during a sales cycle and ultimately fail to win the customer. 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.

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

Demand for data and information management software is linked to growth in the amount of data generated and stored, demand for data retention and management (whether as a result of regulatory requirements or otherwise) and demand for and adoption of new storage devices and networking technologies. Because our software applications are concentrated within the data and information 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 and information management software market could materially adversely affect our sales, profitability and financial condition.

Furthermore, the data and information 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 and information management software for their computing environments. The market for data and information 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 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, especially when products are first introduced or new versions are released. 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, which are often characterized by a wide variety of both standard and non-standard configurations that make pre-release testing very difficult and time consuming. 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, they may have a greater sensitivity to defects in our products than to defects in other, less critical, applications. As a result, 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.

**Table of Contents**

***If our customers do not renew their annual maintenance and support agreements for our products or if they do not renew them on terms that are favorable to us, our business might suffer.***

Most of our maintenance agreements are for a one year term. As the end of the annual period approaches, we pursue the renewal of the agreement with the customer. Historically, maintenance renewals have represented a significant portion of our total revenue. Because of this characteristic of our business, if our customers choose not to renew their maintenance and support agreements with us on beneficial terms, our business, operating results and financial condition could be harmed.

***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 Backup and Recovery software application. Sales of Backup and Recovery represented approximately 59% of our total software revenue for fiscal 2011 and 61% for fiscal 2010. In addition, we derive the majority of our services revenue from customer and technical support associated with our 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.

***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 the cooperation of the developers of the operating systems and hardware, substantial capital investment and the devotion of substantial employee resources. 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.

***We may not receive significant revenues from our current research and development efforts for up to 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 \$37.0 million, or approximately 12% of our total revenues in fiscal 2011, and \$33.4 million, or 12% of our total revenues in fiscal 2010. 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 may not recognize significant revenues from these investments for up to years, if at all.

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

Our future performance depends on the continued service of our key technical, sales, services and management personnel. We rely on our executive officers and senior management to execute our existing business operations and identify and pursue new growth opportunities. The loss of key employees could result in significant disruptions to our business, and the integration and training 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.





**Table of Contents**

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. The volatility of our stock price may from time to time adversely affect our ability to attract or retain employees. If we are unable to hire or retain qualified employees, or 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 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 continue to expand our international operations. We generated approximately 39% of our revenues from outside the United States in fiscal 2011 and approximately 38% in fiscal 2010. Accordingly, international sales increased 22% in fiscal 2011 compared to fiscal 2010. Expansion of our international operations will require a significant amount of attention from our management and substantial financial resources and might require us to add qualified management in these markets.

In addition to facing risks similar to the risks faced by our domestic operations, our international operations are also 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;
- difficulties in coordinating the activities of our geographically dispersed and culturally diverse operations;
- 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 restrictions, trade and employment restrictions and intellectual property protections;
- 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.

Our international sales are generally denominated in foreign currencies, and this revenue could be materially affected by currency fluctuations. 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, Korean won 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. In recent fiscal years, we have selectively hedged our exposure to changes in foreign currency exchange rates on the balance sheet. In the future, we may enter into additional foreign currency-based hedging contracts to reduce our exposure to significant fluctuations in currency exchange rates on the balance sheet, although there can be no assurances that we will do so.



**Table of Contents**

***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 effect 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 prospective 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.

***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, has lower gross margins than our software revenue. An increase in the percentage of total revenues represented by services revenue would adversely affect our overall gross margins. 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 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. Revenues derived from sales where the U.S. Federal Government was the end-user was approximately 8% in fiscal 2011 and approximately 9% in fiscal 2010. The future prospects for our business are also sensitive to changes in government policies and funding priorities. Changes in government policies or priorities, including funding levels through agency or program budget reductions by the U.S. Congress or government agencies, could materially adversely affect our ability to sell our software applications to the U.S. Federal Government, causing our business prospects to suffer.

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

***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 periods of growth in recent years. Our revenues increased 16% for fiscal 2011 compared to fiscal 2010 and also increased 16% for fiscal 2010 compared to fiscal 2009. 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;



**Table of Contents**

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 and information 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 may be subject to information technology system failures, network disruptions and breaches in data security.***

Information technology system failures, network disruptions and breaches of data security could disrupt our operations by causing delays or cancellation of customer orders, impeding the shipment of software products, negatively affecting our service offerings, preventing the processing transactions and reporting of financial results. Information technology system failures, network disruptions and breaches of data security could also result in the unintentional disclosure of customer or our information as well as damage to our reputation. While management has taken steps to address these concerns by implementing sophisticated network security and internal control measures, there can be no assurance that a system failure or data security breach will not have a material adverse effect on our financial condition and operating results.

***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 or click wrap licenses that are not signed by licensees. 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.

**Table of Contents**

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

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

In addition, we license and use software from third parties in our business. These third-party software licenses may not continue to be available to us on acceptable terms or at all, and may expose us to additional liability. This liability, or our inability to use any of this third-party software, could result in shipment delays or other disruptions in our business that could materially and adversely affect our operating results.

***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.

***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; changes in tax laws; our ability to utilize net operating loss carryforwards and research tax credit carryforwards; and 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. As of March 31, 2011, we had net deferred tax assets of approximately \$33.8 million, which were primarily related to federal and state research tax credit carryforwards, stock-based compensation and foreign net operating loss carryforwards. Consequently, our cash tax rate will be significantly lower than our effective tax rate for the next 12 months. However, we expect our cash taxes to continue to increase as our cash tax rate approaches our effective tax rate.



**Table of Contents**

***Our cash and cash equivalents could be adversely affected if the financial institutions in which we hold our cash and cash equivalents fail.***

Our cash and cash equivalents are highly liquid investments with original maturities of three months or less at the time of purchase. We maintain the cash and cash equivalents with major financial institutions. Deposits with these banks exceed the Federal Deposit Insurance Corporation ( FDIC ) insurance limits or similar limits in foreign jurisdictions. While we monitor daily the cash balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial and credit markets.

***We cannot predict our future capital needs and we may be unable to obtain additional financing, 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.

**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 or our competitors;
- the public's response to our press releases, rumors, 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.

**Table of Contents**

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.

***Certain provisions in our charter documents and agreements and Delaware law, as well as our stockholder rights plan, 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.

In addition to the provision described above, on November 13, 2008, our Board of Directors adopted a stockholders rights plan and declared a dividend distribution of one Right for each outstanding share of our common stock to shareholders of record on November 24, 2008. Each Right, when exercisable, entitles the registered holder to purchase from us one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share, at a purchase price of \$80 per one one-thousandth of a share, subject to adjustment. The Rights may discourage a third-party from making an unsolicited proposal to acquire us, as exercise of the Rights would cause substantial dilution to such third-party attempting to acquire us.

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

Also, 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 there under 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.

**Table of Contents*****We will continue to incur significant 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 recent fiscal years 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 expenses associated with our SEC reporting requirements. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our Annual Report our assessment of the effectiveness of our internal control over financial reporting and our audited financial statement as of the end of each fiscal year. Furthermore, our independent registered public accounting firm, Ernst & Young LLP, ( E&Y ), is required to report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of the year. Our continued compliance with Section 404 will require that we incur substantial expenses and expend significant management time on compliance related issues. In future years, if we fail to timely complete this assessment, or if E&Y cannot timely attest, there may be a loss of public confidence in our internal controls, the market price of our stock could decline and we could be subject to regulatory sanctions or investigations by the NASDAQ Stock Market, the Securities and Exchange Commission or other regulatory authorities, which would require additional financial and management resources. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

***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 134,000 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, Colorado, Georgia, Illinois, Maryland, Massachusetts, Minnesota, New York, Ohio, Oregon, Pennsylvania, Texas, and Washington; and outside the United States in Kanata, Ontario; Mississauga, Ontario; Toronto, Ontario; Calgary, Alberta; Montreal, Quebec; Vancouver, British Columbia; Reading, United Kingdom; Oberhausen, Germany; Utrecht, Netherlands; Beijing, China; Shanghai, China; Guangzhou, China; Sydney, Australia; Melbourne, Australia; Canberra, Australia; Mexico City, Mexico; Sao Paulo, Brazil; Seoul, South Korea; Mumbai, India 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 currently 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. [Removed and Reserved]***

**Table of Contents****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. 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.

	Common Stock			
	2011		2010	
	High	Low	High	Low
First Quarter	\$ 23.96	\$ 19.29	\$ 17.04	\$ 10.33
Second Quarter	\$ 28.03	\$ 17.80	\$ 21.44	\$ 15.40
Third Quarter	\$ 31.41	\$ 25.51	\$ 24.25	\$ 19.59
Fourth Quarter	\$ 40.94	\$ 28.93	\$ 24.24	\$ 20.90

On April 29, 2011, the last reported sale price of our common stock as reported on The NASDAQ Global Market was \$39.39 per share.

**Stockholders**

As of April 29, 2011, there were approximately 77 holders of our common stock. The number of record holders does not represent the actual number of beneficial owners of shares of our common stock because shares are frequently held in street name by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

**Dividend Policy**

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

**Table of Contents****Stock Performance Graph**

The graph set forth below compares the cumulative total stockholder return on our common stock between September 22, 2006 (the date our common stock began trading on the NASDAQ Global Market) and March 31, 2011, with the cumulative total return of (i) The NASDAQ Computer Index and (ii) The NASDAQ Composite Index, over the same period. This graph assumes the investment of \$100,000 on September 22, 2006 in our common stock, The NASDAQ Composite Index and The NASDAQ Computer Index, and assumes the reinvestment of dividends, if any. The graph assumes the initial value of our common stock on September 22, 2006 was the closing sales price of \$17.00 per share.

The comparisons shown in the graph below are based upon historical data. The stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the future performance of our common stock. Information used in the graph was obtained from NASDAQ, a source we believe to be reliable, but we are not responsible for any errors or omissions in such information.

The performance graph shall not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of CommVault under the Securities Act or the Exchange Act.

	<b>9/22/06</b>	<b>3/30/07</b>	<b>3/31/08</b>	<b>3/31/09</b>	<b>3/31/10</b>	<b>3/31/11</b>
<b>CommVault</b>	100.0	95.3	72.9	64.5	125.6	234.6
<b>NASDAQ Composite Index</b>	100.0	109.1	102.7	68.9	108.1	125.3
<b>NASDAQ Computer Index</b>	100.0	108.0	105.8	74.0	123.7	147.4

**Issuer Purchases of Equity Securities**

There were no repurchases of our common stock during the three months ended March 31, 2011. As of March 31, 2011, we have repurchased \$71.7 million of common stock (4,412,305 shares) out of the \$120.0 million in total that is authorized under our stock repurchase program. As a result, we may repurchase an additional \$48.3 million of our common stock under the current program through March 31, 2012.

**Table of Contents****Item 6. Selected Financial Data**

The following selected financial data should be read in conjunction with our financial statements and related notes,

Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K. The selected statements of operations and the selected balance sheet data are derived from our audited financial statements. The historical results presented below are not necessarily indicative of the results to be expected in any future period.

	<b>Year Ended March 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>(In thousands, except per share data)</b>				
<b>Statement of Operations Data:</b>					
Revenues:					
Software	\$ 149,798	\$ 134,500	\$ 121,685	\$ 108,959	\$ 83,870
Services	164,978	136,525	112,834	89,344	67,237
Total revenues	314,776	271,025	234,519	198,303	151,107
Cost of revenues:					
Software	2,369	3,017	2,469	2,398	1,640
Services	38,646	32,628	28,177	24,586	20,044
Total cost of revenues	41,015	35,645	30,646	26,984	21,684
Gross margin	273,761	235,380	203,873	171,319	129,423
Operating expenses:					
Sales and marketing	163,054	136,773	122,957	93,959	68,240
Research and development	36,954	33,421	30,669	26,855	23,398
General and administrative	34,207	29,823	26,159	23,812	18,610
Depreciation and amortization	3,775	3,514	3,582	3,019	2,603
Income from operations	35,771	31,849	20,506	23,674	16,572
Interest expense	(106)	(106)	(175)	(114)	(326)
Interest income	650	384	1,639	3,591	2,600
Income before income taxes	36,315	32,127	21,970	27,151	18,846
Income tax (expense) benefit (1)	(15,311)	(13,722)	(9,642)	(6,347)	45,408
Net income	21,004	18,405	12,328	20,804	64,254
Less: accretion of preferred stock dividends					(2,818)
Less: accretion of fair value of preferred stock upon conversion					(102,745)
Net income (loss) attributable to common stockholders	\$ 21,004	\$ 18,405	\$ 12,328	\$ 20,804	\$ (41,309)
Net income (loss) attributable to common stockholders per share:					
(2)					
Basic	\$ 0.49	\$ 0.44	\$ 0.29	\$ 0.48	\$ (1.35)

Diluted	\$ 0.45	\$ 0.41	\$ 0.28	\$ 0.46	\$ (1.35)
Weighted average shares used in computing per share amounts:					
Basic	43,283	42,133	41,983	43,188	30,670
Diluted	46,301	45,022	44,013	45,699	30,670

	2011	2010	As of March 31, 2009 (In thousands)	2008	2007
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 217,170	\$ 169,518	\$ 105,205	\$ 91,661	\$ 65,001
Short-term investments	1,150	5,043			
Working capital	179,380	143,185	84,590	77,513	34,889
Total assets	342,499	286,015	206,987	200,830	148,039
Total stockholders' equity	188,130	158,300	111,289	109,535	78,322

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

**Table of Contents****Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis along with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The statements in this discussion regarding our expectations of our future performance, liquidity and capital resources, and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described under Risk Factors and elsewhere in this Annual Report on Form 10-K. Our actual results may differ materially from those contained in or implied by any forward-looking statements.*

**Overview**

We are a leading provider of data and information management software applications and related services in terms of product breadth and functionality and market penetration. We develop, market and sell a unified suite of data and information management software applications under the Simpana® brand. Our Simpana software is a platform with licensable modules that work together seamlessly, sharing a single code and common function set, to deliver Backup and Recovery, Archive, Replication, Search and Resource Management capabilities. With a single platform approach, Simpana is specifically designed to protect, manage and access data throughout its lifecycle in less time, at lower cost and with fewer resources than alternative solutions. Our products and capabilities enable our customers to deploy solutions for data protection, business continuance, corporate compliance and centralized management and reporting. We also provide our customers with a broad range of highly effective services that are delivered by our worldwide support and field operations. As of March 31, 2011, we had licensed our software applications to approximately 14,000 registered customers.

**History and Background**

In early 2000, we launched CommVault Galaxy for backup and recovery, a storage industry award winner. In the years since, CommVault has forged numerous alliances with top software application and hardware vendors, such as Dell, HP, Hitachi Data Systems, Microsoft, Network Appliance, Novell and Oracle, to enhance capabilities and to create a premiere suite of data and information management solutions. In 2002, we launched our single-platform technology that provides the foundation of our information management approach to storing, managing, and accessing data.

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

In July 2007, we released our CommVault Simpana 7.0 software suite ( Simpana 7 ), which significantly expanded the breadth and depth of our existing data and information management suite at that time. We believe that Simpana 7 provided us the foundation to shift to providing information management solutions. Simpana 7 provided major enhancements to our existing Backup, Archiving and Replication products and also delivered new product features that are non backup related including Single Instancing, Advanced Archiving, Enterprise-wide Search and Discovery and Data Classification.

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

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



array-based snapshots, as well as new tools that ease migration to our next generation Simpana 9 platform.

**Table of Contents**

We currently derive the majority of our software revenue from our Backup and Recovery software application. Sales of Backup and Recovery represented approximately 59% of our total software revenue for fiscal 2011 and 61% of our total software revenue for fiscal 2010. In addition, we derive the majority of our services revenue from customer and technical support associated with our Backup and Recovery software application. The increase in software revenue generated by our non-Backup and Recovery software products, or Advanced Data and Information Management Products ( ADIM ), was primarily driven by new components and enhancements related to Simpana 8 and Simpana 9 software suites. We anticipate that ADIM software revenue will continue to increase in the future as we expand our domestic and international sales activities and continue to build brand awareness. However, we anticipate that we will continue to derive a majority of our software and services revenue from our Backup and Recovery software application for the next few fiscal years.

More recently, the industry in which we currently operate is going through accelerating changes as the result of the introduction of new technologies such as cloud computing. We believe cloud computing, in its various forms, represents a major new long term trend in the way that applications are delivered, data is stored and information is retrieved. We believe as a result of our Simpana data and information management platform, that we are in a unique position to enhance and extend the value of our Simpana software suite by developing innovative, industry leading ways to manage data and information in the cloud.

In addition to extending the Simpana platform into the cloud, we are continuing to pursue an aggressive product development program in both data and information management solutions. Our data management solutions include not only traditional backup and recovery, but also new innovations in de-duplication, data movement, virtualization, snap-based backups and enterprise reporting. Our information management innovations are primarily in the areas of archiving, eDiscovery, records management, governance and compliance. We remain focused on both the data and information management trends in the marketplace and, in fact, a material portion of our existing research and development expenses are utilized toward the development of such new technologies discussed above. While we are confident in our ability to meet these changing industry demands with Simpana 8 and Simpana 9 and potential future releases, the development, release and timing of any features or functionality remain at our sole discretion and our solutions to cloud computing or other technologies may not be widely adopted.

Given the nature of the industry in which we operate, our software applications are subject to obsolescence. As noted above, we continually develop and introduce updates to our existing software applications in order to keep pace with evolving industry technologies such as cloud computing. In addition, we must address evolving industry standards, changing customer requirements and competitive software applications that may render our existing software applications obsolete. For each of our software applications, we provide full support for the current generally available release and one prior release. When we declare a product release obsolete, a customer notice is delivered twelve months prior to the effective date of obsolescence announcing continuation of full product support for the first six months. We provide an additional six months of extended assistance support in which we only provide existing workarounds or fixes that do not require additional development activity. We do not have existing plans to make any of our software products permanently obsolete.

***Sources of Revenues***

We derive a significant portion of our total revenues from sales of licenses of our software applications. We do not customize our software for a specific end-user customer. We sell our software applications to end-user customers both directly through our sales force and indirectly through our global network of value-added reseller partners, systems integrators, corporate resellers and original equipment manufacturers. Our software revenue was 48% of our total revenues for fiscal 2011, 50% for fiscal 2010 and 52% for fiscal 2009.

In recent fiscal years, we have generated approximately two-thirds of our software revenue from our existing customer base and approximately one-third of our software revenue from new customers. In addition, our total software revenue in any particular period is, to a certain extent, dependent upon our ability to generate revenues from large customer software deals, which we refer to as enterprise software transactions. We expect the number of enterprise software transactions (transactions greater than \$0.1 million) and resulting software revenue to increase throughout fiscal 2012, although the size and timing of any particular software transaction is more difficult to forecast. Such software transactions represented approximately 48% of our total software revenue in fiscal 2011, approximately 47% of our

software revenue in fiscal 2010 and approximately 40% of our software revenue in fiscal 2009.

**Table of Contents**

Software revenue generated through indirect distribution channels was approximately 84% of total software revenue in fiscal 2011, 85% in fiscal 2010 and 81% in fiscal 2009. Software revenue generated through direct distribution channels was approximately 16% of total software revenue in fiscal 2011, 15% in fiscal 2010 and 19% in fiscal 2009. The dollar value of software revenue generated through indirect distribution channels increased approximately \$12.2 million in fiscal 2011 compared to fiscal 2010. The dollar value of software revenue generated through direct distribution channels increased \$3.1 million in fiscal 2011 compared to fiscal 2010. The increase in the dollar value of software revenue growth generated through our indirect distribution channels compared to our direct sales force in fiscal 2011 is primarily the result of an increase in software revenue from our international operations, which is almost exclusively transacted through indirect distribution. Deals initiated by our direct sales force are sometimes transacted through indirect channels based on end-user customer requirements, which are not always in our control and can cause this overall percentage split to vary from year to year. As such, there may be fluctuations in the dollars and percentage of software revenue generated through our direct distribution channels from time to time. We believe that the growth of our software revenue, derived from both our indirect channel partners and direct sales force, are key attributes to our long-term growth strategy. We will continue to invest in both our channel relationships and direct sales force in the future, but we continue to expect more revenue to be generated through indirect distribution channels over the long term. The failure of our indirect distribution channels or our direct sales force to effectively sell our software applications could have a material adverse effect on our revenues and results of operations.

We have a worldwide reseller and an original equipment agreement with Dell. Our reseller agreement with Dell provides them the right to market, resell and distribute certain of our products to their customers. Our original equipment manufacturer agreement with Dell is discussed more fully below. Sales through our agreements with Dell accounted for 23% of our total revenues for fiscal 2011, 24% of our total revenues for fiscal 2010 and 23% of our total revenues in fiscal 2009.

We have original equipment manufacturer agreements primarily with Dell and Hitachi Data Systems for them to market, sell and support our software applications and services on a stand-alone basis and/or incorporate our software applications into their own hardware products. Dell and Hitachi Data Systems have no obligation to recommend or offer our software applications exclusively or at all, and they have no minimum sales requirements and can terminate our relationship at any time. A material portion of our software revenue is generated through these arrangements, and we expect this contribution to grow in the future. Sales through our original equipment manufacturer agreements accounted for 10% of our total revenues for fiscal 2011, 10% of our total revenues for fiscal 2010 and 12% of our total revenues for fiscal 2009.

We also have non-exclusive distribution agreements covering our North American commercial markets and our U.S. Federal Government market with Arrow Enterprise Computing Solutions, Inc. ( Arrow ), a subsidiary of Arrow Electronics, Inc., and Avnet Technology Solutions ( Avnet ), a subsidiary of Avnet, Inc. Pursuant to these distribution agreements, these distributors' primary role is to enable a more efficient and effective distribution channel for our products and services by managing our reseller partners and leveraging their own industry experience. Many of our North American resellers have been transitioned to either Arrow or Avnet. We generated approximately 25% of our total revenues through Arrow in fiscal 2011, approximately 24% of our total revenues in fiscal 2010 and approximately 21% of our total revenues in fiscal 2009. Avnet's total revenue contribution was not material in fiscal 2011, 2010 or 2009. If Arrow or Avnet were to discontinue or reduce the sales of our products or if our agreement with Arrow or Avnet was terminated, and if we were unable to take back the management of our reseller channel or find another North American distributor to replace Arrow or Avnet, then it could have a material adverse effect on our future revenues.

Our services revenue is made up of fees from the delivery of customer support and other professional services, which are typically sold in connection with the sale of our software applications. Customer support agreements provide technical support and unspecified software updates on a when-and-if-available basis for an annual fee based on licenses purchased and the level of service subscribed. Other professional services include consulting, assessment and design services, implementation and post-deployment services and training, all of which to date have predominantly been sold in connection with the sale of software applications. Our services revenue was 52% of our total revenues for fiscal 2011, 50% for fiscal 2010 and 48% for fiscal 2009.

The gross margin of our services revenue was 76.6% for fiscal 2011, 76.1% for fiscal 2010 and 75.0% for fiscal 2009. The increase in the gross margin of our services revenue in fiscal 2011 compared to fiscal 2010 was primarily due to a higher percentage of our services revenue being derived from customer support agreements as a result of sales to new customers and renewal agreements with our installed customer base. Overall, our services revenue has lower gross margins than our software revenue. The gross margin of our software revenue was 98.4% for fiscal 2011, 97.8% for fiscal 2010 and 98.0% for fiscal 2009. An increase in the percentage of total revenues represented by services revenue may adversely affect our overall gross margins.

## **Table of Contents**

### ***Description of Costs and Expenses***

Our cost of revenues is as follows:

*Cost of Software Revenue*, consists primarily of third-party royalties and other costs such as media, manuals, translation and distribution costs; and

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

Our operating expenses are as follows:

*Sales and Marketing*, consists primarily of salaries, commissions, employee benefits, stock-based compensation and other direct and indirect business expenses, including travel and related expenses, sales promotion expenses, public relations expenses and costs for marketing materials and other marketing events (such as trade shows and advertising);

*Research and Development*, which is primarily the expense of developing new software applications and modifying existing software applications, consists principally of salaries, stock-based compensation and benefits for research and development personnel and related expenses; contract labor expense and consulting fees as well as other expenses associated with the design, certification and testing of our software applications; and legal costs associated with the patent registration of such software applications;

*General and Administrative*, consists primarily of salaries, stock-based compensation and benefits for our executive, accounting, human resources, legal, information systems and other administrative personnel. Also included in this category are other general corporate expenses, such as outside legal and accounting services, compliance costs and insurance; and

*Depreciation and Amortization*, consists of depreciation expense primarily for computer equipment we use for information services and in our development and test labs.

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

### **Foreign Currency Exchange Rates Impact on Results of Operations**

Sales outside the United States were approximately 39% of our total revenue for fiscal 2011, 38% for fiscal 2010 and 39% for fiscal 2009. The income statements of our non-U.S. operations are translated into U.S. dollars at the average exchange rates for each applicable month in a period. To the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions generally results in increased revenue, operating expenses and income from operations for our non-U.S. operations. Similarly, our revenue, operating expenses and net income will generally decrease for our non-U.S. operations if the U.S. dollar strengthens against foreign currencies. Using the average foreign currency exchange rates from the corresponding fiscal 2010 period, our total revenues, cost of revenues and operating expenses from non-U.S. operations for fiscal 2011 would have been lower by approximately \$0.6 million, \$0.1 million and \$0.3 million, respectively.

Using the average foreign currency exchange rates from the corresponding fiscal 2009 period, our total revenues from non-U.S. operations for fiscal 2010 would have been lower by approximately \$0.9 million, and our cost of revenues and operating expenses from non-U.S. operations would have been higher by less than \$0.1 million and higher by approximately \$1.8 million, respectively.

In addition, we are exposed to risks of foreign currency fluctuation primarily from cash balances, accounts receivables and intercompany accounts denominated in foreign currencies and are subject to the resulting transaction gains and losses, which are recorded as a component of general and administrative expenses. We recognized net foreign currency transaction losses of \$0.6 million in fiscal 2011, net foreign currency transaction losses of \$0.6 million in fiscal 2010 and net foreign currency transaction gains of \$0.9 million in fiscal 2009.

**Table of Contents****Critical Accounting Policies**

In presenting our consolidated financial statements in conformity with U.S. generally accepted accounting principles, we are required to make estimates and judgments that affect the amounts reported therein. Some of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We base these estimates on historical experience and on various other assumptions that we believe to be reasonable and appropriate. Actual results may differ significantly from these estimates. The following is a description of our accounting policies that we believe require subjective and complex judgments, which could potentially have a material effect on our reported financial condition or results of operations.

***Revenue Recognition***

Our revenue recognition policy is based on complex rules that require us to make significant judgments and estimates. In applying our revenue recognition policy, we must determine which portions of our revenue are recognized currently (generally software revenue) and which portions must be deferred and recognized in future periods (generally services revenue). We analyze various factors including, but not limited to, the sales of undelivered services when sold on a stand-alone basis, our pricing policies, the credit-worthiness of our customers and resellers, accounts receivable aging data and contractual terms and conditions in helping us to make such judgments about revenue recognition. Changes in judgment on any of these factors could materially impact the timing and amount of revenue recognized in a given period.

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

For sales arrangements involving multiple elements, we recognize revenue using the residual method. Under the residual method, we allocate and defer revenue for the undelivered elements based on relative fair value and recognize the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of the undelivered elements in multiple-element arrangements is based on the price charged when such elements are sold separately, which is commonly referred to as vendor-specific objective evidence ( VSOE ).

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

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches. Customer support revenue is recognized ratably over the term of the customer support agreement, which is typically one year. To determine the price for the customer support element when sold separately, we primarily use historical renewal rates and, in certain cases, we use stated renewal rates. Historical renewal rates are supported by a rolling 12-month VSOE analysis in which we segregate our customer support renewal contracts into different classes based on specific criteria including, but not limited to, dollar amount of software purchased, level of customer support being provided and distribution channel. The purpose of such an analysis is to determine if the customer support element that is deferred at the time of a software sale is consistent with how it is sold on a stand-alone renewal basis. Our other professional services include consulting, assessment and design services, installation services and training. Other professional services provided by us are not mandatory and can also be performed by the customer or a third-party. In addition to a signed purchase order, our consulting, assessment and design services and installation

services are, in some cases, evidenced by a Statement of Work, which defines the specific scope of the services to be performed when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Revenues from consulting, assessment and design services and installation services are based upon a daily, weekly or monthly rate and are recognized when the services are completed. Training includes courses taught by our instructors or third-party contractors either at one of our facilities or at the customer's site. Training fees are recognized after the training course has been provided. Based on our analysis of such other professional services transactions sold on a stand-alone basis, we have concluded we have established VSOE for such other professional services when sold in connection with a multiple-element sales arrangement.



**Table of Contents**

In summary, we have analyzed all of the undelivered elements included in our multiple-element sales arrangements and determined that we have VSOE of fair value to allocate revenues to services. Our analysis of the undelivered elements has provided us with results that are consistent with the estimates and assumptions used to determine the timing and amount of revenue recognized in our multiple-element sales arrangements. Accordingly, assuming all basic revenue recognition criteria are met, software revenue is recognized upon delivery of the software license using the residual method. We are not likely to materially change our pricing and discounting practices in the future. Our sales arrangements generally do not include acceptance clauses. However, if an arrangement does include an acceptance clause, we defer the revenue for such an arrangement and recognize it upon acceptance. Acceptance occurs upon the earliest of receipt of a written customer acceptance, waiver of customer acceptance or expiration of the acceptance period.

***Stock-Based Compensation***

As of March 31, 2011, we maintain two stock incentive plans, which are described more fully in Note 8 of our *Notes to Consolidated Financial Statements*. We account for our stock incentive plans under the fair value recognition provisions, which we adopted on April 1, 2006 using the modified prospective method. Under this transition method, our stock-based compensation costs beginning April 1, 2006 are based on a combination of the following: (1) all options granted prior to, but not vested as of April 1, 2006, based on the grant date fair value in accordance with the original provisions of ASC 718 and (2) all options and restricted stock units granted subsequent to April 1, 2006, based on the grant date fair value.

We estimated the fair value of stock options granted using the Black-Scholes formula. The fair value of restricted stock units awarded is determined based on the number of shares granted and the closing price of our common stock on the date of grant. Compensation for all share-based payment awards is recognized on a straight-line basis over the requisite service period of the awards, which is generally the vesting period. Forfeitures are estimated based on a historical analysis of our actual stock award forfeitures.

The average expected life was determined according to the *simplified* method, which is the mid-point between the vesting date and the end of the contractual term. We currently use the *simplified* method to estimate the expected term for share option grants as we do not have enough historical experience to provide a reasonable estimate due to the limited period our equity shares have been publicly traded. We will continue to use the *simplified* method until we have enough historical experience to provide a reasonable estimate of expected term. The risk-free interest rate is determined by reference to U.S. Treasury yield curve rates with a remaining term equal to the expected life assumed at the date of grant. We anticipate that future grants under our stock incentive plans will include both non-qualified stock options and restricted stock units.

Expected volatility through the quarter ended September 30, 2008 was calculated based on reported data for a peer group of publicly traded companies for which historical information was available. During the quarter ended December 31, 2008, we began to incorporate our own data into the expected volatility assumption. We modified our expected volatility calculation because at that time our common stock had been publically traded for 2 years and we believe that CommVault specific volatility inputs should be included in the calculation of expected volatility. As a result, expected volatility for the second half of fiscal 2009 and all of fiscal 2010 and 2011 was calculated based on a blended approach that included historical volatility of a peer group, the implied volatility of our traded options with a remaining maturity greater than six months and the historical realized volatility of our common stock from the date of our initial public offering to the respective stock option grant date.

**Table of Contents**

The assumptions used in the Black-Scholes option-pricing model in the fiscal year ended March 31, 2011 and 2010 are as follows:

	<b>Year Ended March 31,</b>			
	<b>2011</b>		<b>2010</b>	
Dividend yield	None		None	
Expected volatility	40%	45%	40%	45%
Weighted average expected volatility	44%		42%	
Risk-free interest rates	1.18%	2.93%	0.24%	3.14%
Expected life (in years)	6.2		6.3	

The weighted average fair value of stock options granted was \$12.23 per share during the year ended March 31, 2011 and \$9.31 per share during the year ended March 31, 2010. In addition, the weighted average fair value of restricted stock units awarded was \$26.96 per share during the year ended March 31, 2011 and \$20.67 per share during the year ended March 31, 2010.

As of March 31, 2011, there was approximately \$36.2 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock option and restricted stock unit awards that is expected to be recognized over a weighted average period of 2.67 years. The intrinsic value of the options outstanding as of March 31, 2011 was \$183.8 million, of which \$134.9 million related to vested options and \$48.9 million related to unvested options.

**Accounting for Income Taxes**

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, and assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. As of March 31, 2011, we had net deferred tax assets of approximately \$33.8 million, which were primarily related to federal and state research tax credit carryforwards, stock-based compensation and foreign net operating loss carryforwards. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent that we believe recovery is not likely, we establish a valuation allowance. During fiscal 2011, we recorded valuation allowances totaling \$4.3 million against our deferred tax assets. Specifically, we recorded a valuation allowance of \$4.2 million against certain state research tax credits due to uncertainties related to the ability to utilize such state research tax credits before they expire. We based our valuation allowance on our estimates of taxable income by legal entity and the period over which its state research tax credits will be recoverable. In addition, we recorded a valuation allowance of \$0.1 million against foreign net operating loss carryforwards in a certain international jurisdiction. In assessing the need for a valuation allowance against our net operating loss carryforwards in such international jurisdiction, we considered projected future income as part of our analysis.

At March 31, 2011, we have state net operating loss (NOL) carryforwards of approximately \$2.1 million and also have NOL carryforwards for foreign tax purposes of approximately \$9.2 million.

At March 31, 2011, we have federal and state research tax credit (R&D) carryforwards of approximately \$11.4 million and \$5.1 million, respectively. The federal research tax credit carryforwards expire from 2014 through 2030, and the state research tax credit carryforwards expire from 2014 through 2026. At March 31, 2011, we have federal Alternative Minimum Tax credit carryforwards of \$1.2 million.

As of March 31, 2011, we had unrecognized tax benefits of \$4.5 million, all of which, if recognized, would favorably affect the effective tax rate. In addition, we have accrued interest and penalties of \$0.8 million related to the unrecognized tax benefits. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. Components of the reserve are classified as either current or long-term in the Consolidated Balance Sheet based on when we expect each of the items to be settled. Accordingly, our unrecognized tax benefits of \$4.5 million and the related accrued interest and penalties of \$0.8 million are included in Other Liabilities on the Consolidated Balance Sheet. We believe that it is reasonably possible that approximately \$0.4 million of our currently remaining unrecognized tax benefits and approximately \$0.1 million of related accrued interest and penalties may be realized by

the end of fiscal 2012 as a result of the lapse of the statute of limitations.

We conduct business globally and as a result, file income tax returns in the United States and in various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Australia, Canada, Germany, Netherlands and United Kingdom. We are currently not under audit in any tax jurisdiction.

**Table of Contents**

The following table summarizes the tax years in the major tax jurisdictions that remain subject to income tax examinations by tax authorities as of March 31, 2011. The years subject to income tax examination in our foreign jurisdictions cover the maximum time period with respect to these jurisdictions. Due to NOL carryforwards, in some cases the tax years continue to remain subject to examination with respect to such NOLs.

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

**Software Development Costs**

Research and development expenditures are charged to operations as incurred. Based on our software development process, technological feasibility is established upon completion of a working model, which also requires certification and extensive testing. Costs incurred by us between completion of the working model and the point at which the product is ready for general release are immaterial.

**Results of Operations**

The following table sets forth each of our sources of revenues and costs of revenues for the specified periods as a percentage of our total revenues for those periods:

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues:			
Software	48%	50%	52%
Services	52%	50%	48%
Total revenues	100%	100%	100%
Cost of revenues:			
Software	1%	1%	1%
Services	12%	12%	12%
Total cost of revenues	13%	13%	13%
Gross margin	87%	87%	87%

**Fiscal year ended March 31, 2011 compared to fiscal year ended March 31, 2010****Revenues**

Total revenues increased \$43.8 million, or 16%, from \$271.0 million in fiscal 2010 to \$314.8 million in fiscal 2011.

**Software Revenue.** Software revenue increased \$15.3 million, or 11%, from \$134.5 million in fiscal 2010 to \$149.8 million in fiscal 2011. Software revenue represented 48% of our total revenues in fiscal 2011 compared to 50% in fiscal 2010. The increase in software revenue is primarily due to increased software revenue derived from our foreign locations, which increased 18% while software revenue derived from the United States grew 7% in fiscal 2011 compared to fiscal 2010. The growth in software revenue in foreign locations is primarily due to increases in Europe, Canada, Australia and Asia as we expand our international operations.

Software revenue derived from enterprise software transactions (transactions greater than \$0.1 million) increased by \$9.0 million, or 14%, in fiscal 2011 compared to fiscal 2010. As a result, software revenue derived from enterprise software transactions represented approximately 48% of our software revenue in fiscal 2011 and approximately 47% of our software revenue in fiscal 2010. The increase in software revenue derived from enterprise transactions is

primarily due to an 18% increase in the number of transactions of this type. The average dollar amount of such transactions was approximately \$226,000 in fiscal 2011 and was approximately \$233,000 in fiscal 2010. Software revenue derived from transactions less than \$0.1 million increased \$6.3 million, or 9% in fiscal 2011 compared to fiscal 2010.

**Table of Contents**

Software revenue derived from our indirect distribution channel (resellers and original equipment manufacturers) increased \$12.2 million in fiscal 2011 compared to fiscal 2010, and software revenue through our direct sales force increased \$3.1 million in fiscal 2011 compared to fiscal 2010. The increase in the dollar value of the software revenue through our indirect distribution channel is primarily due to the higher growth percentage of software generated in foreign locations, which is substantially sold through our channel partners. Software revenue that is derived from both our indirect channel partners and direct sales force are key attributes to our long-term growth strategy. We will continue to invest in both our channel relationships and direct sales force in the future, but we continue to expect more revenue to be generated through indirect distribution channels over the long term as more fully discussed above in the *Sources of Revenue* section.

*Services Revenue.* Services revenue increased \$28.5 million, or 21%, from \$136.5 million in fiscal 2010 to \$165.0 million in fiscal 2011. Services revenue represented 52% of our total revenues in fiscal 2011 compared to 50% in fiscal 2010. The increase in services revenue is primarily due to a \$24.7 million increase in revenue from customer support agreements as a result of software sales to new customers and renewal agreements with our installed software base.

*Cost of Revenues*

Total cost of revenues increased \$5.4 million, or 15%, from \$35.6 million in fiscal 2010 to \$41.0 million in fiscal 2011. Total cost of revenues represented 13% of our total revenues in both fiscal 2011 and fiscal 2010.

*Cost of Software Revenue.* Cost of software revenue decreased approximately \$0.6 million, or 21%, from \$3.0 million in fiscal 2010 to \$2.4 million in fiscal 2011. Cost of software revenue represented 2% of our total software revenue in both fiscal 2011 and 2010. The decrease in cost of software revenue is primarily due to lower distribution and third-party media costs related to our Simpana software suite in fiscal 2011 compared to fiscal 2010.

*Cost of Services Revenue.* Cost of services revenue increased \$6.0 million, or 18%, from \$32.6 million in fiscal 2010 to \$38.6 million in fiscal 2011. Cost of services revenue represented 23% of our services revenue in fiscal 2011 compared to 24% in fiscal 2010. The increase in cost of services revenue is primarily the result of higher employee compensation and travel expenses totaling approximately \$4.2 million.

*Operating Expenses*

*Sales and Marketing.* Sales and marketing expenses increased \$26.3 million, or 19%, from \$136.8 million in fiscal 2010 to \$163.1 million in fiscal 2011. The increase is primarily due to a \$16.3 million increase in employee compensation and related expenses primarily attributable to the expansion of our sales force from the prior year and higher commissions due to record software revenue in fiscal 2011. Sales and marketing expenses also increased due to a \$3.3 million increase in marketing expenses as we continue to build brand awareness for our Simpana software products, a \$3.3 million increase in travel and related expenses and a \$1.2 million increase in employee benefits expense. Sales and marketing expenses as a percentage of total revenues increased to 52% in fiscal 2011 from 50% in fiscal 2010.

*Research and Development.* Research and development expenses increased \$3.5 million, or 11%, from \$33.4 million in fiscal 2010 to \$37.0 million in fiscal 2011. The increase is primarily due to \$2.1 million of higher employee compensation resulting from the expansion of our engineering group, a \$0.5 million increase legal fees primarily associated with patent registration and a \$0.3 million increase in employee benefits expense. Research and development expenses as a percentage of total revenues was relatively flat at 12% in both fiscal 2011 and fiscal 2010. Investing in research and development has been a priority for CommVault, and we anticipate continued spending related to the development of our data and information management software applications.

*General and Administrative.* General and administrative expenses increased \$4.4 million, or 15%, from \$29.8 million in fiscal 2010 to \$34.2 million in fiscal 2011. This increase is primarily due to \$1.9 million of higher employee compensation due to higher headcount and higher fiscal 2011 bonuses, a \$0.9 million increase in stock-based compensation expense and a \$0.4 million increase in legal fees. General and administrative expenses as a percentage of total revenues were relatively flat at 11% in both fiscal 2011 and 2010.



**Table of Contents**

*Depreciation and Amortization.* Depreciation expense increased \$0.3 million, from \$3.5 million in fiscal 2010 to \$3.8 million in fiscal 2011. This reflects higher depreciation associated with increase capital expenditures primarily for product development and other computer-related equipment.

*Interest Income*

Interest income increased \$0.3 million, from \$0.4 million in fiscal 2010 to \$0.7 million in fiscal 2011. The increase in interest income is primarily due to higher balances in our cash and related investment accounts.

*Income Tax Expense*

Income tax expense was \$15.3 million in fiscal 2011 compared to \$13.7 million in fiscal 2010. The effective tax rate in fiscal 2011 was 42% as compared to 43% in fiscal 2010. In fiscal 2011, the effective rate is higher than the expected federal statutory rate of 35% primarily due to recording a valuation allowance against certain state research tax credits as well as the impact of state income taxes and permanent differences in both the United States and foreign jurisdictions. These items were partially offset by the reversal of certain tax reserves as a result of the expiration of a statute of limitations in a foreign jurisdiction as well as recording additional research tax credits. In fiscal 2010, the effective rate is higher than the expected federal statutory rate of 35% primarily due to state income taxes, adjustments to foreign tax credits and permanent differences in both the United States and foreign jurisdictions, partially offset by recording additional research tax credits.

***Fiscal year ended March 31, 2010 compared to fiscal year ended March 31, 2009****Revenues*

Total revenues increased \$36.5 million, or 16%, from \$234.5 million in fiscal 2009 to \$271.0 million in fiscal 2010.

*Software Revenue.* Software revenue increased \$12.8 million, or 11%, from \$121.7 million in fiscal 2009 to \$134.5 million in fiscal 2010. Software revenue represented 50% of our total revenues in fiscal 2010 compared to 52% in fiscal 2009. The increase in software revenue is primarily driven by higher software revenue derived from our U.S. operations, which increased 19% compared to fiscal 2009. Software revenue from our foreign locations was relatively flat in fiscal 2010 compared to fiscal 2009.

Software revenue derived from enterprise software transactions (transactions greater than \$0.1 million) represented approximately 47% of our software revenue in fiscal 2010 and approximately 40% of our software revenue in fiscal 2009. As a result, enterprise software transactions increased by \$14.1 million, or 29%, in fiscal 2010 compared to fiscal 2009. This increase was primarily driven by the strength from our U.S. operations as well as a 33% increase in the total number of transactions of this type. The average dollar amount of such transactions was approximately \$233,000 in fiscal 2010 and was approximately 241,000 in fiscal 2009. The overall increase in enterprise software transactions was partially offset by a 2% decrease in software transactions less than \$0.1 million as a result of lower software revenue transactions of this type from our foreign locations.

Software revenue through our indirect distribution channel (resellers and original equipment manufacturers) increased \$15.5 million in fiscal 2010 compared to fiscal 2009, while software revenue derived from our direct sales force decreased \$2.7 million in fiscal 2010 compared to fiscal 2009. The increase in software revenue generated through our indirect distribution channel is primarily due to more enterprise software transactions in our U.S. operations that were transacted through indirect distribution channels. Overall, we believe growth in our software revenue that is derived from both our indirect channel partners and direct sales force are key attributes to our long-term growth strategy. We will continue to invest in both our channel relationships and direct sales force in the future, but we continue to expect more revenue to be generated through indirect distribution channels over the long term.

*Services Revenue.* Services revenue increased \$23.7 million, or 21%, from \$112.8 million in fiscal 2009 to \$136.5 million in fiscal 2010. Services revenue represented 50% of our total revenues in fiscal 2010 compared to 48% in fiscal 2009. The increase in services revenue is primarily due to a \$21.4 million increase in revenue from customer support agreements as a result of software sales to new customers and renewal agreements with our installed software base.



**Table of Contents***Cost of Revenues*

Total cost of revenues increased \$5.0 million, or 16%, from \$30.6 million in fiscal 2009 to \$35.6 million in fiscal 2010. Total cost of revenues represented 13% of our total revenues in both fiscal 2010 and 2009.

*Cost of Software Revenue.* Cost of software revenue increased approximately \$0.5 million, or 22%, from \$2.5 million in fiscal 2009 to \$3.0 million in fiscal 2010. Cost of software revenue represented 2% of our total software revenue in both fiscal 2010 and 2009. The increase in cost of software revenue is primarily due to higher distribution and third-party media costs related to our Simpana 8 software suite.

*Cost of Services Revenue.* Cost of services revenue increased \$4.5 million, or 16%, from \$28.2 million in fiscal 2009 to \$32.6 million in fiscal 2010. Cost of services revenue represented 24% of our services revenue in fiscal 2010 compared to 25% in fiscal 2009. The increase in cost of services revenue is primarily the result of higher employee compensation and travel expenses totaling approximately \$2.5 million as well as a \$1.4 million increase in third-party outsourcing costs to facilitate our services revenue growth.

*Operating Expenses*

*Sales and Marketing.* Sales and marketing expenses increased \$13.8 million, or 11%, from \$123.0 million in fiscal 2009 to \$136.8 million in fiscal 2010. The increase is primarily due to a \$12.4 million increase in employee compensation and related expenses attributable to the expansion of our sales force from the prior year as well as higher commissions on higher software revenue in fiscal 2010. Sales and marketing expenses also increased due to a \$1.5 million increase in stock-based compensation expense, a \$0.5 million increase in employee benefits expense and a \$0.4 million increase in travel and related expenses. These increases were partially offset by a \$0.8 million decrease in recruiting expenses due to fewer headcount additions in fiscal 2010 compared to fiscal 2009. Sales and marketing expenses as a percentage of total revenues decreased to 50% in fiscal 2010 from 52% in fiscal 2009.

*Research and Development.* Research and development expenses increased \$2.8 million, or 9%, from \$30.7 million in fiscal 2009 to \$33.4 million in fiscal 2010. The increase is primarily due to \$2.0 million of higher employee compensation resulting from the expansion of our engineering group and a \$0.4 million increase in stock-based compensation expense. Research and development expenses as a percentage of total revenues decreased to 12% in fiscal 2010 from 13% in fiscal 2009. Investing in research and development has been a priority for CommVault, and we anticipate continued spending related to the development of our data and information management software applications.

*General and Administrative.* General and administrative expenses increased \$3.7 million, or 14%, from \$26.2 million in fiscal 2009 to \$29.8 million in fiscal 2010. This increase is primarily related to higher foreign currency transaction losses of \$1.5 million. General and administrative expenses for fiscal 2010 includes approximately \$0.6 million of net foreign currency transaction losses compared to approximately \$0.9 million of net foreign currency transaction gains recognized in general and administrative expenses during fiscal 2009. General and administrative expenses also increased due to a \$1.5 million increase in stock-based compensation expense as well as a \$0.9 million increase in employee and related compensation due to higher headcount and higher fiscal 2010 bonuses. These increases to general and administrative expenses were partially offset by lower legal fees of \$0.4 million. General and administrative expenses as a percentage of total revenues were relatively flat at 11% in both fiscal 2010 and 2009.

*Depreciation and Amortization.* Depreciation expense decreased \$0.1 million, from \$3.6 million in fiscal 2009 to \$3.5 million in fiscal 2010.

*Interest Income*

Interest income decreased \$1.3 million, from \$1.6 million in fiscal 2009 to \$0.4 million in fiscal 2010. The decrease is primarily due to lower interest rates, partially offset by higher balances in our cash and investment accounts.

**Table of Contents***Income Tax Expense*

Income tax expense was \$13.7 million in fiscal 2010 compared to \$9.6 million in fiscal 2009. The effective tax rate in fiscal 2010 was 43% as compared to 44% in fiscal 2009. In fiscal 2010, the effective rate is higher than the expected federal statutory rate of 35% primarily due to state income taxes, adjustments to foreign tax credits and permanent differences in both the United States and foreign jurisdictions, partially offset by research tax credits. In fiscal 2009, the effective rate is higher than the expected federal statutory rate of 35% primarily due to state income taxes and permanent differences in the United States, partially offset by the net impact of foreign tax credits and research credits.

**Liquidity and Capital Resources**

As of March 31, 2011, our cash and cash equivalents balance of \$217.2 million primarily consisted of money market funds. In addition, we have approximately \$1.2 million of short-term investments invested in certificates of deposit at March 31, 2011. In recent fiscal years, our principal sources of liquidity have been cash provided by operations. Historically, our principle source of liquidity had been cash provided by private placements of preferred equity securities and common stock and cash provided from our public offerings of common stock.

In July 2009, we entered into an amended and restated credit facility in which we can borrow up to \$30.0 million over a three year period. Borrowings under the facility are available to repurchase our common stock under our share repurchase program and to provide for working capital and general corporate purposes. Repayments of principal amounts borrowed under the amended and restated credit facility is required at the maturity date of July 2012. The credit facility also requires that certain financial covenants be met on a quarterly basis. The amended and restated credit facility contains financial covenants that require us to maintain a quick ratio and minimum earnings before interest, taxes, depreciation and amortization ( EBITDA ), as defined in the credit agreement. Borrowings under the amended and restated credit facility bear interest, at our option, at either i) LIBOR plus a margin ranging from 2.25% to 2.75% or ii) the bank's base rate plus a margin ranging from 1.75% to 2.25%. The bank's base rate is defined as the higher of the federal funds rate plus 1.5%, one-month LIBOR plus 1.5%, or the lender's prime rate. As of March 31, 2011, we were in compliance with all required covenants, and there were no outstanding balances on the amended and restated credit facility.

In January 2008, our Board of Directors approved a stock repurchase program, which authorized us to repurchase up to \$40.0 million of our common stock. Our Board of Directors authorized additional increases of \$40.0 million in July 2008 and \$40.0 million in July 2010 to our existing share repurchase program. As of March 31 2011, we are authorized to repurchase up to a total of \$120.0 million of our common stock through March 31, 2012. Under our stock repurchase program, repurchased shares are constructively retired and returned to unissued status. Our stock repurchase program has been funded by our existing cash and cash equivalent balances as well as cash flows provided by our operations. During fiscal 2011, we repurchased 1.6 million shares of common stock under our share repurchase plan with a total cost of \$31.5 million. As of March 31, 2011, we have repurchased approximately \$71.7 million, or 4.4 million shares, under our stock repurchase plan at an average purchase price of \$16.26 per share. As a result, we may repurchase an additional \$48.3 million of our common stock through March 31, 2012.

The primary business reason for our stock repurchase program is to reduce the dilutive impact on our common shares outstanding associated with stock option exercises and our previous public and private stock offerings. Under our stock repurchase program, we have bought back approximately 10% of the common stock that was outstanding at the time the stock repurchase program was announced. In addition, at the time we implemented our stock repurchase program in late fiscal 2008 we believed that our share price was undervalued and the best use for a portion of our cash balance was to repurchase some of our outstanding common stock. Our future stock repurchase activity is subject to the business judgment of our management and Board of Directors, taking into consideration our historical and projected results of operations, financial condition, cash flows and other anticipated capital requirements or investment alternatives.

**Table of Contents**

Our summarized annual cash flow information is as follows (in thousands):

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cash provided by operating activities	\$ 52,410	\$ 57,247	\$ 43,109
Net Cash provided by (used in) investing activities	28	(8,413)	(4,539)
Net Cash provided by (used in) financing activities	(7,304)	13,679	(22,138)
Effects of exchange rate changes in cash	2,518	1,800	(2,888)
Net increase in cash and cash equivalents	\$ 47,652	\$ 64,313	\$ 13,544

Net cash provided by operating activities was \$52.4 million in fiscal 2011, \$57.2 million in fiscal 2010 and \$43.1 million in fiscal 2009. In fiscal 2011 and fiscal 2010, cash generated by operating activities was primarily due to net income adjusted for the impact of non-cash charges, an increase in deferred services revenue as a result of customer support agreements from new customers and renewal agreements with our installed software base as well as an increase in accrued liabilities. These increases were partially offset by an increase in accounts receivable due to higher revenues and timing of cash receipts. In fiscal 2009, cash generated by operating activities was primarily due to net income adjusted for the impact of non-cash charges and an increase in deferred services revenue, partially offset by an increase in accounts receivable.

Net cash provided by (used in) investing activities was less than \$0.1 million in fiscal 2011, (\$8.4) million in fiscal 2010 and (\$4.5) million in fiscal 2009. In fiscal 2011, cash provided by investing activities was due to the net proceeds from maturity of short-term investments of \$3.9 million offset by the purchase of property and equipment of \$3.9 million as we continue to invest in and enhance our global infrastructure. In fiscal 2010, cash used in investing activities was due to the net purchases of short-term investments of \$5.0 million as well as the purchase of property and equipment of \$3.4 million related to the growth in our business. In fiscal 2009, cash used in investing activities was due to purchases of property and equipment. We anticipate that as our business grows we will continue to explore opportunities to invest in our global infrastructure.

Net cash provided by (used in) financing activities was \$(7.3) million in fiscal 2011, \$13.7 million in fiscal 2010 and \$(22.1) million in fiscal 2009. The cash used in financing activities in fiscal 2011 was due to \$31.5 million used to repurchase shares of our common stock under our share repurchase program partially offset by \$17.2 million from the exercise of stock options and \$7.0 million of excess tax benefits recognized as the result of stock option exercises and vesting of restricted stock units. The cash provided by financing activities in fiscal 2010 was due to \$10.3 million of proceeds from the exercise of stock options and \$3.4 million of excess tax benefits. The cash used in financing activities in fiscal 2009 was primarily due to \$25.2 million used to repurchase shares of our common stock under our share repurchase program, partially offset by \$2.7 million of proceeds from the exercise of stock options and \$0.5 million of excess tax benefits.

A summary of the cash used for the stock repurchase program consists of the following:

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cash used for repurchases (in thousands)*	\$ 31,506	\$	\$ 25,229
Shares repurchased (in thousands)*	1,559		1,825
Average price per share	\$ 20.21	\$	\$ 13.83

\* Based on settlement date, not trade date.

Working capital increased \$36.2 million from \$143.2 million as of March 31, 2010 to \$179.4 million as of March 31, 2011. The increase in working capital is primarily due to a \$47.7 million increase in cash and cash equivalents and a \$15.8 million increase in accounts receivable, partially offset by a \$15.1 million increase in deferred revenue, a \$7.7 million increase in accrued liabilities and a \$4.7 million decrease in net deferred tax assets. The increase in cash and cash equivalents is primarily due to net income generated during the period, cash received from the exercise of stock options and the increase in deferred revenue, partially offset by cash used to repurchase approximately 1.6 million shares of our common stock under our share repurchase program.

Working capital increased \$58.6 million from \$84.6 million as of March 31, 2009 to \$143.2 million as of March 31, 2010. The increase in working capital is primarily due to a \$64.3 million increase in cash and cash equivalents, a \$14.0 million increase in accounts receivable and \$5.0 million increase in short-term investments, partially offset by a \$21.8 million increase in deferred revenue and a \$7.3 million increase in accrued liabilities. The increase in cash and cash equivalents is primarily due to net income generated during the period, cash received from the exercise of stock options and the increase in deferred revenue.

**Table of Contents**

We believe that our existing cash, cash equivalents, cash from operations and our \$30.0 million credit facility will be sufficient to meet our anticipated cash needs for working capital, capital expenditures and potential stock repurchases for at least the next 12 months. We may seek additional funding through public or private financings or other arrangements during this period. Adequate funds may not be available when needed or may not be available on terms favorable to us, or at all. If additional funds are raised by issuing equity securities, dilution to existing stockholders will result. If we raise additional funds by obtaining loans from third parties, the terms of those financing arrangements may include negative covenants or other restrictions on our business that could impair our operational flexibility, and would also require us to fund additional interest expense. If funding is insufficient at any time in the future, we may be unable to develop or enhance our products or services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

**Summary Disclosures about Contractual Obligations and Commercial Commitments**

Our material capital commitments consist of obligations under facilities and operating leases. Some of these leases have free or escalating rent payment provisions. We recognize rent expense under leases on a straight-line basis. We anticipate that we will experience an increase in our capital expenditures and lease commitments consistent with our anticipated growth in operations, infrastructure, personnel and resources devoted to building our brand name and marketing and sales force.

The following table summarizes our obligations as of March 31, 2011 (dollars in thousands):

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 Years</b>
Operating lease obligations	\$ 18,645	\$ 6,232	\$ 11,423	\$ 990	\$
Purchase obligations	3,397	1,519	1,878		
<b>Total</b>	<b>\$ 22,042</b>	<b>\$ 7,751</b>	<b>\$ 13,301</b>	<b>\$ 990</b>	<b>\$</b>

We generally do not enter into binding purchase obligations. The purchase obligations above relate primarily to software licensing and IT infrastructure costs.

The contractual obligations table above excludes unrecognized tax benefits recorded in Other Liabilities totaling \$5.3 million because we cannot reasonably estimate in which future periods these amounts will ultimately be settled. The \$5.3 million is classified as a long-term liability in our consolidated balance sheet as of March 31, 2011 as none of these obligations are anticipated to be paid within one year from April 1, 2011.

We have certain software royalty commitments associated with the shipment and licensing of certain products. Royalty expense is generally based on the number of units shipped or a percentage of the underlying revenue. Royalty expense, included in cost of software revenues, was \$1.3 million in fiscal 2011, \$1.3 million in fiscal 2010 and \$1.2 million in fiscal 2009.

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

**Off-Balance Sheet Arrangements**

As of March 31, 2011 and 2010, other than our operating leases, we do not have off-balance sheet financing arrangements, including any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

**Indemnifications**

Certain of our software licensing agreements contain certain provisions that indemnify our customers from any claim, suit or proceeding arising from alleged or actual intellectual property infringement. These provisions continue in perpetuity along with our software licensing agreements. We have never incurred a liability relating to one of these indemnification provisions in the past and we believe that the likelihood of any future payout relating to these

provisions is remote. Therefore, we have not recorded a liability during any period related to these indemnification provisions.

**Table of Contents****Impact of Recently Issued Accounting Standards***Fair Value Measurements*

In January 2010, the FASB issued guidance requiring additional disclosure for significant transfers in and out of Levels 1 and 2 fair value measurements and the reasons for such transfers. This new guidance also requires separate disclosure information about purchases, sales, issuances, and settlements (on a gross basis rather than as one net number) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, this guidance clarifies existing disclosures regarding fair value measurement for each class of assets and liabilities and the valuation techniques and inputs used to measure fair value for recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The changes under this new guidance were effective for the quarterly period beginning January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for the Company's fiscal year beginning April 1, 2011. The adoption of these new accounting pronouncements will not have a material impact on our consolidated financial position, results of operations or cash flows.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk***Interest Rate Risk*

As of March 31, 2011, our cash, cash equivalent and short-term investment balances consisted primarily of money market funds and certificates of deposit. Due to the short-term nature of these investments, we are not subject to any material interest rate risk on these balances.

In July 2008, we entered into a credit facility in which we could borrow up to \$40.0 million over the initial 12 months of the credit facility. The credit facility expired in July 2009 because no amounts were borrowed during the initial 12 months of the credit facility. In July 2009, we entered into an amended and restated credit facility in which we can borrow up to \$30.0 million over a three year period. Borrowings under the amended and restated credit facility bear interest, at our option, at either i) LIBOR plus a margin ranging from 2.25% to 2.75% or ii) the bank's base rate plus a margin ranging from 1.75% to 2.25%. The bank's base rate is defined as the higher of the federal funds rate plus 1.5%, one-month LIBOR plus 1.5%, or the lender's prime rate. There are no outstanding balances on the amended and restated credit facility. As a result, we are currently not subject to any material interest rate risk on our credit facility.

*Foreign Currency Risk**Economic Exposure*

As a global company, we face exposure to adverse movements in foreign currency exchange rates. Our international sales are generally denominated in foreign currencies, and this revenue could be materially affected by currency fluctuations. Approximately 39% of our sales were outside the United States in fiscal 2011 and 38% were outside the United States in fiscal 2010. 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, Korean won and Singapore dollar. Changes in currency exchange rates could adversely affect our reported revenues and require us to reduce our prices to remain competitive in foreign markets, which could also have a material adverse effect on our results of operations. Historically, we have periodically reviewed and revised the pricing of our products available to our customers in foreign countries and we have not maintained excess cash balances in foreign accounts. We estimate that a 10% change in all foreign exchange rates would impact our reported operating profit by approximately \$1.8 million annually. This sensitivity analysis disregards the possibilities that rates can move in opposite directions and that losses from one geographic area may be offset by gains from another geographic area.

**Table of Contents**

*Transaction Exposure*

Our exposure to foreign currency transaction gains and losses is primarily the result of certain net receivables due from our foreign subsidiaries and customers being denominated in currencies other than the functional currency of the subsidiary. Our foreign subsidiaries conduct their businesses in local currency and we generally do not maintain excess U.S. dollar cash balances in foreign accounts.

Foreign currency transaction gains and losses are recorded in *General and administrative expenses* in the Consolidated Statements of Income. We recognized net foreign currency transaction gains (losses) of approximately \$(0.6) million in fiscal 2011, \$(0.6) million in fiscal 2010, and \$0.9 million in fiscal 2009. The net foreign currency transaction losses recorded in *General and administrative expenses* include settlement gains and losses on forward contracts disclosed below.

To date, we have selectively hedged our exposure to foreign currency transaction gains and losses on the balance sheet through the use of forward contracts, which were not designated as hedging instruments. The duration of forward contracts utilized for hedging our balance sheet exposure is approximately one month. As of March 31, 2011 and March 31, 2010, we did not have any forward contracts outstanding. We recorded net realized gains (losses) in general and administrative expenses of \$0.1 million in fiscal 2011 and less than (\$0.1) million in fiscal 2010. In the future, we may enter into additional foreign currency based hedging contracts to reduce our exposure to significant fluctuations in currency exchange rates on the balance sheet.



**Table of Contents**

**Item 8. *Financial Statements and Supplementary Data***

**CommVault Systems, Inc.  
Consolidated Financial Statements  
Fiscal Years Ended March 31, 2011, 2010 and 2009  
Index to Consolidated Financial Statements**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	48
<u>Consolidated Balance Sheets as of March 31, 2011 and 2010</u>	49
<u>Consolidated Statements of Income for the years ended March 31, 2011, 2010 and 2009</u>	50
<u>Consolidated Statements of Stockholders' Equity for the years ended March 31, 2011, 2010 and 2009</u>	51
<u>Consolidated Statements of Cash Flows for the years ended March 31, 2011, 2010 and 2009</u>	52
<u>Notes to Consolidated Financial Statements</u>	53

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of  
CommVault Systems, Inc.**

We have audited the accompanying consolidated balance sheets of CommVault Systems, Inc. as of March 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CommVault Systems, Inc. at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CommVault Systems, Inc.'s internal control over financial reporting as of March 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 17, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey  
May 17, 2011

**Table of Contents**

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

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 217,170	\$ 169,518
Short-term investments	1,150	5,043
Trade accounts receivable, less allowance for doubtful accounts of \$106 and \$292 at March 31, 2011 and 2010, respectively	73,891	58,049
Prepaid expenses and other current assets	8,476	4,612
Deferred tax assets, net	12,043	16,693
<b>Total current assets</b>	<b>312,730</b>	<b>253,915</b>
Deferred tax assets, net	21,736	24,485
Property and equipment, net	6,400	6,356
Other assets	1,633	1,259
<b>Total assets</b>	<b>\$ 342,499</b>	<b>\$ 286,015</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 1,658	\$ 1,891
Accrued liabilities	33,475	25,727
Deferred revenue	98,217	83,112
<b>Total current liabilities</b>	<b>133,350</b>	<b>110,730</b>
Deferred revenue, less current portion	14,695	9,140
Other liabilities	6,324	7,845
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, \$0.01 par value: 50,000 shares authorized, no shares issued and outstanding at March 31, 2011 and 2010		
Common stock, \$0.01 par value, 250,000 shares authorized, 43,965 shares and 43,053 shares issued and outstanding at March 31, 2011 and 2010, respectively	440	431
Additional paid-in capital	271,622	239,012
Accumulated deficit	(84,239)	(81,031)
Accumulated other comprehensive income (loss)	307	(112)
<b>Total stockholders' equity</b>	<b>188,130</b>	<b>158,300</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 342,499</b>	<b>\$ 286,015</b>



**Table of Contents**

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

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenues:			
Software	\$ 149,798	\$ 134,500	\$ 121,685
Services	164,978	136,525	112,834
Total revenues	314,776	271,025	234,519
Cost of revenues:			
Software	2,369	3,017	2,469
Services	38,646	32,628	28,177
Total cost of revenues	41,015	35,645	30,646
Gross margin	273,761	235,380	203,873
Operating expenses:			
Sales and marketing	163,054	136,773	122,957
Research and development	36,954	33,421	30,669
General and administrative	34,207	29,823	26,159
Depreciation and amortization	3,775	3,514	3,582
Income from operations	35,771	31,849	20,506
Interest expense	(106)	(106)	(175)
Interest income	650	384	1,639
Income before income taxes	36,315	32,127	21,970
Income tax expense	(15,311)	(13,722)	(9,642)
Net income	\$ 21,004	\$ 18,405	\$ 12,328
Net income per common share:			
Basic	\$ 0.49	\$ 0.44	\$ 0.29
Diluted	\$ 0.45	\$ 0.41	\$ 0.28
Weighted average common shares outstanding:			
Basic	43,283	42,133	41,983

Diluted	46,301	45,022	44,013
---------	--------	--------	--------

**Table of Contents**

**CommVault Systems, Inc.**  
**Consolidated Statements of Stockholders Equity**  
(In thousands)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-In	Deficit	Other	
			Capital		Comprehensive	
					Income	
					(Loss)	
Balance at March 31, 2008	42,750	\$ 428	\$ 204,386	\$ (94,922)	\$ (357)	\$ 109,535
Stock-based compensation			11,299			11,299
Tax benefits relating to share-based payments			465			465
Exercise of common stock options and vesting of restricted stock units	668	7	2,719			2,726
Repurchase of common stock	(1,825)	(19)	(8,407)	(16,803)		(25,229)
Comprehensive income:						
Net income				12,328		12,328
Foreign currency translation adjustment					165	165
Total comprehensive income						12,493
Balance at March 31, 2009	41,593	416	210,462	(99,397)	(192)	111,289
Stock-based compensation			14,912			14,912
Tax benefits relating to share-based payments			3,378			3,378
Exercise of common stock options and vesting of restricted stock units	1,462	15	10,269			10,284
Repurchase of common stock	(2)		(9)	(39)		(48)
Comprehensive income:						
Net income				18,405		18,405
Foreign currency translation adjustment					80	80
Total comprehensive income						18,485
Balance at March 31, 2010	43,053	431	239,012	(81,031)	(112)	158,300
Stock-based compensation			15,623			15,623
Tax benefits relating to share-based payments			7,084			7,084
Exercise of common stock options and vesting of	2,469	25	17,133			17,158

restricted stock units							
Repurchase of common stock	(1,557)	(16)	(7,230)	(24,212)			(31,458)
Comprehensive income:							
Net income				21,004			21,004
Foreign currency translation adjustment						419	419
Total comprehensive income							21,423
Balance at March 31, 2011	43,965	\$ 440	\$ 271,622	\$ (84,239)	\$	307	\$ 188,130



**Table of Contents**

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

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities</b>			
Net income	\$ 21,004	\$ 18,405	\$ 12,328
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,906	3,630	3,691
Noncash stock-based compensation	15,623	14,912	11,299
Excess tax benefits from stock-based compensation	(7,044)	(3,395)	(469)
Deferred income taxes	3,766	4,044	3,883
Changes in operating assets and liabilities:			
Trade accounts receivable	(14,206)	(11,801)	(3,890)
Prepaid expenses and other current assets	(3,756)	(786)	(498)
Other assets	(314)	(97)	(473)
Accounts payable	(261)	27	(264)
Accrued liabilities	17,501	11,184	1,924
Deferred revenue	17,892	19,967	15,154
Other liabilities	(1,701)	1,157	424
Net cash provided by operating activities	52,410	57,247	43,109
<b>Cash flows from investing activities</b>			
Purchase of short-term investments	(2,751)	(5,293)	
Proceeds from maturity of short-term investments	6,644	250	
Purchase of property and equipment	(3,865)	(3,370)	(4,539)
Net cash provided by (used in) investing activities	28	(8,413)	(4,539)
<b>Cash flows from financing activities</b>			
Repurchase of common stock	(31,506)		(25,229)
Debt issuance costs			(104)
Proceeds from the exercise of stock options	17,158	10,284	2,726
Excess tax benefits from stock-based compensation	7,044	3,395	469
Net cash provided by (used in) financing activities	(7,304)	13,679	(22,138)
Effects of exchange rate changes in cash	2,518	1,800	(2,888)
Net increase in cash and cash equivalents	47,652	64,313	13,544
Cash and cash equivalents at beginning of year	169,518	105,205	91,661
Cash and cash equivalents at end of year	\$ 217,170	\$ 169,518	\$ 105,205

**Supplemental disclosures of cash flow information**

Interest paid	\$	106	\$	106	\$	175
Income taxes paid	\$	3,894	\$	4,130	\$	4,801

**Table of Contents**

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

**1. Nature of Business**

CommVault Systems, Inc. and its subsidiaries ( CommVault or the Company ) is a leading provider of data and information management software applications and related services. The Company develops, markets and sells a suite of software applications and services, primarily in North America, Europe, Australia and Asia, that provides its customers with high-performance data protection; data migration and archiving; snapshot management and replication of data; integrated source and target deduplication; e-discovery and compliance solutions; protection, recovery and discovery of data in virtual server environments; enterprise-wide search capabilities; and management and operational reports, remote services and troubleshooting tools. The Company s unified suite of data and information management software applications, which is sold under the Simpna brand, shares an underlying architecture that has been developed to minimize the cost and complexity of managing data on globally distributed and networked storage infrastructures. The Company also provides its customers with a broad range of professional and customer support services.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements include the accounts of the Company. All intercompany transactions and balances have been eliminated.

***Use of Estimates***

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make judgments and estimates that affect the amounts reported in the Company s consolidated financial statements and the accompanying notes. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. The amounts of assets and liabilities reported in the Company s balance sheets and the amounts of revenues and expenses reported for each of its periods presented are affected by estimates and assumptions, which are used for, but not limited to, the accounting for revenue recognition, allowance for doubtful accounts, income taxes and related reserves, stock-based compensation and accounting for research and development costs. Actual results could differ from those estimates.

***Revenue Recognition***

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

For sales arrangements involving multiple elements, the Company recognizes revenue using the residual method. Under the residual method, the Company allocates and defers revenue for the undelivered elements based on relative fair value and recognizes the difference between the total arrangement fee and the amount deferred for the undelivered elements as revenue. The determination of fair value of the undelivered elements in multiple-element arrangements is based on the price charged when such elements are sold separately, which is commonly referred to as vendor-specific objective-evidence, or VSOE.

The Company s software licenses typically provide for a perpetual right to use the Company s software and are sold on a per-copy basis, on a capacity basis or as site licenses. Software licenses sold on a capacity basis provide the customer with unlimited licenses of specified software products based on a defined level of terabytes of data under management. Site licenses give the customer the additional right to deploy the software on a limited basis during a specified term. The Company recognizes software revenue through direct sales channels upon receipt of a purchase order or other persuasive evidence and when all other basic revenue recognition criteria are met as described below. The Company recognizes software revenue through all indirect sales channels on a sell-through model. A sell-through model requires that the Company recognize revenue when the basic revenue recognition criteria are met as described below and these channels complete the sale of the Company s software products to the end-user. Revenue from software licenses sold through an original equipment manufacturer partner is recognized upon the receipt of a royalty report or purchase order from that original equipment manufacturer partner.



**Table of Contents**

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

Services revenue includes revenue from customer support and other professional services. Customer support includes software updates on a when-and-if-available basis, telephone support, integrated web-based support and bug fixes or patches. Customer support revenue is recognized ratably over the term of the customer support agreement, which is typically one year. To determine the price for the customer support element when sold separately, the Company primarily uses historical renewal rates, and in certain cases, it uses stated renewal rates. Historical renewal rates are supported by performing an analysis in which the Company segregates its customer support renewal contracts into different classes based on specific criteria including, but not limited to, the dollar amount of the software purchased, the level of customer support being provided and the distribution channel. As a result of this analysis, the Company has concluded that it has established VSOE for the different classes of customer support when the support is sold as part of a multiple-element sales arrangement.

The Company's other professional services include consulting, assessment and design services, installation services and training. Other professional services provided by the Company are not mandatory and can also be performed by the customer or a third-party. In addition to a signed purchase order, the Company's consulting, assessment and design services and installation services are, in some cases, evidenced by a Statement of Work, which defines the specific scope of such services to be performed when sold and performed on a stand-alone basis or included in multiple-element sales arrangements. Revenues from consulting, assessment and design services and installation services are based upon a daily or weekly rate and are recognized when the services are completed. Training includes courses taught by the Company's instructors or third-party contractors either at one of the Company's facilities or at the customer's site. Training fees are recognized after the training course has been provided. Based on the Company's analysis of such other professional services transactions sold on a stand-alone basis, the Company has concluded it has established VSOE for such other professional services when sold in connection with a multiple-element sales arrangement. The Company generally performs its other professional services within 90 days of entering into an agreement. The price for other professional services has not materially changed for the periods presented.

The Company has analyzed all of the undelivered elements included in its multiple-element sales arrangements and determined that VSOE of fair value exists to allocate revenues to services. Accordingly, assuming all basic revenue recognition criteria are met, software revenue is recognized upon delivery of the software license using the residual method.

The Company considers the four basic revenue recognition criteria for each of the elements as follows:

*Persuasive evidence of an arrangement with the customer exists.* The Company's customary practice is to require a purchase order and, in some cases, a written contract signed by both the customer and the Company, or other persuasive evidence that an arrangement exists prior to recognizing revenue on an arrangement.

*Delivery or performance has occurred.* The Company's software applications are usually physically delivered to customers with standard transfer terms such as FOB shipping point. Software and/or software license keys for add-on orders or software updates are typically delivered in an electronic format. If products that are essential to the functionality of the delivered software in an arrangement have not been delivered, the Company does not consider delivery to have occurred. Services revenue is recognized when the services are completed, except for customer support, which is recognized ratably over the term of the customer support agreement, which is typically one year.

*Vendor's fee is fixed or determinable.* The fee customers pay for software applications, customer support and other professional services is negotiated at the outset of a sales arrangement. The fees are therefore considered to be fixed or determinable at the inception of the arrangement.

*Collection is probable.* Probability of collection is assessed on a customer-by-customer basis. Each new customer undergoes a credit review process to evaluate its financial position and ability to pay. If the Company determines from the outset of an arrangement that collection is not probable based upon the review process, revenue is recognized at the earlier of when cash is collected or when sufficient credit becomes

available, assuming all of the other basic revenue recognition criteria are met.

**Table of Contents**

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

The Company's sales arrangements generally do not include acceptance clauses. However, if an arrangement does include an acceptance clause, revenue for such an arrangement is deferred and recognized upon acceptance. Acceptance occurs upon the earliest of receipt of a written customer acceptance, waiver of customer acceptance or expiration of the acceptance period.

**Net Income per Common Share**

Basic net income per common share is computed by dividing net income by the weighted average number of common shares during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and the vesting of restricted stock units. The dilutive effect of such potential common shares is reflected in diluted earnings per share by application of the treasury stock method.

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

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 21,004	\$ 18,405	\$ 12,328
<b>Basic net income per common share:</b>			
Basic weighted average shares outstanding	43,283	42,133	41,983
Basic net income per common share	\$ 0.49	\$ 0.44	\$ 0.29
<b>Diluted net income per common share:</b>			
Basic weighted average shares outstanding	43,283	42,133	41,983
Dilutive effect of stock options and restricted stock units	3,018	2,889	2,030
Diluted weighted average shares outstanding	46,301	45,022	44,013
Diluted net income per common share	\$ 0.45	\$ 0.41	\$ 0.28

The following table summarizes the potential outstanding common stock of the Company at the end of each period, which has been excluded from the computation of diluted net income per common share, as its effect is anti-dilutive.

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Stock options and restricted stock units	1,002	728	3,162

**Software Development Costs**

Research and development expenditures are charged to operations as incurred. Based on the Company's software development process, technological feasibility is established upon completion of a working model, which also requires certification and extensive testing. Costs incurred by the Company between completion of the working model and the point at which the product is ready for general release are immaterial.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable consist of amounts due to the Company from normal business activities. The Company maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. The

Company estimates uncollectible amounts based upon historical bad debts, evaluation of current customer receivable balances, age of customer receivable balances, the customer's financial condition and current economic trends. The Company also maintains a sales allowance to reserve for potential credits issued to customers. The amount of the reserve is determined based on historical credits issued.



**Table of Contents**

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

***Accounting for Income Taxes***

As part of the process of preparing financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax exposure, including assessing the risks associated with tax audits, and assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. As of March 31, 2011, the Company had net deferred tax assets of approximately \$33,779, which were primarily related to federal and state research tax credit carryforwards, stock-based compensation and foreign net operating loss carryforwards. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income, and to the extent that the Company believes recovery is not likely, the Company establish a valuation allowance. As of March 31, 2011, the Company maintains a valuation allowance against its deferred tax assets totaling \$4,306 primarily related to the uncertainty of the Company's ability to utilize certain state research tax credits before they expire. The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in each of its tax jurisdictions. The number of years with open tax audits varies depending on the tax jurisdiction. A number of years may lapse before a particular matter is audited and finally resolved. On April 1, 2007, the Company adopted the guidance issued to address the accounting for uncertain tax positions. This guidance clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements as well as provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

As of March 31, 2011, the Company had unrecognized tax benefits of \$4,481, all of which, if recognized, would favorably affect the effective tax rate. In addition, the Company had accrued interest and penalties of \$842 related to the unrecognized tax benefits. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. Components of the reserve are classified as either current or long-term in the Consolidated Balance Sheet based on when the Company expects each of the items to be settled.

***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. As of March 31, 2011, the Company's cash and cash equivalents balance consisted primarily of money market funds.

***Concentration of Credit Risk***

The Company grants credit to customers in a wide variety of industries worldwide and generally does not require collateral. Credit losses relating to these customers have been minimal.

Sales through the Company's reseller and original equipment manufacturer agreements with Dell totaled approximately 23%, 24% and 23% of total revenues for the years ended March 31, 2011, 2010 and 2009, respectively. Dell accounted for 25% and 27% of accounts receivable as of March 31, 2011 and 2010, respectively. Sales through the Company's distribution agreement with Arrow Enterprise Computing Solutions, Inc. (Arrow) totaled approximately 25%, 24% and 21% of total revenues for the years ended March 31, 2011, 2010 and 2009, respectively. Arrow accounted for approximately 32% and 30% of total accounts receivable as of March 31, 2011 and 2010, respectively.

***Fair Value of Financial Instruments***

The carrying amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short-term maturity of these instruments. As of March 31, 2011, the Company's short-term investments balance consisted of certificates of deposit.

**Table of Contents**

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

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for such asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value should maximize the use of observable inputs and minimize the use of unobservable inputs. To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the composition of the Company's financial assets measured at fair value on a recurring basis at March 31, 2011 and March 31, 2010:

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash and cash equivalents:</b>		
Money market funds	\$ 182,911	\$ 143,236
All of the Company's financial instruments in the table above were classified and measured as Level 1 instruments.		

***Property and Equipment***

Property and equipment are stated at cost, less accumulated depreciation and amortization. The Company provides for depreciation on a straight-line basis over the estimated useful lives of the assets. Computer and related equipment is generally depreciated over eighteen months to three years and furniture and fixtures are generally depreciated over three to five years. Leasehold improvements are amortized over the shorter of the useful life of the improvement or the term of the related lease. Expenditures for routine maintenance and repairs are charged against operations. Major replacements, improvements and additions are capitalized.

***Long-Lived Assets***

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine the recoverability of its long-lived assets, the Company evaluates the estimated future undiscounted cash flows that are directly associated with, and that are expected to arise as a direct result of, the use and eventual disposition of the long-lived asset. If the estimated future undiscounted cash flows demonstrate that recoverability is not probable, an impairment loss would be recognized. An impairment loss would be calculated based on the excess carrying amount of the long-lived asset over the long-lived asset's fair value. The fair value is determined based on valuation techniques such as a comparison to fair values of similar assets. There were no impairment charges recognized during the years ended March 31, 2011, 2010 and 2009.

***Deferred Revenue***

Deferred revenues represent amounts collected from, or invoiced to, customers in excess of revenues recognized. This results primarily from the billing of annual customer support agreements, as well as billings for other professional services fees that have not yet been performed by the Company and billings for license fees that are deferred due to insufficient persuasive evidence that an arrangement exists. The value of deferred revenues will increase or decrease based on the timing of invoices and recognition of software revenue. The Company expenses internal direct and incremental costs related to contract acquisition and origination as incurred.



**Table of Contents**

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

Deferred revenue consists of the following:

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Current:		
Deferred software revenue	\$ 237	\$ 578
Deferred services revenue	97,980	82,534
	\$ 98,217	\$ 83,112
Non-current:		
Deferred services revenue	\$ 14,695	\$ 9,140

**Accounting for Stock-Based Compensation**

The Company utilizes the Black-Scholes pricing model to determine the fair value of non-qualified stock options on the dates of grant. Restricted stock units are measured based on the fair market values of the underlying stock on the dates of grant. The Company recognizes stock-based compensation using the straight-line method for all stock awards. The Company classifies benefits of tax deductions in excess of the compensation cost recognized (excess tax benefits) as a financing item cash inflow with a corresponding operating cash outflow. For the years ended March 31, 2011, 2010 and 2009, the Company includes \$7,044, \$3,395, and \$469, respectively, as a financing cash inflow.

**Share Repurchases**

The Company considers all shares repurchased as cancelled shares restored to the status of authorized but unissued shares on the trade date. The aggregate purchase price of the shares of the Company's common stock repurchased is reflected as a reduction to Stockholders' Equity. The Company accounts for shares repurchased as an adjustment to common stock (at par value) with the excess repurchase price allocated between Additional Paid-in Capital and Accumulated Deficit. As a result of the Company's stock repurchases in the fiscal years ended March 31, 2011 and 2010, the Company reduced common stock and additional paid-in capital by \$7,246 and \$9, respectively, and accumulated deficit by \$24,212 and \$39, respectively.

**Sales Tax**

The Company records revenue net of sales tax.

**Advertising Costs**

The Company expenses advertising costs as incurred. Advertising expenses were \$3,819, \$2,121, and \$2,975 for the years ended March 31, 2011, 2010 and 2009, respectively.

**Shipping and Handling Costs**

Shipping and handling costs are included in cost of revenues for all periods presented.

**Foreign Currency Translation**

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

**Table of Contents**

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

Foreign currency transaction gains and losses are recorded in General and administrative expenses in the Consolidated Statements of Income. The Company recognized net foreign currency transaction losses of \$623 in the year ending March 31, 2011, net foreign currency transaction losses of \$647 in the year ending March 31, 2010, and net foreign currency transaction gains of \$907 in the year ending March 31, 2009. The net foreign currency transaction gains and losses recorded in General and administrative expenses include settlement gains and losses on forward contracts disclosed below.

To date, the Company has selectively hedged its exposure to foreign currency transaction gains and losses on the balance sheet through the use of forward contracts, which were not designated as hedging instruments. The duration of forward contracts utilized for hedging the Company's balance sheet exposure is approximately one month. As of March 31, 2011 and March 31, 2010, the Company did not have any forward contracts outstanding. The Company recorded net realized gains of \$48 and net realized losses of \$34 in general and administrative expenses related to the settlement of a forward exchange contracts in the years ending March 31, 2011 and 2010, respectively. In the future, the Company may enter into additional foreign currency-based hedging contracts to reduce its exposure to significant fluctuations in currency exchange rates on the balance sheet.

**Comprehensive Income**

Comprehensive income is defined to include all changes in equity, except those resulting from investments by stockholders and distribution to stockholders. Comprehensive income for the fiscal years ending March 31, 2011, 2010 and 2009 is as follows:

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 21,004	\$ 18,405	\$ 12,328
Foreign currency translation adjustment	419	80	165
Total comprehensive income	\$ 21,423	\$ 18,485	\$ 12,493

**Impact of Recently Issued Accounting Standards****Fair Value Measurements**

In January 2010, the FASB issued guidance requiring additional disclosure for significant transfers in and out of Levels 1 and 2 fair value measurements and the reasons for such transfers. This new guidance also requires separate disclosure information about purchases, sales, issuances, and settlements (on a gross basis rather than as one net number) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, this guidance clarifies existing disclosures regarding fair value measurement for each class of assets and liabilities and the valuation techniques and inputs used to measure fair value for recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3. The changes under this new guidance were effective for the quarterly period beginning January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for the Company's fiscal year beginning April 1, 2011. The adoption of these new accounting pronouncements will not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

**Table of Contents**

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

**3. Property and Equipment**

Property and equipment consist of the following:

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Computer equipment	\$ 10,609	\$ 10,382
Other machinery and equipment	8,167	6,603
Leasehold improvements	4,375	4,229
Purchased software	1,623	1,430
Furniture and fixtures	1,684	1,347
	26,458	23,991
Less: Accumulated depreciation and amortization	(20,058)	(17,635)
	\$ 6,400	\$ 6,356

The Company recorded depreciation and amortization expense of \$3,906, \$3,630, and \$3,691 for the years ended March 31, 2011, 2010 and 2009, respectively.

**4. Accrued Liabilities**

Accrued liabilities consist of the following:

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Compensation and related payroll taxes	\$ 19,204	\$ 14,122
Other	14,271	11,605
	\$ 33,475	\$ 25,727

**5. Credit Facility**

In July 2008, the Company entered into a credit facility in which the Company could have borrowed up to \$40,000 over the initial 12 months of the credit facility. Borrowings under the facility were available to repurchase the Company's common stock under its share repurchase program and to provide for working capital and general corporate purposes. The credit facility expired on July 9, 2009 because no amounts were borrowed during the initial 12 months of the credit facility.

In July 2009, the Company entered into an amended and restated credit facility in which the Company can borrow up to \$30,000 over a three year period. Borrowings under the amended and restated credit facility are available to repurchase the Company's common stock under its share repurchase program and to provide for working capital and general corporate purposes. Repayment of principal amounts borrowed under the amended and restated credit facility is required at the maturity date of July 2012.

The amended and restated credit facility contains financial covenants that require the Company to maintain a quick ratio and minimum earnings before interest, taxes, depreciation and amortization ( EBITDA ), as defined in the credit agreement. Borrowings under the amended and restated credit facility bear interest, at the Company's option, at either i) LIBOR plus a margin ranging from 2.25% to 2.75% or ii) the bank's base rate plus a margin ranging from 1.75% to 2.25%. The bank's base rate is defined as the higher of the federal funds rate plus 1.5%, one-month LIBOR plus 1.5%, or the lender's prime rate. The Company pays a quarterly commitment fee that ranges from 0.35% to 0.50% per annum based on the unused portion of the amended and restated credit facility. As of March 31, 2011, the Company was in

compliance with all required covenants, and there were no outstanding balances on the amended and restated credit facility.

**Table of Contents**

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

**6. Commitments and Contingencies****Leases**

The Company leases various office and warehouse facilities under non-cancelable leases, which expire on various dates through March 2016. Future minimum lease payments under all operating leases at March 31, 2011 are as follows:

**Year Ending March 31:**

2012	\$	6,232
2013		5,846
2014		3,390
2015		2,187
2016		990
	\$	18,645

Rent expenses were \$6,778, \$5,628, and \$5,187 for the years ended March 31, 2011, 2010 and 2009, respectively. Rent expense is calculated by amortizing total rental payments (net of any rental abatements, allowances and other rental concessions), on a straight-line basis, over the lease term. Accordingly, rent expense charged to operations differs from rent paid resulting in the Company recording deferred rent.

**Purchase Commitments**

The Company, in the normal course of business, enters into various purchase commitments for goods or services. Total non-cancellable purchase commitments as of March 31, 2011 are approximately \$1,519 for fiscal 2012, \$1,337 for fiscal 2013 and \$541 for fiscal 2014, totaling \$3,397 for all periods through fiscal 2014. These purchase commitments primarily result from contracts for the acquisition of IT infrastructure, marketing and software development services.

The Company has certain software royalty commitments associated with the shipment and licensing of certain products. Royalty expense is generally based on the number of units shipped or a percentage of the underlying revenue. Royalty expense, included in cost of software revenues, was \$1,295 in fiscal 2011, \$1,290 in fiscal 2010 and \$1,224 in fiscal 2009.

**Indemnifications**

The Company offers a 90-day limited product warranty for its software. To date, costs related to this product warranty have not been material.

**Legal Proceedings**

In the normal course of its business, the Company may be involved in various claims, negotiations and legal actions; however, as of March 31, 2011, the Company is not a party to any litigation that is expected to have a material effect on the Company's financial position, results of operations or cash flows.

The Company provides certain provisions within its software licensing agreements to indemnify its customers from any claim, suit or proceeding arising from alleged or actual intellectual property infringement. These provisions continue in perpetuity, along with the Company's software licensing agreements. The Company has never incurred a liability relating to one of these indemnification provisions, and management believes that the likelihood of any future payout relating to these provisions is remote. Therefore, the Company has not recorded a liability during any period for these indemnification provisions.



**Table of Contents**

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

**7. Capitalization**

As of March 31, 2011 and 2010, the Company had 250,000 shares of common stock and 50,000 shares of preferred stock authorized. As of March 31, 2011 and 2010, there were no shares of preferred stock outstanding.

On November 13, 2008, the Board of Directors of the Company adopted a Rights Plan and declared a dividend distribution of one Right for each outstanding share of common stock to shareholders of record on November 24, 2008. Each Right, when exercisable, entitles the registered holder to purchase one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share, at a purchase price of eighty dollars per one one-thousandth of a share, subject to adjustment. Of the 50,000 shares of preferred stock authorized under the Company's certificate of incorporation, 150 have been designated as Series A Junior Participating Preferred. The Rights will become exercisable following the tenth business day after (i) a person or group announces the acquisition of 15% or more of the Company's common stock or (ii) commencement of a tender or exchange offer, the consummation of which would result in ownership by the person or group of 15% or more of the Company's common stock. The Company is also entitled to redeem the Rights at \$0.001 per right under certain circumstances. The Rights expire on November 14, 2018, if not exercised or redeemed.

***Common Stock***

The Company had 43,965 and 43,053 shares of common stock, par value \$0.01, outstanding at March 31, 2011 and March 31, 2010, respectively.

In January 2008, the Company's Board of Directors approved a stock repurchase program, which authorized the Company to repurchase up to \$40,000 of its common stock. The Company's Board of Directors authorized additional increases of \$40,000 in July 2008 and \$40,000 in July 2010 to the Company's existing share repurchase program. As of March 31, 2011, the Company is authorized to repurchase up to a total of \$120,000 of its common stock through March 31, 2012. As of March 31, 2011, the Company has repurchased approximately \$71,748 under the share repurchase authorization and may repurchase an additional \$48,252 of its common stock under the current program through March 31, 2012.

***Shares Reserved for Issuance***

The Company has reserved 8,044 shares to allow for the exercise of all outstanding options and vesting of restricted stock units at March 31, 2011.

**8. Stock Plans**

As of March 31, 2011, the Company maintains two stock incentive plans, the 1996 Stock Option Plan (the "Plan") and the 2006 Long-Term Stock Incentive Plan (the "LTIP").

Under the Plan, the Company may grant non-qualified stock options to purchase 11,705 shares of common stock to certain officers and employees. Stock options are granted at the discretion of the Board and expire 10 years from the date of the grant. At March 31, 2011, there were 558 options available for future grant under the Plan.

The LTIP permits the grant of incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance stock awards and stock unit awards based on, or related to, shares of the Company's common stock. On each April 1, the number of shares available for issuance under the LTIP is increased, if applicable, such that the total number of shares available for awards under the LTIP as of any April 1 is equal to 5% of the number of outstanding shares of the Company's common stock on that April 1. As of March 31, 2011, approximately 718 shares were available for future issuance under the LTIP.

**Table of Contents**

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

As of March 31, 2011, the Company has granted non-qualified stock options and restricted stock units under its stock incentive plans. Equity awards granted by the Company under its stock incentive plans generally vest quarterly over a four-year period, except that the shares that would otherwise vest quarterly over the first 12 months do not vest until the first anniversary of the grant. During fiscal 2011, the Company granted a total of 53 stock options and 28 restricted stock units to members of the Company's Board of Directors that vest over a one year period. The Company anticipates that future grants under its stock incentive plans will continue to include both non-qualified stock options and restricted stock units.

The Company estimated the fair value of stock options granted using the Black-Scholes formula. The average expected life was determined according to the simplified method, which is the mid-point between the vesting date and the end of the contractual term. The Company will continue to use the simplified method until it has enough historical experience to provide a reasonable estimate of expected term. The risk-free interest rate is determined by reference to U.S. Treasury yield curve rates with a remaining term equal to the expected life assumed at the date of grant.

Forfeitures are estimated based on the Company's historical analysis of actual stock option forfeitures.

Expected volatility through the quarter ended September 30, 2008 was calculated based on reported data for a peer group of publicly traded companies for which historical information was available. During the quarter ended December 31, 2008, the Company began to incorporate its own data into the expected volatility assumption. The Company modified its expected volatility calculation because at that time its common stock had been publically traded for 2 years and it believed that CommVault specific volatility inputs should be included in the calculation of expected volatility. As a result, expected volatility during the second half of fiscal 2009 and all of fiscal 2010 and 2011 was calculated based on a blended approach that included historical volatility of a peer group, the implied volatility of the Company's traded options with a remaining maturity greater than six months and the historical realized volatility of its common stock from the date of its initial public offering to the respective stock option grant date. The assumptions used in the Black-Scholes option-pricing model are as follows:

	<b>Year Ended March 31,</b>					
	<b>2011</b>		<b>2010</b>		<b>2009</b>	
Dividend yield	None		None		None	
Expected volatility	40%	45%	40%	45%	40%	44%
Weighted average expected volatility	44%		42%		43%	
Risk-free interest rates	1.18%	2.93%	0.24%	3.14%	1.54%	3.84%
Expected life (in years)	6.2		6.3		6.4	

The following table presents the stock-based compensation expense included in cost of services revenue, sales and marketing, research and development and general and administrative expenses for the years ended March 31, 2011, 2010 and 2009.

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cost of services revenue	\$ 346	\$ 463	\$ 303
Sales and marketing	7,040	6,827	5,317
Research and development	1,719	2,030	1,605
General and administrative	6,518	5,592	4,074
Stock-based compensation expense	\$ 15,623	\$ 14,912	\$ 11,299

The Company recognized a tax benefit related to stock-based compensation of \$5,352 in the year ended March 31, 2011, \$5,135 in the year ended March 31, 2010 and \$4,057 in the year ended March 31, 2009.

As of March 31, 2011, there was approximately \$36,181 of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock option and restricted stock unit awards that is expected to be recognized over a weighted average period of 2.67 years. To the extent the actual forfeiture rate is different from what the Company has anticipated, stock-based compensation related to these awards will be different from the Company's expectations.

**Table of Contents**

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

The following summarizes the activity for the Company's two stock incentive plans from March 31, 2008 to March 31, 2011:

<b>Options</b>	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Term (Years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at March 31, 2008	8,086	\$ 8.84		
Options granted	1,307	11.35		
Options exercised	(460)	5.94		
Options forfeited	(136)	12.44		
Options expired	(18)	12.98		
Outstanding at March 31, 2009	8,779	9.30		
Options granted	743	20.81		
Options exercised	(1,246)	8.25		
Options forfeited	(183)	14.46		
Options expired	(23)	17.01		
Outstanding at March 31, 2010	8,070	10.38		
Options granted	1,191	27.27		
Options exercised	(2,066)	8.30		
Options forfeited	(144)	15.62		
Options expired	(17)	11.61		
Outstanding at March 31, 2011	7,034	\$ 13.75	6.24	\$ 183,818
Vested or expected to vest at March 31, 2011	6,908	\$ 13.48	6.16	\$ 181,724
Exercisable at March 31, 2011	4,437	\$ 9.48	4.85	\$ 134,890

The weighted average fair value of stock options granted was \$12.23 per share, \$9.31 per share, and \$5.14 per share during the years ended March 31, 2011, 2010 and 2009, respectively. The total intrinsic value of options exercised was \$39,119, \$15,795, and \$4,079 in the years ended March 31, 2011, 2010 and 2009, respectively. The Company's policy is to issue new shares upon exercise of options as the Company does not hold shares in treasury.

Restricted stock unit activity is as follows:

<b>Non-Vested Restricted Stock Units</b>	<b>Number of Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested as of March 31, 2008	665	\$ 15.81
Granted	593	11.92
Vested	(208)	16.14

Forfeited	(58)	15.89
Non-vested as of March 31, 2009	992	13.44
Granted	329	20.67
Vested	(216)	14.95
Forfeited	(94)	14.67
Non-vested as of March 31, 2010	1,011	15.33
Granted	507	26.96
Vested	(403)	14.44
Forfeited	(105)	17.71
Non-vested as of March 31, 2011	1,010	\$ 21.27

The total fair value of the restricted stock units that vested during the years ended March 31, 2011, 2010 and 2009 was \$10,157, \$4,245 and \$2,660, respectively.

**Table of Contents**

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

The following table summarizes information on stock options outstanding under the Plan and LTIP at March 31, 2011:

Range of Exercise Prices	Options		Weighted-Average		Options Exercisable		Weighted-Average	
	Outstanding March 31, 2011	Remaining Contractual Life	Exercise Price	Exercise Price	at March 31, 2011	Average Exercise Price	Average Exercise Price	
\$4.00 5.30	1,593	3.52	\$ 4.57		1,593	\$ 4.57		
6.00 10.56	904	3.24	6.54		872	6.41		
11.12 13.50	1,096	7.24	11.39		551	11.65		
13.81 16.99	1,533	6.71	15.23		1,171	15.36		
17.19 23.54	745	8.07	21.21		250	19.19		
23.88 35.60	1,163	9.57	27.41		0	0.00		
\$4.00 35.60	7,034	6.24	\$ 13.75		4,437	\$ 9.48		

**9. Income Taxes**

The components of income before income taxes were as follows:

	Year Ended March 31,		
	2011	2010	2009
Domestic	\$ 31,553	\$ 29,927	\$ 19,579
Foreign	4,762	2,200	2,391
	\$ 36,315	\$ 32,127	\$ 21,970

The components of income tax (expense) benefit were as follows:

	Year Ended March 31,		
	2011	2010	2009
Current:			
Federal	\$ (9,539)	\$ (5,545)	\$ (2,504)
State	(2,242)	(2,378)	(1,137)
Foreign	250	(1,614)	(2,210)
Deferred:			
Federal	345	(4,569)	(4,388)
State	(4,040)	345	(1,063)
Foreign	(85)	39	1,660
	\$ (15,311)	\$ (13,722)	\$ (9,642)

A reconciliation of the statutory tax rates and the effective tax rates for the years ended March 31, 2011, 2010 and 2009 are as follows:

**Year Ended March 31,**

Edgar Filing: COMMVault SYSTEMS INC - Form 10-K

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Statutory federal income tax expense rate	(35.0)%	(35.0)%	(35.0)%
State and local income tax expense, net of federal income tax effect	(3.9)	(4.4)	(2.6)
Impact of state tax rate change on deferred tax assets	(0.5)	0.5	(5.1)
Foreign earnings taxed at different rates	(0.5)	(2.3)	(1.2)
Permanent differences	(1.5)	(2.3)	(2.4)
Foreign tax credits	1.4	(3.5)	2.1
Research credits	5.0	4.1	3.7
Tax reserves	4.6	(1.9)	(1.7)
Change in valuation allowance	(11.9)		
Other differences, net	0.1	2.1	(1.7)
Effective income tax expense	(42.2)%	(42.7)%	(43.9)%

**Table of Contents**

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

Deferred tax assets arise due to the recognition of income and expense items for tax purposes, which differ from those used for financial statement purposes. The Company assesses the likelihood that its deferred tax assets will be recovered from future taxable income, and to the extent that the Company believes recovery is not likely, the Company establishes a valuation allowance. The significant components of the Company's deferred tax assets are as follows:

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Deferred tax assets:		
Tax credits	\$ 18,239	\$ 22,223
Stock-based compensation	10,656	9,804
Deferred revenue	3,438	3,139
Net operating losses	2,625	3,119
Depreciation and amortization	1,255	1,233
Allowance for doubtful accounts the other reserves	961	238
Accrued expenses	911	1,422
Total deferred tax assets	38,085	41,178
Less: valuation allowance	(4,306)	
Net deferred tax assets	\$ 33,779	\$ 41,178

During the quarter ended March 31, 2011, the Company recorded valuation allowances totaling \$4,306 against its deferred tax assets. Specifically, the Company recorded a valuation allowance of \$4,212 against certain state research tax credits due to uncertainties related to the ability to utilize such state research tax credits before they expire. The Company based its valuation allowance on its estimates of taxable income by legal entity and the period over which its state research tax credits will be recoverable. In addition, the Company recorded a valuation allowance of \$94 against foreign net operating loss carryforwards in a certain international jurisdiction. In assessing the need for a valuation allowance against its net operating loss carryforwards in such international jurisdiction, the Company considered projected future income as part of its analysis.

It is the Company's intention to reinvest undistributed earnings of its foreign subsidiaries and thereby infinitely postpone their remittance. As a result, deferred U.S. income taxes have not been provided on undistributed earnings of foreign subsidiaries of the Company. The cumulative amount of unremitted earnings from the foreign subsidiaries that is expected to be permanently reinvested was approximately \$653 on March 31, 2011.

Excess tax benefits related to share-based payments are credited to equity. When determining this excess tax benefit, the Company elected to follow the tax law approach. As a result, the Company's excess tax benefit which was recorded to equity was approximately \$7,084 and \$3,378 for the years ended March 31, 2011 and 2010.

At March 31, 2011, the Company has state net operating loss (NOL) carryforwards of approximately \$2,074 and NOL carryforwards for foreign tax purposes of approximately \$9,241.

At March 31, 2011, the Company has federal and state research tax credit (R&D credits) carryforwards of approximately \$11,443 and \$5,078, respectively. The federal research tax credit carryforwards expire from 2014 through 2030, and the state research tax credit carryforwards expire from 2014 through 2026. At March 31, 2011, the Company has federal Alternative Minimum Tax credit carryforwards of \$1,202.





**Table of Contents**

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

The Company conducts business globally and as a result, files income tax returns in the United States and in various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as the United States, Australia, Canada, Germany, Netherlands and United Kingdom. The Company is not currently under audit in any tax jurisdiction. The following table summarizes the tax years in the Company's major tax jurisdictions that remain subject to income tax examinations by tax authorities as of March 31, 2011. The years subject to income tax examination in the Company's foreign jurisdictions cover the maximum time period with respect to these jurisdictions. Due to NOL carryforwards, in some cases the tax years continue to remain subject to examination with respect to such NOLs.

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

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in each of its tax jurisdictions. The number of years with open tax audits varies depending on the tax jurisdiction. A number of years may lapse before a particular matter is audited and finally resolved. A reconciliation of the amounts of unrecognized tax benefits is as follows:

Balance at March 31, 2008	\$	4,942
Additions for tax positions related to fiscal 2009		150
Additions for tax positions related to prior years		
Settlements		
Reductions related to the expiration of statutes of limitations		
Foreign currency translation adjustment		(553)
 Balance at March 31, 2009		 4,539
Additions for tax positions related to fiscal 2010		447
Additions for tax positions related to prior years		127
Settlements		
Reductions related to the expiration of statutes of limitations		
Foreign currency translation adjustment		116
 Balance at March 31, 2010		 5,229
Additions for tax positions related to fiscal 2011		512
Additions for tax positions related to prior years		86
Settlements		
Reductions related to the expiration of statutes of limitations		(1,447)
Foreign currency translation adjustment		101
 Balance at March 31, 2011	 \$	 4,481

All of the Company's unrecognized tax benefits at March 31, 2011 of \$4,481, if recognized, would favorably affect the effective tax rate. Components of the reserve are classified as either current or long-term in the Consolidated Balance Sheet based on when the Company expects each of the items to be settled. Accordingly, the Company has recorded its

unrecognized tax benefits of \$4,481 and \$5,229 and the related accrued interest and penalties of \$842 and \$1,394 in Other Liabilities on the Consolidated Balance Sheet at March 31, 2011 and March 31, 2010, respectively. The Company believes that it is reasonably possible that approximately \$352 of it currently remaining unrecognized tax benefits and approximately \$141 of related accrued interest and penalties may be realized by the end of the fiscal year ending March 31, 2012 as a result of the lapse of the statute of limitations. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. In the years ended March 31, 2011, 2010 and 2009, the Company recognized \$152, \$138 and \$215, respectively, of interest and penalties in the Consolidated Statement of Income.

**Table of Contents**

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

**10. Employee Benefit Plan**

The Company has a defined contribution plan, as allowed under Section 401(k) of the Internal Revenue Code, covering substantially all employees. The Company may make contributions equal to a discretionary percentage of the employee's contributions determined by the Company. The Company has not made any contributions to the defined contribution plan.

**11. Segment Information**

The Company operates in one reportable segment, storage software solutions. The Company's products and services are sold throughout the world, through direct and indirect sales channels. The Company's chief operating decision maker, the chief executive officer, evaluates the performance of the Company presented on a consolidated basis, accompanied by information about revenue by geographic region for purposes of tracking distribution of resources and analyzing overall return on investment for both domestic and international operations. The chief operating decision maker does not receive discrete financial information about asset allocation, expense allocation or profitability from the Company's storage products or services.

Revenues by geography are based upon the billing address of the customer. All transfers between geographic regions have been eliminated from consolidated revenues. The following table sets forth revenue and long-lived assets by geographic area:

	<b>Year Ended March 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Revenue:			
United States	\$ 190,706	\$ 169,343	\$ 143,047
Other	124,070	101,682	91,472
	\$ 314,776	\$ 271,025	\$ 234,519

No individual country other than the United States accounts for 10% or more of revenues in the years ended March 31, 2011, 2010 and 2009. Revenue included in the "Other" caption above primarily relates to the Company's operations in Europe, Australia, Canada and Asia.

	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Long-lived assets:		
United States	\$ 4,768	\$ 4,932
Other	3,265	2,683
	\$ 8,033	\$ 7,615

At March 31, 2011 and 2010, the United Kingdom had long-lived assets of \$1,072 and \$950, respectively. At March 31, 2010, India had long-lived assets of \$1,000. No other individual country other than the United States accounts for 10% or more of long-lived assets as of March 31, 2011 and 2010.

**Table of Contents**

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

**12. Selected Quarterly Financial Data (unaudited)**

	Quarter Ended			
	June 30	September 30	December 31	March 31
<b>Fiscal 2011</b>				
Total revenue	\$ 66,300	\$ 75,226	\$ 83,629	\$ 89,621
Gross margin	56,780	65,709	73,475	77,797
Net income	3,498	5,419	7,252	4,835
Net income per common share:				
Basic (1)	\$ 0.08	\$ 0.13	\$ 0.17	\$ 0.11
Diluted (1)	\$ 0.08	\$ 0.12	\$ 0.16	\$ 0.10

	Quarter Ended			
	June 30	September 30	December 31	March 31
<b>Fiscal 2010</b>				
Total revenue	\$ 60,246	\$ 66,650	\$ 70,691	\$ 73,438
Gross margin	51,896	57,675	61,594	64,215
Net income	2,435	4,718	5,440	5,812
Net income per common share:				
Basic (1)	\$ 0.06	\$ 0.11	\$ 0.13	\$ 0.14
Diluted (1)	\$ 0.06	\$ 0.11	\$ 0.12	\$ 0.13

(1) Per common share amounts for the quarters and full year have been calculated separately. Accordingly, quarterly amounts do not add to the annual amount because of differences in the weighted average common shares outstanding during each period used in the basic and diluted calculations.

**Table of Contents**

**Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure**

Not applicable

**Item 9A. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of March 31, 2011. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2011.

**(b) Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) of the Exchange Act. There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of any internal control may vary over time.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our internal control over financial reporting as of March 31, 2011. In making this assessment, management used the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on our assessment, using those criteria, our management concluded that, as of March 31, 2011, our internal control over financial reporting was effective. The effectiveness of our internal control over financial reporting as of March 31, 2011 has been audited by Ernst & Young LLP, our independent registered public accounting firm, as stated in their report, which is included below in this Annual Report on Form 10-K.

**(c) Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the fourth quarter of fiscal 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting  
The Board of Directors and Stockholders of  
CommVault Systems, Inc.**

We have audited CommVault Systems, Inc.'s internal control over financial reporting as of March 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CommVault Systems, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CommVault Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CommVault Systems, Inc. as of March 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2011 of CommVault Systems, Inc. and our report dated May 17, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

MetroPark, New Jersey  
May 17, 2011

**Table of Contents****Item 9B. Other Information**

Not applicable

**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

We will furnish to the SEC a definitive Proxy Statement not later than 120 days after the close of the fiscal year ended March 31, 2011. Information with respect to this Item is incorporated herein by reference from our 2011 Proxy Statement, including in the sections captioned, *Our Board of Directors* and *Corporate Governance*.

Our Board of Directors has adopted a code of business ethics and conduct, which applies to all our employees. The code of business ethics and conduct is in addition to our code of ethics for senior financial officers. The full texts of our code of business ethics and conduct and our code of ethics for senior financial officers can be found on our website, [www.commvault.com](http://www.commvault.com).

**Item 11. Executive Compensation**

Information with respect to this Item is incorporated herein by reference from our 2011 Proxy Statement, including in the section captioned *Compensation Discussion and Analysis*.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information with respect to this Item is incorporated herein by reference from our 2011 Proxy Statement, including in the section captioned *Security Ownership of Certain Beneficial Ownership and Management*.

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information as of March 31, 2011 with respect to the shares of our common stock that may be issuable upon the exercise of options, warrants and rights under or existing equity compensation plans.

The following information is as of March 31, 2011:

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders (1)	8,043,330	\$ 13.75	1,275,760
Equity compensation plans not approved by security holder			
Totals	8,043,330	\$ 13.75	1,275,760(2)

(1) Consists of shares of common stock to be issued upon exercise of outstanding options and vesting of restricted stock awards under our 1996 Stock Option Plan and 2006 Long-Term Stock Incentive Plan.

(2) On each April 1, the number of shares available for issuance under the 2006 Long-Term Stock Incentive Plan is increased, if applicable, such that the total number of shares available for awards under the 2006 Long-Term Stock Incentive Plan as of any April 1 is equal to 5% of the number of outstanding shares of our common stock on that April 1.



**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

Information with respect to this Item is incorporated herein by reference from our 2011 Proxy Statement, including in the section captioned, Transactions with Related Persons .

**Table of Contents****Item 14. Principal Accountant Fees and Services**

Information with respect to this Item is incorporated herein by reference from our 2011 Proxy Statement, including in the sections captioned Audit, Audit-related, Tax and All Other Fees .

**PART IV****Item 15. Exhibits and Financial Statement Schedules****Financial Statements**

See Index to Consolidated Financial Statements set forth in Item 8 for a list of financial statements filed as part of this report.

**Financial Statement Schedules**

The following financial statement schedule should be read in conjunction with the Consolidated Financial Statements set forth in Item 8 and appears below:

Schedule II Valuation and Qualifying Accounts for the years ended March 31, 2009, 2010 and 2011.

All other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

**Schedule II Valuation and Qualifying Accounts**

	<b>Balance at Beginning of Year</b>	<b>Charged (Credited) to  Costs and Expenses      Deductions</b>		<b>Balance at End of Year</b>
		<b>(In thousands)</b>		
<b>Year Ended March 31, 2009</b>				
Allowance for doubtful accounts	\$ 275	\$ 24	\$ 106	\$ 193
<b>Year Ended March 31, 2010</b>				
Allowance for doubtful accounts	\$ 193	\$ 158	\$ 59	\$ 292
<b>Year Ended March 31, 2011</b>				
Allowance for doubtful accounts	\$ 292	\$ (42)	\$ 144	\$ 106
Valuation allowance for deferred taxes (1)	\$	\$ 4,306	\$	\$ 4,306

- (1) During the year ended March 31, 2011, we recorded valuation allowances totaling \$4,306 against our deferred tax assets. Specifically, we recorded a valuation allowance of \$4,212 against certain state research tax credits due to uncertainties related to the ability to utilize such state research tax credits before they expire. In addition, we recorded a valuation allowance of \$94 against foreign net operating loss carryforwards in a certain international jurisdiction.

**Table of Contents**

**Exhibits**

The following exhibits are incorporated by reference or filed herewith.

<b>Exhibit No.</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation of CommVault Systems, Inc. (Incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
3.2	Amended and Restated Bylaws of CommVault Systems, Inc. (Incorporated by reference to Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
3.3	Certification of Designation of Series A Junior Participating Preferred Stock of CommVault Systems, Inc. (Incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K dated November 14, 2008).
4.1	Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
4.2	Rights Agreement between CommVault Systems, Inc. and Registrar and Transfer Company (Incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K dated November 14, 2008).
9.1	Form of Voting Trust Agreement (Incorporated by reference to Exhibit 9.1 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.1*	CommVault Systems, Inc. 1996 Stock Option Plan, as amended (Incorporated by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.2*	Form of CommVault Systems, Inc. 2006 Long-Term Stock Incentive Plan (Incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.3*	Form of Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.4*	Form of Restricted Stock Unit Agreement (Incorporated by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the year ended March 31, 2007).
10.5*	Employment Agreement, dated as of February 1, 2004, between CommVault Systems, Inc. and N. Robert Hammer (Incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.6*	Form of Employment Agreement between CommVault Systems, Inc. and Alan G. Bunte and Louis F. Miceli (Incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.7*	

Edgar Filing: COMMVault SYSTEMS INC - Form 10-K

Form of Corporate Change of Control Agreement between CommVault Systems, Inc. and Alan G. Bunte and Louis F. Miceli (Incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).

- 10.8\* Form of Corporate Change of Control Agreement between CommVault Systems, Inc. and David West, Ron Miiller, Scott Mercer and Steven Rose (Incorporated by reference to Exhibit 10.8 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
- 10.9\* Form of Indemnity Agreement between CommVault Systems, Inc. and each of its current officers and directors (Incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
- 10.10 Software License Agreement, dated December 17, 2003, by and between Dell Products L.P. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.18 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
- 10.11 Addendum One to the License and Distribution Agreement, dated May 5, 2004, by and between Dell Products L.P. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.19 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).

**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
10.12	Addendum Two to the License and Distribution Agreement, dated November 22, 2004, by and between Dell Products L.P. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.20 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.13	Addendum Three to the License and Distribution Agreement, dated April 28, 2005, by and between Dell Products L.P. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.21 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.14	Addendum Five to the License and Distribution Agreement, dated June 6, 2006, by and between Dell Products L.P. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.22 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.15	CommVault Systems Amended and Restated Reseller Agreement, effective as of April 6, 2005, between CommVault Systems and Dell Inc. (Incorporated by reference to Exhibit 10.23 to the Registrant's Registration Statement on Form S-1, Commission File No. 333-132550).
10.16	Addendum Six to the Software License Agreement, dated August 9, 2007, by and between Dell Products L.P. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ending March 31, 2008).
10.17	Addendum Seven to the Software License Agreement, dated March 27, 2008, by and between Dell Products L.P. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ending March 31, 2008).
10.18	Addendum Nine to the Software License Agreement, dated September 1, 2008, by and between Dell Global B.V. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.23 to the Registrant's Quarterly Report on Form 10-Q for the quarter ending September 30, 2008).
10.19	Addendum Ten to the Software License Agreement, dated October 1, 2008, by and between Dell Global B.V. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.24 to the Registrant's Quarterly Report on Form 10-Q for the quarter ending September 30, 2008).
10.20	Direct Supplier Agreement, dated August 2, 2008, by and between CommVault Systems, Inc. and Dell Products L.P. (Incorporated by reference to Exhibit 10.25 to the Registrant's Quarterly Report on Form 10-Q for the quarter ending September 30, 2008).
10.21	Addendum Eleven to the Software License Agreement, dated April 9, 2009, by and between Dell Global B.V. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ending March 31, 2009).
10.22	Addendum Twelve to the Software License Agreement, dated June 23, 2009, by and between Dell Global B.V. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.27 to the Registrant's Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).

Edgar Filing: COMMVault SYSTEMS INC - Form 10-K

- 10.23 Addendum Thirteen to the Software License Agreement, dated July 31, 2009, by and between Dell Global B.V. and CommVault Systems, Inc. (Incorporated by reference to Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ending September 30, 2009).
- 21.1 List of Subsidiaries of CommVault Systems, Inc.
- 23.1 Consent of Ernst & Young LLP
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**Table of Contents**

<b>Exhibit No.</b>	<b>Description</b>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Confidential treatment has been requested for portions of this document. Omitted portions have been filed separately with the SEC.

\* Management contract or compensatory plan or arrangement.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Oceanport, State of New Jersey, on May 17, 2011.

COMMVault SYSTEMS, INC.

By: /s/ N. ROBERT HAMMER  
N. Robert Hammer  
*Chairman, President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on May 17, 2011.

<b>Signature</b>	<b>Title</b>
/s/ N. ROBERT HAMMER N. Robert Hammer	Chairman, President and Chief Executive Officer
/s/ LOUIS F. MICELI Louis F. Miceli	Senior Vice President, Chief Financial Officer
/s/ BRIAN CAROLAN Brian Carolan	Vice President, Chief Accounting Officer
/s/ ALAN G. BUNTE Alan G. Bunte	Director
/s/ FRANK J. FANZILLI, JR. Frank J. Fanzilli, Jr.	Director
/s/ ARMANDO GEDAY Armando Geday	Director
/s/ KEITH GEESLIN Keith Geeslin	Director
/s/ F. ROBERT KURIMSKY F. Robert Kurimsky	Director



/s/ DANIEL PULVER

Director

Daniel Pulver

/s/ GARY SMITH

Director

Gary Smith

/s/ DAVID F. WALKER

Director

David F. Walker