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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

For transition period from to

Commission File Number 001-33622

VMWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-3292913** **(I.R.S. Employer Identification Number)**
3401 Hillview Avenue **Palo Alto, CA** **(Address of principal executive offices)**	**94304** **(Zip Code)**

(650) 427-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐

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

As of July 31, 2009, the number of shares of common stock, par value $.01 per share, of the registrant outstanding was 396,361,325, of which 96,361,325 shares were Class A common stock and 300,000,000 were Class B common stock.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VMware, Inc.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$2,275,660	$1,840,812
Accounts receivable, less allowance for doubtful accounts of $1,460 and $1,690	257,363	338,014
Deferred tax asset, current portion	51,231	44,573
Income taxes receivable from EMC	22,725	111,050
Other current assets	65,656	55,639
Total current assets	2,672,635	2,390,088
Property and equipment, net	415,271	418,212
Capitalized software development costs, net and other	178,330	134,553
Deferred tax asset, net of current portion	76,530	68,280
Intangible assets, net	50,406	56,984
Goodwill	768,409	771,088
Total assets	$4,161,581	$3,839,205
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 38,833	$ 74,708
Accrued expenses	214,972	211,519
Due to EMC, net	23,996	33,407
Income taxes payable	24,791	15,761
Deferred revenue, current portion	598,091	544,355
Total current liabilities	900,683	879,750
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	336,153	325,634
Deferred tax liability	49,743	47,825
Other liabilities	77,827	65,929
Total liabilities	1,814,406	1,769,138
Commitments and contingencies (see Note J)		
Stockholders' equity:		
Class A common stock, par value $.01; authorized 2,500,000 shares; issued and outstanding 94,948 and 90,448 shares	950	904
Class B convertible common stock, par value $.01; authorized 1,000,000 shares; issued and outstanding 300,000 shares	3,000	3,000
Additional paid-in capital	2,027,417	1,836,513
Accumulated other comprehensive income	1,934	—
Retained earnings	313,874	229,650
Total stockholders' equity	2,347,175	2,070,067
Total liabilities and stockholders' equity	$4,161,581	$3,839,205

The accompanying notes are an integral part of the consolidated financial statements.

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VMware, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Revenues:				
License	$ 227,962	$ 284,233	$ 484,965	$ 578,213
Services	227,713	171,895	441,020	316,090
	455,675	456,128	925,985	894,303
Operating expenses:				
Cost of license revenues	27,853	21,639	48,212	44,498
Cost of services revenues	53,293	58,892	107,937	113,203
Research and development	121,380	114,128	226,781	233,383
Sales and marketing	167,421	158,307	321,565	307,564
General and administrative	47,729	42,162	96,588	86,264
Operating income	37,999	61,000	124,902	109,391
Investment income	2,496	6,310	5,558	14,314
Interest expense with EMC, net	(1,999)	(3,579)	(4,673)	(9,398)
Other income (expense), net	375	370	(1,449)	824
Income before income taxes	38,871	64,101	124,338	115,131
Income tax provision	6,336	11,765	21,868	19,740
Net income	$ 32,535	$ 52,336	$ 102,470	$ 95,391
Net income per weighted-average share, basic for Class A and Class B	$ 0.08	$ 0.14	$ 0.26	$ 0.25
Net income per weighted-average share, diluted for Class A and Class B	$ 0.08	$ 0.13	$ 0.26	$ 0.24
Weighted-average shares, basic for Class A and Class B	391,841	382,931	390,855	381,976
Weighted-average shares, diluted for Class A and Class B	395,826	398,979	393,178	398,258

The accompanying notes are an integral part of the consolidated financial statements.

VMware, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Cash flows from operating activities:				
Net income	$ 32,535	$ 52,336	$ 102,470	$ 95,391
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	44,927	39,459	86,310	76,893
Stock-based compensation, excluding amounts capitalized	51,456	42,072	101,271	84,233
Excess tax benefits from stock-based compensation	(4,243)	(56,735)	(4,473)	(79,427)
Other	141	(278)	634	1,058
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	6,530	(25,132)	80,691	(24,286)
Other assets	(9,313)	(4,687)	896	(13,281)
Due to/from EMC, net	5,973	23,040	(9,411)	40,286
Accounts payable	(8,925)	(19,313)	(28,382)	(15,575)
Accrued expenses	26,316	12,060	13,888	489
Income taxes receivable from EMC	87,899	(107,514)	87,899	(107,514)
Income taxes payable	733	32,102	21,110	10,506
Deferred income taxes, net	(7,755)	83,063	(14,599)	46,719
Deferred revenue	17,046	80,161	64,255	168,322
Net cash provided by operating activities	243,320	150,634	502,559	283,814
Cash flows from investing activities:				
Additions to property and equipment	(29,843)	(51,899)	(65,668)	(100,921)
Capitalized software development costs	(14,745)	(11,770)	(44,680)	(15,934)
Purchase of investments	(25,000)	(1,750)	(25,745)	(1,750)
Business acquisitions, net of cash acquired	—	—	—	(33,289)
Decrease in restricted cash	549	—	549	896
Net cash used in investing activities	(69,039)	(65,419)	(135,544)	(150,998)
Cash flows from financing activities:				
Proceeds from issuance of common stock	77,103	109,658	81,606	133,327
Excess tax benefits from stock-based compensation	4,243	56,735	4,473	79,427
Shares repurchased for tax withholdings on vesting of restricted stock	(11,449)	(17,359)	(18,246)	(36,478)
Net cash provided by financing activities	69,897	149,034	67,833	176,276
Net increase in cash and cash equivalents	244,178	234,249	434,848	309,092
Cash and cash equivalents at beginning of the period	2,031,482	1,306,011	1,840,812	1,231,168
Cash and cash equivalents at end of the period	$2,275,660	$1,540,260	$2,275,660	$1,540,260
Non-cash items:				
Changes in capital additions, accrued but not paid	$ (6,520)	$ (6,914)	$ (16,477)	$ 12,196

The accompanying notes are an integral part of the consolidated financial statements.

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VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A. Overview and Basis of Presentation

Company and Background

VMware, Inc. ("VMware" or the "Company") is the leading provider of virtualization infrastructure software solutions from the desktop to the data center. VMware's virtualization infrastructure software solutions run on industry-standard desktops and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures.

Accounting Principles

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Unaudited Interim Financial Information

These accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. In the opinion of management, these unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, for a fair statement of VMware's consolidated financial condition, results of operations and cash flows for the periods presented. Results of operations are not necessarily indicative of the results that may be expected for the full year 2009. Certain information and footnote disclosures typically included in annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in VMware's 2008 Annual Report on Form 10-K.

VMware historically has received, and continues to receive, certain administrative services from EMC Corporation ("EMC"), and VMware and EMC engage in certain intercompany transactions. Costs incurred by EMC for the direct benefit of VMware, such as rent, salaries and benefits, plus a mark-up intended to approximate third-party costs, are included in VMware's financial statements. Management believes the assumptions underlying the financial statements are reasonable. However, given that these intercompany transactions did not arise from transactions negotiated at arm's-length with an unrelated third party, the financial statements included herein may not necessarily reflect the results of operations, financial position, and cash flows had VMware engaged in such transactions with an unrelated third party during all periods presented. Accordingly, VMware's historical financial information is not necessarily indicative of what the Company's results of operations, financial position, or cash flows will be in the future if and when VMware contracts at arm's-length with independent third parties for services the Company has received and currently receives from EMC.

Prior period financial statements have been reclassified to conform to current period presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of VMware and its subsidiaries. All intercompany transactions and balances between VMware and its subsidiaries have been eliminated. All intercompany transactions with EMC in the consolidated statements of cash flows will be settled in cash, and changes in the intercompany balances are presented as a component of cash flows from operating activities.

Use of Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting periods, and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates are used for, but not limited to, capitalized software development costs, receivable valuation, certain accrued liabilities, useful lives of fixed assets, valuation of acquired intangibles, revenue reserves, income taxes, stock-based compensation, and contingencies. Actual results could differ from those estimates.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

Subsequent Events

The Company evaluated events and transactions that occurred after the balance sheet date through August 6, 2009, the date the financial statements were issued, for potential recognition or disclosure in the Company's financial statements. No additional disclosure in this filing is required.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued FAS No. 167, "Amendments to FASB Interpretation No. 46 (R)" ("FAS No. 167"), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. VMware is currently evaluating the potential impact of FAS No. 167 on the Company's financial statements.

In June 2009, the FASB issued FAS No. 168, "Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles" *(* the "Codification"), which will be the single source of authoritative nongovernmental U.S. GAAP beginning July 1, 2009. The Codification will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current U.S. GAAP, the Codification is not intended to change U.S. GAAP, but is anticipated to make it easier to find and research U.S. GAAP applicable to a particular transaction or specific accounting issue. Although the adoption of the Codification is not expected to have an impact on the Company's financial position and results of operations, all future references to authoritative accounting literature in the Company's financial statements will be consistent with the Codification.

B. Significant Accounting Policies

Revenue Recognition

VMware derives revenues from the licensing of software and related services. VMware recognizes revenues for software products and related services in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2, "Software Revenue Recognition," as amended. VMware recognizes revenues when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable.

The following summarizes the major terms of VMware's contractual relationships with customers and the manner in which VMware accounts for sales transactions.

License revenues

VMware recognizes revenues from the sale of software when risk of loss transfers, which is generally upon electronic shipment.

VMware licenses its software under perpetual licenses through its channel of distributors, resellers, x86 system vendors, and systems integrators and through its direct sales force. VMware defers revenues relating to products that have shipped into its channel until its products are sold through the channel. VMware obtains sell-through information from distributors and certain resellers on a monthly basis. For VMware's channel partners who do not report sell-through data, VMware determines sell-through based on payment of such distributors' and certain resellers' accounts receivable balances and other relevant factors. For software sold by x86 system vendors that is bundled with their hardware, unless the Company has a separate license agreement with the end user, revenue is recognized in arrears upon the receipt of binding royalty reports.

For all sales, VMware uses one of the following to constitute evidence of an arrangement:

- a purchase order or equivalent;
- a license agreement and a purchase order or equivalent;
- a license agreement which includes language that the agreement also serves as the purchase order; or
- a master agreement and a binding royalty report.

Sales through distributors and resellers are evidenced by a master distribution agreement, together with purchase orders or equivalent, on a transaction-by-transaction basis.

With the exception of one of VMware's desktop products, VMware's return policy does not allow end users to return products for a refund. Certain distributors and resellers may rotate stock when new versions of a product are released. VMware estimates future product returns at the time of sale. VMware's estimate is based on historical return rates, levels of inventory held by distributors and resellers, and other relevant factors. Returns have not been material to date and have been in line with the Company's expectations.

VMware offers rebates to certain channel partners. When rebates are based on a set percentage of actual sales, VMware recognizes the amount of the rebates as a reduction of revenues when the underlying revenue is recognized. When rebates are earned only if a cumulative level of sales is achieved, VMware recognizes the amount of the rebates as a reduction of revenues proportionally for each sale that is required to achieve the target.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

VMware also offers marketing development funds to certain channel partners. VMware records the amount of the marketing development funds, based on the maximum potential liability, as a reduction of revenues at the time the underlying revenue is recognized.

Services revenues

Services revenues consist of software maintenance and professional services. VMware recognizes software maintenance revenues ratably over the contract period. Professional services include design, implementation, and training. Professional services are not considered essential to the functionality of VMware's products as these services do not alter the product capabilities and may be performed by customers or other vendors. Professional services engagements performed for a fixed fee, for which VMware is able to make reasonably dependable estimates of progress toward completion, are recognized on a proportional performance basis based on hours incurred. Professional services engagements that are on a time and materials basis are recognized based upon hours incurred. Revenues on all other professional services engagements are recognized upon completion.

Multiple element arrangements

VMware's software products are typically sold with software maintenance and/or professional services. Vendor-specific objective evidence ("VSOE") of fair value for professional services is based upon the standard rates VMware charges for such services when sold separately. VSOE of fair value for software maintenance services is established by the rates charged in stand-alone sales of software maintenance contracts or the stated renewal rate for software maintenance included in the license agreement. The revenues allocated to the software license included in multiple element contracts represent the residual amount of the contract after the fair value of the other elements has been determined.

Customers under software maintenance agreements are entitled to receive updates and upgrades on a when-and-if-available basis, and various types of technical support based on the level of support purchased. In the event specific features or functionality, entitlements, or the release number of an upgrade or new product have been announced but not delivered, and customers will receive that upgrade or new product as part of a current software maintenance contract, a specified upgrade is deemed created and product revenues are deferred on purchases made after the announcement date until delivery of the upgrade or new product. The amount and elements to be deferred are dependent on whether the company has established VSOE of fair value for the upgrade or new product. VSOE of fair value of these upgrades or new products is established based upon the price set by management. VMware has a history of selling these upgrades or new products on a stand-alone basis.

Deferred revenues include unearned software maintenance fees, professional services fees, and license fees.

Research and Development and Capitalized Software Development Costs

Costs related to research and development ("R&D") are generally charged to expense as incurred. Capitalization of material development costs of software to be sold, leased, or otherwise marketed are subject to capitalization beginning when technological feasibility has been established and ending when the product is available for general release, in accordance with the provisions of FAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed" ("FAS No. 86"). Judgment is required in determining when technological feasibility is established. Changes in judgment as to when technological feasibility is established, or changes in the Company's business, including VMware's go-to-market strategy, would likely materially impact the amount of costs capitalized. For example, if the length of time between technological feasibility and general availability is less in the future, the amount of costs capitalized would likely decrease. In addition, VMware's R&D expenses and amounts capitalized as software development costs may not be comparable to VMware's peer companies due to differences in judgment as to when technological feasibility has been reached or differences in judgment regarding when the product is available for general release. FAS No. 86 requires annual amortization expense of capitalized software development costs to be the greater of the amounts computed using the ratio of current gross revenue to a products' total current and anticipated revenues, or the straight-line method over the product's remaining estimated economic life. To date, VMware has amortized these costs using the straight-line method as it is the greater of the two amounts. The costs are amortized over periods ranging from 18 to 24 months, which represent the product's estimated economic life. The ongoing assessment of the recoverability of these costs requires considerable judgment by management with respect to certain external factors such as anticipated future revenue, estimated economic life, and changes in software and hardware technologies. Material differences in amortization amounts could occur as a result of changes in the periods over which VMware actually generates revenues or the amounts of revenues generated.

Unamortized software development costs were $155.3 million and $128.8 million as of June 30, 2009 and December 31, 2008, respectively, and are included in capitalized software development costs, net and other on the consolidated balance sheet.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

In the three months ended June 30, 2009 and 2008, VMware capitalized $18.4 million (including $3.6 million of stock-based compensation), and $14.8 million (including $3.0 million of stock-based compensation), respectively, of costs incurred for the development of software products. In the six months ended June 30, 2009 and 2008, VMware capitalized $54.8 million (including $10.1 million of stock-based compensation), and $19.9 million (including $3.9 million of stock-based compensation), respectively, of costs incurred for the development of software products. These amounts have been excluded from R&D expenses on the Company's accompanying consolidated statements of income. Amortization expense from capitalized amounts was $17.6 million and $14.3 million in the three months ended June 30, 2009 and 2008, respectively. Amortization expense from capitalized amounts was $28.3 million and $29.1 million in the six months ended June 30, 2009 and 2008, respectively. Amortization expense is included in cost of license revenues on the Company's accompanying consolidated statements of income.

Long-Lived Assets

Intangible assets, other than goodwill, are amortized over their estimated useful lives, during which the assets are expected to contribute directly or indirectly to future cash flows, and which range from one to eleven years. In the three months ended June 30, 2009 and 2008, VMware amortized $3.3 million and $3.8 million, respectively, for intangible assets. The amortization expense for the six months ended June 30, 2009 and 2008 was $6.6 million and $7.7 million, respectively.

VMware reviews long-lived assets for impairment in accordance with FAS No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets." VMware reviews for impairment if events or changes in business circumstances indicate that the carrying amounts of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate.

Goodwill is carried at its historical cost. VMware tests goodwill for impairment in accordance with FAS No. 142 "Goodwill and Other Intangible Assets," in the fourth quarter of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired.

To date, there have been no impairments of goodwill or other intangible assets.

Investments

For investments in public companies that have readily determinable fair values, the Company classifies its equity investments as available-for-sale and, accordingly, records these investments at their fair values in "Other current assets" on the consolidated balance sheet. Unrealized gains and losses on these investments, net of tax, are included in "Accumulated other comprehensive income," a separate component of stockholders' equity. Other equity investments in private companies, which consist of investments for which the Company does not have the ability to exercise significant influence, are accounted for using the cost method of accounting. Under the cost method, investments in private companies are carried at cost and are adjusted only for other-than-temporary declines in fair value, distributions of earnings, and additional investments. The Company's investments were not material as of June 30, 2009.

The Company periodically evaluates whether declines in fair values of its investments below their cost are other-than-temporary. This evaluation consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss as well as the Company's ability and intent to hold the investment until a forecasted recovery occurs. Factors considered include quoted market prices; recent financial results and operating trends; other publicly available information; implied values from any recent transactions or offers of investee securities; or other conditions that may affect the value of the investments.

Comprehensive Income

The components of comprehensive income include net income adjusted for unrealized gains (losses) on available-for-sale securities, net of tax. See Note L to the consolidated financial statements for more information.

Concentrations of Risks

Financial instruments, which potentially subject VMware to concentrations of credit risk, consist principally of cash and cash equivalents and accounts receivable. Cash on deposit with banks exceeds the amount of insurance provided on such deposits. These deposits may be redeemed upon demand. VMware places cash and cash equivalents primarily in money market funds and limits the amount of investment with any one issuer. As of June 30, 2009, VMware had $2,167.5 million in money market securities. Of this amount, $756.7 million or 35% were participating in the Temporary Guarantee Program for Money Market Funds, which is backed by the U.S. Treasury Department but limited to the balance in the money market funds as of September 19, 2008. The Temporary Guarantee Program for Money Market funds expires on September 18, 2009. VMware holds a diversified portfolio of money market funds, which invest in municipal bonds and notes, government agency debt, time deposits, corporate bonds, and commercial paper. In addition, VMware monitors the counterparty risk to ensure adequate diversification amongst the financial institutions holding the Company's funds.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

VMware provides credit to distributors, resellers, and certain end user customers in the normal course of business. Credit is generally extended to new customers based upon a credit evaluation. Credit is extended to existing customers based on ongoing credit evaluations, prior payment history, and demonstrated financial stability. Given the current economic downturn, VMware continues to apply scrutiny and analysis around the collectibility of transactions with certain customers, including but not limited to those customers in the financial services, insurance, and automotive industries, and the Company continues to monitor the appropriateness of established customer credit limits. VMware does not record accounts receivable or deferred revenue or recognize revenue relating to transactions where collectibility is not probable. The Company recognizes such transactions upon cash collection and recognizes revenue as earned in accordance with the Company's revenue recognition policies.

C. Net Income per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. For purposes of computing basic net income per share, the weighted-average number of outstanding shares of common stock excludes potentially dilutive securities. Diluted net income per share is computed by dividing net income by the weighted-average number of common shares outstanding and potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options, unvested restricted stock units, unvested restricted stock awards, and other unvested restricted stock, using the treasury stock method. Securities are excluded from the computations of diluted net income per share if their effect would be anti-dilutive. As of June 30, 2009, VMware had 94.5 million shares of Class A common stock and 300.0 million shares of Class B common stock outstanding that were included in the calculation of basic earnings per share. For purposes of calculating earnings per share, VMware uses the two-class method. As both classes share the same rights in dividends, basic and diluted earnings per share are the same for both classes.

The following table sets forth the computations of basic and diluted net income per share (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$ 32,535	$ 52,336	$ 102,470	$ 95,391
Weighted-average shares, basic for Class A and Class B	391,841	382,931	390,855	381,976
Effect of dilutive securities	3,985	16,048	2,323	16,282
Weighted-average shares, diluted for Class A and Class B	395,826	398,979	393,178	398,258
Net income per weighted-average share, basic for Class A and Class B	$ 0.08	$ 0.14	$ 0.26	$ 0.25
Net income per weighted-average share, diluted for Class A and Class B	$ 0.08	$ 0.13	$ 0.26	$ 0.24

For the three and six months ended June 30, 2009, 16.7 million and 27.3 million stock options to acquire VMware Class A common stock and 5.5 million and 7.0 million shares of restricted stock, respectively, were excluded from the diluted earnings per share calculations because their effect would have been anti-dilutive. For the three and six months ended June 30, 2008, 4.5 million and 4.3 million stock options, respectively, to acquire VMware Class A common stock were excluded from the diluted earnings per share calculations because their effect would have been anti-dilutive.

D. Fair Value Measurements

FAS No. 157 "Fair Value Measurements" clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets, (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly, and (Level 3) unobservable inputs in which there is little or no market data, which requires VMware to develop its own assumptions. This hierarchy requires VMware to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

VMware's cash and cash equivalents as of June 30, 2009 were $2,275.7 million, and included $2,167.5 million of money market securities, which are classified within Level 1 of the fair value hierarchy because the securities are valued using quoted prices in active markets for identical assets. There were no other material financial assets or liabilities carried at fair value as of June 30, 2009.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

E. Goodwill

Changes in the carrying amount of goodwill for the six months ended June 30, 2009 consist of the following (table in thousands):

Balance, January 1, 2009	$771,088
Goodwill acquired	—
Adjustments to purchase price allocations	(2,679)
Balance, June 30, 2009	$768,409

F. Property and Equipment, net

Property and equipment, net, as of June 30, 2009 and December 31, 2008 consist of the following (table in thousands):

	June 30, 2009	December 31, 2008
Equipment and software	$ 321,645	$ 284,458
Buildings and improvements	255,213	182,118
Furniture and fixtures	47,576	45,904
Construction in progress	1,732	66,663
Total property and equipment	626,166	579,143
Accumulated depreciation	(210,895)	(160,931)
Total property and equipment, net	$ 415,271	$ 418,212

In the first quarter of 2009, the Company occupied the completed portions of its data center facility. Additionally, construction was completed on the Company’s headquarters facilities. The related costs for each were transferred from construction in progress to the appropriate categories. As of December 31, 2008, construction was still in process on these facilities.

Depreciation expense was $24.0 million and $21.4 million for the three months ended June 30, 2009 and 2008, respectively, and $51.4 million and $40.1 million for the six months ended June 30, 2009 and 2008, respectively.

In conjunction with the completion of its data center facility, VMware reviewed and revised the useful lives of certain fixed assets after considering (i) the estimated future benefits the Company expects to receive from those assets, (ii) the pattern of consumption of those benefits and (iii) the information available regarding those benefits. As a result of the review, VMware increased the estimated useful lives of certain fixed assets from 3 to 5 years during the three months ended June 30, 2009. This change in estimate was prospectively applied beginning on April 1, 2009. For the three months ended June 30, 2009, this change in estimate reduced depreciation expense by $3.7 million. After considering the tax effect on the reduction in depreciation expense, there was no impact on basic and diluted earnings per share for the three and six months ended June 30, 2009.

G. Accrued Expenses

Accrued expenses as of June 30, 2009 and December 31, 2008 consist of the following (table in thousands):

	June 30, 2009	December 31, 2008
Salaries, commissions, and benefits	$107,587	$ 105,529
Accrued partner liabilities	46,151	52,914
Other	61,234	53,076
Total	$214,972	$ 211,519

Accrued partner liabilities referenced in the table above relate to rebates and marketing development fund accruals for channel partners, x86 system vendors, and system integrators.

H. Long-Term Debt

Note Payable to EMC

As of June 30, 2009, $450.0 million was outstanding on the consolidated balance sheet in relation to the note payable to EMC. The annualized interest rate for the three months ended June 30, 2009 and 2008 was 1.76% and 3.24%, respectively and the annualized interest rate for the six months ended June 30, 2009 and 2008 was 1.87% and 4.26%, respectively. For the three months ended June 30, 2009 and 2008, $2.0 million and $3.6 million, respectively of interest expense was recorded related to the note payable. For the six months ended June 30, 2009 and 2008, $4.2 million and $9.4 million, respectively of interest expense was recorded related to the note payable.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

I. Income Taxes

Although VMware files a federal consolidated tax return with EMC, VMware has calculated its income tax provision on a stand-alone basis. The Company's effective tax rate in the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to the foreign income being taxed in those lower tax rate jurisdictions and the fact that those earnings are considered as indefinitely reinvested in foreign operations.

VMware's effective income tax rate was 16.3% and 18.4%, respectively for the three months ended June 30, 2009 and 2008. The effective income tax rate was 17.6% and 17.1% for the six months ended June 30, 2009 and 2008, respectively. The decrease in the effective rate for the three months ended June 30, 2009 compared to the three months ended June 30, 2008, was mainly attributable to an increase in tax benefits from tax credits, primarily the research and development tax credit, relative to income before tax and forecasted shift of earnings from the U.S. to low-tax non-U.S. jurisdictions, partially offset by an increase in unrecognized tax benefits from uncertain tax positions relative to income before tax. Income earned abroad is considered indefinitely reinvested in the Company's foreign operations and no provision for U.S. taxes has been provided with respect thereto. The effective tax rates for the six months ended June 30, 2009 compared to the six months ended June 30, 2008 were not materially different.

As of June 30, 2009, VMware had $58.3 million of gross unrecognized tax benefits and $55.4 million of net unrecognized tax benefits. VMware reports interest and penalties related to unrecognized tax benefits in income tax expense. For the three months ended June 30, 2009, VMware recognized approximately $0.4 million in interest and penalties and had approximately $2.4 million of interest and penalties accrued at June 30, 2009. If the total amount of net unrecognized tax benefits had been recognized, $52.7 million would be a reduction to income tax expense impacting the effective income tax rate and $2.7 million would be a reduction to goodwill, if recognized within the measurement period. If this amount is recognized outside the measurement period, it will be a reduction to tax expense. It is reasonably possible that VMware may pay an immaterial amount of the $55.4 million of net unrecognized tax benefits within the next 12 months. However, based on the status of audit examinations and the protocol of finalizing audits, it is not possible to accurately estimate the amount to be paid within the next 12 months. Of the $55.4 million of net unrecognized tax benefits, $53.8 million were classified as a non-current liability on the consolidated balance sheet as of June 30, 2009. During the three months ended June 30, 2009, the Company concluded its 2005 and 2006 federal income tax audit.

As of June 30 2009, VMware had an income tax receivable from EMC of $22.7 million and at December 31, 2008 VMware had an income tax receivable of $111.1 million. The receivable arose as a result of the Company's stand-alone taxable loss for the year ended December 31, 2008, which was primarily attributable to tax deductions arising from both non-qualified stock option exercises and from the vesting of restricted stock. Under the tax sharing agreement with EMC, EMC is obligated to pay VMware an amount equal to the tax benefit generated by VMware that EMC will recognize on its consolidated tax return. As a result, EMC paid VMware $87.9 million of the income tax receivable during the three months ended June 30, 2009 for the 2008 Federal taxable loss that EMC will recognize on its 2008 Federal consolidated tax return and for a refund of an overpayment related to VMware's portion of EMC's 2007 federal consolidated tax return. The remainder of the income tax receivable is expected to be received during the three months ended December 31, 2009, after the EMC consolidated Federal income tax return is filed. During the three and six months ended June 30, 2009, VMware paid EMC for VMware's portion of their 2007 consolidated state income taxes. The timing of the tax payments due to and from EMC is governed by the tax sharing agreement with EMC.

J. Commitments and Contingencies

Litigation

VMware is named from time to time as a party to lawsuits in the normal course of its business. In such cases it is the Company's policy to defend against such claims, or if considered appropriate, negotiate a settlement on commercially reasonable terms. However, no assurance can be given that the Company will be able to negotiate settlements on commercially reasonable terms, or at all, or that any litigation resulting from such claims would not have a material adverse effect on the Company's consolidated results of operations, financial position, and cash flows, or consolidated financial statements taken as a whole.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

Operating Lease Commitments

VMware leases office facilities and equipment under various operating leases. Facility leases generally include renewal options. VMware's future lease commitments at June 30, 2009 are as follows (table in thousands):

2009	$ 16,703
2010	30,330
2011	26,499
2012	16,343
2013	12,378
Thereafter	278,306
Total minimum lease payments	$380,559

The amount of the future lease commitments after 2013 is primarily for the ground lease on VMware's Palo Alto, California headquarters facilities, which expires in 2057. As several of VMware's operating leases are payable in foreign currencies, the amount of operating lease commitments may fluctuate in response to changes in the exchange rate between the U.S. Dollar and the foreign currencies in which the commitments are payable.

K. Stockholders' Equity

VMware Equity Plan

In May 2009, VMware amended its 2007 Equity and Incentive Plan ("2007 Plan") to increase the number of shares available for issuance by 20.0 million shares. This amendment increases the maximum number of shares of the VMware Class A common stock reserved for the grant or settlement of awards under the 2007 Plan to 100.0 million.

VMware Employee Stock Purchase Plan

For the purchase period ended June 30, 2009, employees purchased 0.9 million shares under the VMware Employee Stock Purchase Plan ("ESPP") at a purchase price per share of $20.14. Cash proceeds from the purchase of shares under the ESPP for the six months ended June 30, 2009 were $18.3 million. This purchase was completed in June 2009.

VMware Stock Options

The following table summarizes option activity since January 1, 2009 for VMware stock options (shares in thousands):

	Number of Shares	Weighted-Average Exercise Price (per share)
Outstanding, January 1, 2009	42,436	$ 26.54
Granted	6,423	28.92
Forfeited	(1,787)	27.35
Expired	(107)	33.45
Exercised	(2,904)	21.81
Outstanding, June 30, 2009	44,061	27.14

Of the 6.4 million stock options to purchase VMware Class A common stock granted in the six months ended June 30, 2009, approximately 4.1 million were granted through refresh awards to the Company's existing employees.

Cash proceeds from the exercise of stock options for the six months ended June 30, 2009 were $63.3 million. The options exercised during the six months ended June 30, 2009 had a pre-tax intrinsic value of $23.6 million.

VMware Restricted Stock

VMware restricted stock includes restricted stock awards, restricted stock units, and other restricted stock. Other restricted stock includes options exercised by non-employee directors that were required to be exercised within one year of grant, but are subject to a three-year vesting provision. The exercise of those options prior to vesting resulted in the outstanding shares being subject to repurchase and hence restricted until such time as the respective options vest.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

The following table summarizes restricted stock activity since January 1, 2009 for VMware restricted stock (shares in thousands):

	Number of Shares	Weighted-Average Grant Date Fair Value (per share)
Outstanding, January 1, 2009	7,626	$ 32.35
Granted	2,914	29.79
Vested	(1,822)	30.79
Forfeited	(376)	35.80
Outstanding, June 30, 2009	8,342	31.65

Of the 2.9 million restricted stock units granted in the six months ended June 30, 2009, approximately 2.2 million were granted through refresh awards to the Company's existing employees.

The total fair value of restricted stock that vested in the six months ended June 30, 2009 was $48.4 million. As of June 30, 2009, 8.3 million shares of VMware restricted stock were outstanding, with an aggregate intrinsic value of $226.6 million based on the share price as of June 30, 2009. These shares are scheduled to vest through 2013.

Shares Repurchased for Tax Withholdings

During the three months ended June 30, 2009 and 2008, VMware repurchased 353,707 and 283,839 shares of Class A common stock for $11.4 million and $18.9 million, respectively, to cover tax withholding obligations. During the six months ended June 30, 2009 and 2008, 676,478 and 647,176 shares of Class A common stock were repurchased for tax withholdings for $18.2 million and $39.2 million, respectively. Pursuant to the respective agreements, these shares were repurchased in conjunction with the net share settlement upon the vesting of restricted stock and restricted stock units during the period. The amount of repurchased shares was recorded as a reduction to retained earnings as of June 30, 2009.

Stock-Based Compensation Expense

The following table summarizes the components of total stock-based compensation expense included in VMware's consolidated statements of income for the three and six months ended June 30, 2009 and 2008 (table in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of license revenues	$ 313	$ 276	$ 643	$ 539
Cost of services revenues	3,463	3,795	6,938	7,056
Research and development	26,433	19,479	50,337	40,576
Sales and marketing	13,311	11,699	27,145	23,000
General and administrative	7,936	6,823	16,208	13,062
Stock-based compensation expense	51,456	42,072	101,271	84,233
Income tax benefit	9,853	9,913	19,787	18,413
Total stock-based compensation expense, net of tax	$ 41,603	$ 32,159	$ 81,484	$ 65,820

For the three months ended June 30, 2009 and 2008, VMware capitalized $3.6 million and $3.0 million, respectively, of stock-based compensation expense associated with capitalized software development in accordance with FAS No. 86. For the six months ended June 30, 2009 and 2008, VMware capitalized $10.1 million and $3.9 million, respectively, of stock-based compensation expense associated with capitalized software development in accordance with FAS No. 86.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

Fair Value of VMware Options

The fair value of each option to acquire VMware Class A common stock granted during the three and six months ended June 30, 2009 and 2008 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

VMware Stock Options	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Dividend yield	None	None	None	None
Expected volatility	36.0%	37.6%	36.6%	37.9%
Risk-free interest rate	2.2%	2.6%	2.0%	2.4%
Expected term (in years)	3.9	3.4	3.9	3.4
Weighted-average fair value at grant date	$ 9.48	$ 18.37	$ 9.00	$ 17.68

VMware Employee Stock Purchase Plan	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Dividend yield	None	None
Expected volatility	59.3%	37.3%
Risk-free interest rate	0.3%	3.4%
Expected term (in years)	0.5	0.5
Weighted-average fair value at grant date	$ 7.49	$ 22.10

VMware's expected dividend yield input was zero as the Company has not historically paid, nor expects in the future to pay, cash dividends on its common stock. Volatility was based on an analysis of historical stock prices and implied volatilities of publicly-traded companies with similar characteristics, including industry, stage of life cycle, size, and financial leverage. Starting in 2009, volatility was also based upon the implied volatilities of VMware's Class A common stock. In 2008, the expected term was calculated based on the historical experience that VMware employees have had with EMC stock option grants as well as the expected term of similar grants of comparable companies. Starting in 2009, the expected term was calculated based only upon the expected term of similar grants of comparable companies. The risk-free interest rate was based on a zero-coupon U.S. Treasury instrument whose term is consistent with the expected term of the stock options.

L. Comprehensive Income

The following table sets forth the components of comprehensive income, for the three and six months ended June 30, 2009 and 2008, respectively (in thousands):

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Net income	$ 32,535	$ 52,336	$ 102,470	$ 95,391
Comprehensive income :				
Unrealized gains on available-for-sale securities, net of taxes of $1,185, $0, $1,185 and $0	1,934	—	1,934	—
Total comprehensive income, net of taxes	$ 34,469	$ 52,336	$ 104,404	$ 95,391

M. Related Party Transactions

Transactions with EMC

Pursuant to a reseller arrangement with EMC, which commenced in the first three months of 2009, EMC bundles VMware's products with EMC's hardware and sells them to end users. In the three and six months ended June 30, 2009, VMware recognized revenues of $0.5 million and $2.6 million, respectively, from products sold pursuant to VMware's reseller arrangement with EMC. As of June 30, 2009, $1.4 million of revenues from products sold under the reseller arrangement were included in deferred revenue.

In the three months ended June 30, 2009 and 2008, VMware recognized professional services revenues of $5.6 million and $3.8 million, respectively, for services provided to EMC's customers pursuant to VMware's contractual agreements with EMC. In the six months ended June 30, 2009 and 2008, VMware recognized $10.1 million and $7.1 million, respectively, from such contractual arrangements with EMC. As of June 30, 2009, $2.5 million of revenues from professional services to EMC customers were included in deferred revenue.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

In the three months ended June 30, 2009 and 2008, VMware recognized revenues from server and desktop products and services purchased by EMC for internal use of $0.7 million and $3.6 million, respectively, pursuant to VMware's contractual agreements with EMC. In the six months ended June 30, 2009 and 2008, VMware recognized $1.3 million and $3.6 million, respectively, from such contractual arrangements with EMC. As of June 30, 2009, $3.0 million of revenues from server and desktop products and services purchased by EMC for internal use were included in deferred revenue.

VMware purchased storage systems and software from EMC for $2.1 million and $6.1 million in the three months ended June 30, 2009 and 2008, respectively, and $7.2 million and $16.8 million in the six months ended June 30, 2009 and 2008, respectively. Purchases from EMC were at a discount off of EMC's list price.

In certain geographic regions where VMware does not have an established legal entity, VMware contracts with EMC subsidiaries for support services and EMC employees who are managed by VMware personnel. The costs incurred by EMC on VMware's behalf related to these employees are passed on to VMware and VMware is charged a mark-up intended to approximate costs that would have been charged had such arrangements been with an unrelated third party. These costs are included as expenses in VMware's consolidated statements of income. These costs primarily include salaries and benefits, travel, and rent. Additionally, EMC incurs certain costs on VMware's behalf in the U.S., which primarily relate to a shared system for travel. The total of these costs were $28.6 million and $35.4 million for the three months ended June 30, 2009 and 2008, respectively, and $53.1 million and $74.8 million for the six months ended June 30, 2009 and 2008, respectively.

As calculated under VMware's tax sharing agreement with EMC, VMware paid $2.5 million during the three and six months ended June 30, 2009 for VMware's portion of their 2007 consolidated state income taxes. VMware paid $62.3 million during the six months ended June 30, 2008 for VMware's portion of EMC's 2007 consolidated federal income taxes. No payments were made during the three months ended June 30, 2008. Under the same tax sharing agreement EMC paid VMware $87.9 million during the three and six months ended June 30, 2009 for the VMware stand-alone federal taxable loss for the fiscal year ended December 31, 2008 and for a refund of an overpayment related to VMware's portion of EMC's 2007 federal consolidated tax return. The amounts that VMware pays to EMC for VMware's portion of federal income taxes on EMC's consolidated tax return differ from the amounts VMware would owe on a stand-alone basis and the difference is presented as a component of stockholders' equity. In the three and six months ended June 30, 2009 and 2008, the difference between the amount of tax calculated on a stand-alone basis and the amount of tax calculated as VMware's portion of federal income taxes on EMC's consolidated tax return was recorded in stockholders' equity. For all periods presented, the difference was not significant.

Interest expense with EMC, net, primarily consists of interest expense on the note payable to EMC, offset by interest income that has been earned on VMware's intercompany balance with EMC. In the three months ended June 30, 2009 and 2008, $2.0 million and $3.7 million, respectively, of interest expense was recorded related to the note payable to EMC and included in interest expense with EMC, net, recorded on the consolidated statements of income. In the six months ended June 30, 2009 and 2008, $4.2 million and $9.7 million, respectively, of interest expense was recorded related to the note payable. VMware's interest income and VMware's expenses as a separate, stand-alone company may be higher or lower than the amounts reflected in the financial statements.

As of June 30, 2009, VMware had $32.1 million due to EMC, which was partially offset by $8.1 million due from EMC. The net amount due to EMC as of June 30, 2009 was $24.0 million and resulted from the related party transactions described above. As of June 30, 2009, VMware had $22.7 million of income taxes receivable due from EMC and $17.8 million of income taxes payable due to EMC. Balances due to or from EMC which are unrelated to tax obligations are generally settled in cash within 60 days of each quarter-end. The timing of the tax payments due to and from EMC is governed by the tax sharing agreement with EMC.

N. Segment Information

VMware operates in one reportable segment in accordance with the provisions of FAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. VMware operates in one segment, therefore all financial segment information required by FAS No. 131 can be found in the consolidated financial statements.

Revenues by geographic area are as follows (table in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
United States	$ 233,655	$ 239,906	$ 477,734	$ 465,081
International	222,020	216,222	448,251	429,222
Total	$ 455,675	$ 456,128	$ 925,985	$ 894,303

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)
(unaudited)

Long-lived assets, which primarily include property and equipment, net in the United States at June 30, 2009 and December 31, 2008 were $309.7 million and $325.4 million, respectively. Long-lived assets internationally at June 30, 2009 and December 31, 2008 were $43.0 million and $44.5 million, respectively. No country other than the United States accounted for 10% or more of these assets at June 30, 2009 or December 31, 2008.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our quarterly consolidated financial statements and notes thereto which appear elsewhere in this Quarterly Report on Form 10-Q.

This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements, within the meaning of the federal securities laws, about our business and prospects. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations or other developments in our business that may be announced or consummated after the date hereof. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "outlook," "believes," "plans," "intends," "expects," "goals," "potential," "continues," "may," "will," "should," "seeks," "predicts," "estimates," "anticipates" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Our future results may differ materially from our past results and from those projected in the forward-looking statements due to various uncertainties and risks, including those described in Item 1A of Part II (Risk Factors). The forward-looking statements speak only as of the date of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements contained herein after the date of this Quarterly Report.

All dollar amounts expressed as numbers in this MD&A (except per share amounts) are in millions.
Certain tables may not add due to rounding.

Overview

Our primary source of revenues is the licensing of virtualization infrastructure software solutions and related support and services through a variety of distribution channels for use by businesses and organizations of all sizes and across numerous industries in their information technology ("IT") infrastructure. Our solutions run on industry-standard desktops and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures. Our virtualization software solutions help eliminate the complexity of maintaining and managing IT infrastructures, reduce both capital and operating costs, and provide a more flexible and dynamic IT environment to better support the needs of business. With our latest platform, VMware vSphere 4, we are helping companies towards the path of cloud computing by providing compatible IT infrastructures for both businesses and cloud service providers.

We have developed a multi-channel distribution model to expand our presence and to reach various segments of the industry. In the second quarter and first half of 2009 we derived over 75% of our revenues from our channel partners, which include distributors, resellers, x86 system vendors and system integrators. We have also developed a network of indirect channel partners who fulfill orders through our direct channel partners. The majority of our revenues result from contracts that include both perpetual software licenses and ongoing software maintenance contracts. License revenues are recognized when the elements of revenue recognition are complete. Software maintenance revenues are recognized ratably over the term of the software maintenance period, and include renewals of software maintenance sold after the initial software maintenance period expires. We also recognize revenues from professional services provided to our customers primarily as services are performed.

Our current financial focus is on long-term revenue growth to generate cash flows to fund our expansion of industry segment share and our development of virtualization-based products for data centers, desktops and cloud computing. We expect to grow our business by broadening our virtualization infrastructure software solutions technology and product portfolio, increasing product awareness, promoting the adoption of virtualization, and building long-term relationships with our customers through the adoption of enterprise license agreements ("ELAs"). In the second quarter of 2009, VMware vSphere 4, the next generation of VMware Infrastructure which is our flagship virtual data center operating system ("VDC-OS") product, became generally available. We expect to continue to introduce products that build on the vSphere foundation through 2009 and 2010.

Since mid-2008 we have observed that customers are reducing their IT spending in order to preserve cash. As a result, customers are subjecting larger orders, such as ELAs, to a longer review process and in certain cases are purchasing products to meet their immediate needs, foregoing larger discounts offered under ELAs. We believe this trend primarily correlates to the global economic downturn and we expect this to continue throughout the remainder of 2009 and perhaps longer.

Although we are currently the leading provider of virtualization infrastructure software solutions, we face competitive threats to our leadership position from a number of companies, some of which have significantly greater resources than we do, which could result in increased pressure to reduce prices on our offerings. As a result, we believe it is important to continue to invest in strategic initiatives related to product research and development, market expansion and associated support functions to expand our industry leadership. These investments could result in contracting operating margins as we invest in our future. We believe that we will be able to continue to meet our product development objectives through continued investment in our Company, supplemented with strategic hires and acquisitions, funded through the operating cash flows generated from the sale of our existing products and services. We believe this is the appropriate priority for the long-term health of our business.

In evaluating our results, we also focus on operating margin excluding stock-based compensation, employer taxes on employee stock transactions, amortization of intangible assets, the write-off of in-process research and development, and the net effect of the amortization and capitalization of software development costs as we believe this measure reflects our ongoing business in a manner that allows meaningful period-to-period comparisons. We are not currently focused on short-term operating margin expansion, but rather on investing at appropriate rates to support our growth and future product offerings in what may be a substantially more competitive environment; as a result, our future operating margins may decline from current levels.

Our maintenance-related services revenues are typically recognized ratably over periods from one to five years subsequent to the initial contract, whereas most of our license revenues are generally recognized upon electronic shipment of the software. As a consequence, variability in operating margin can result from differences in when we quote and contract for our services and when the cost is incurred. Historically, most of our revenue contracts with international channel partners were in U.S. Dollars. A portion of our operating expenses are in currencies other than the U.S. Dollar. This currency difference between our revenues and operating expenses has caused variability in our operating margins due to fluctuations in the U.S. Dollar compared to other currencies. In conjunction with the general release of VMware vSphere 4 in the second quarter of 2009, we started to invoice and collect in the Euro, the British Pound, the Japanese Yen, and the Australian Dollar. Due to the timing of the release of VMware vSphere 4, which occurred late in the quarter, invoicing in local currencies did not have a significant impact on our revenues. While variability in operating margin may be reduced in future periods as a result of invoicing in certain local currencies, increased exposure to foreign currency fluctuations will introduce additional risk for variability in revenue-related components of our financial statements. In order to manage our exposure to foreign currency fluctuations, we started a program to enter into foreign currency hedges related to outstanding monetary assets and liabilities. As of July 1, 2009, we entered into forward contracts to hedge certain net monetary asset positions. The changes in value will be recorded in our consolidated statements of income and are expected to offset or partially offset the remeasurement of foreign currency denominated items on the consolidated balance sheets. For additional financial information, refer to Item 3 Quantitative and Qualitative Disclosures About Market Risk.

Our Relationship with EMC

As of June 30, 2009, EMC owned 27,000,000 shares of Class A common stock and all 300,000,000 shares of Class B common stock, representing approximately 83% of our total outstanding shares of common stock and 98% of the combined voting power of our outstanding common stock.

Pursuant to a reseller arrangement with EMC, which commenced in the first quarter of 2009, EMC bundles our products with EMC's hardware and sells them to end users. In the second quarter and the first half of 2009, we recognized revenues of $0.5 and $2.6, respectively, from products sold pursuant to our reseller arrangement with EMC. As of June 30, 2009, $1.4 of revenues from products sold under the reseller arrangement were included in deferred revenue.

In the second quarter of 2009 and 2008, we recognized professional services revenues of $5.6 and $3.8, respectively, for services provided to EMC's customers pursuant to our contractual agreements with EMC. In the first half of 2009 and 2008, we recognized $10.1 and $7.1, respectively, from such contractual arrangements with EMC. As of June 30, 2009, $2.5 of revenues from professional services were included in deferred revenue.

In the second quarter of 2009 and 2008, we recognized revenues from server and desktop products and services purchased by EMC for internal use of $0.7 and $3.6, respectively, pursuant to our contractual agreements with EMC. In the first half of 2009 and 2008, we recognized $1.3 and $3.6, respectively, from such contractual arrangements with EMC. As of June 30, 2009, $3.0 of revenues from server and desktop products and services purchased by EMC for internal use were included in deferred revenue.

We purchased storage systems and software from EMC for $2.1 and $6.1, in the second quarter of 2009 and 2008 respectively, and $7.2 and $16.8 in the first half of 2009 and 2008, respectively. Purchases from EMC were at a discount off of EMC's list price.

In certain geographic regions where we do not have an established legal entity, we contract with EMC subsidiaries for support services and EMC employees who are managed by our personnel. The costs incurred by EMC on our behalf related to these employees are passed on to us and we are charged a mark-up intended to approximate costs that would have been charged had such arrangements been with an unrelated third party. These costs are included as expenses in our consolidated statements of income. These costs primarily include salaries and benefits, travel, and rent. Additionally, EMC incurs certain costs on our behalf in the U.S., which primarily relate to a shared system for travel. The total of these costs were $28.6 and $35.4 in the second quarter of 2009 and 2008, respectively, and $53.1 and $74.8 in the first half of 2009 and 2008, respectively.

As calculated under our tax sharing agreement with EMC, we paid $2.5 during the second quarter and first half of 2009 for our portion of the 2007 consolidated state income taxes. We paid $62.3 during the first half of 2008 for our portion of EMC's 2007 consolidated federal income taxes. No payments were made during the second quarter of 2008. Under the same tax sharing agreement EMC paid us $87.9 during the second quarter and first half of 2009 for our stand-alone federal taxable loss for the fiscal year ending December 31, 2008 and for a refund of an overpayment related to our portion of EMC's 2007 federal consolidated tax return. The amounts that we pay to EMC for our portion of federal income taxes on EMC's consolidated tax return differ from the amounts we would owe on a stand-alone basis and the difference is presented as a component of stockholders' equity. In the second quarter and first half of 2009 and 2008, the difference between the amount of tax calculated on a stand-alone basis and the amount of tax calculated as our portion of federal income taxes on EMC's consolidated tax return was recorded in stockholders' equity. For all periods presented the difference was not significant.

Interest expense with EMC, net, primarily consists of interest expense on the note payable to EMC, offset by interest income that has been earned on our intercompany balance with EMC. In the second quarter of 2009 and 2008, $2.0 and $3.7, respectively, of interest expense was recorded related to the note payable to EMC and included in interest expense with EMC, net, recorded on the consolidated statements of income. In the first half of 2009 and 2008, $4.2 and $9.7, respectively, of interest expense was recorded related to the note payable. Our interest income and our expenses as a separate, stand-alone company may be higher or lower than the amounts reflected in the financial statements.

As of June 30, 2009, we had $32.1 due to EMC, which was partially offset by $8.1 due from EMC. The net amount due to EMC as of June 30, 2009 was $24.0 and resulted from the related party transactions described above. As of June 30, 2009, we had $22.7 of income taxes receivable due from EMC and $17.8 of income taxes payable due to EMC. Balances due to or from EMC which are unrelated to tax obligations are generally settled in cash within 60 days of each quarter-end. The timing of the tax payments due to and from EMC is governed by the tax sharing agreement with EMC.

Given that the amounts we recorded for our intercompany transactions with EMC did not arise from transactions negotiated at arm’s-length with an unrelated third party, the financial statements included herein may not necessarily reflect our financial condition, results of operations and cash flows had we engaged in such transactions with an unrelated third party during all periods presented. Accordingly, our historical results should not be relied upon as an indicator of our future performance as a stand-alone company.

Income Statement Presentation

Sources of Revenues

License revenues

Our license revenues consist of revenues earned from the licensing of our software products. These products are generally licensed on a perpetual basis and are generally priced based upon the number of physical desktops or server processors on which our software runs.

Software maintenance revenues

Software maintenance revenues are recognized ratably over the contract period. Typically, our contract periods range from one to five years. Customers receive various types of technical support based on the level of support purchased. Customers who are party to software maintenance agreements with us are entitled to receive product updates and upgrades on a when-and-if-available basis.

Professional services revenues

Professional services include design, implementation and training. Professional services are not considered essential to the functionality of our products, as these services do not alter the product capabilities and may be performed by our customers or other vendors. Professional services engagements performed for a fixed fee, for which we are able to make reasonably dependable estimates of progress toward completion, are recognized on a proportional performance basis based on hours incurred. Professional services engagements that are on a time and materials basis are recognized based on hours incurred. Revenues on all other professional services engagements are recognized upon completion.

Operating Expenses

Cost of license revenues

Our cost of license revenues principally consists of amortization of capitalized software development costs, royalty costs in connection with products licensed from third-party providers, and the cost of fulfillment of our software. The cost of fulfillment of our software includes product packaging, personnel costs and related overhead associated with the physical and electronic delivery of our software products.

Cost of services revenues

Our cost of services revenues includes the costs of personnel and related overhead to deliver technical support on our products and to provide our professional services.

Research and development expenses

Our research and development (“R&D”) expenses include the personnel and related overhead, which includes depreciation expense, associated with the research and development of new product offerings and the enhancement of our existing software offerings.

Sales and marketing expenses

Our sales and marketing expenses include personnel costs, sales commissions, and related overhead associated with the sale and marketing of our license and services offerings, as well as the cost of product launches and certain marketing initiatives, including our semi-annual VMworld conference.

General and administrative expenses

Our general and administrative expenses include personnel and related overhead costs to support the overall business. These expenses include the costs associated with our finance, facilities, human resources, IT infrastructure, and legal departments.

Revenues

Our revenues for the second quarter and first half of 2009 and 2008 are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
License	$ 228.0	$ 284.2	$ 485.0	$ 578.2
Services:				
Software maintenance	189.0	136.0	364.7	248.1
Professional services	38.7	35.9	76.3	68.0
Total services	227.7	171.9	441.0	316.1
	$ 455.7	$ 456.1	$ 926.0	$ 894.3
Percentage of revenues:				
License	50.0%	62.3%	52.4%	64.7%
Services:				
Software maintenance	41.5	29.8	39.4	27.7
Professional services	8.5	7.9	8.2	7.6
Total services	50.0	37.7	47.6	35.3
	100.0%	100.0%	100.0%	100.0%
Revenues:				
United States	$ 233.7	$ 239.9	$ 477.7	$ 465.1
International	222.0	216.2	448.3	429.2
	$ 455.7	$ 456.1	$ 926.0	$ 894.3
Percentage of revenues:				
United States	51.3%	52.6%	51.6%	52.0%
International	48.7	47.4	48.4	48.0
	100.0%	100.0%	100.0%	100.0%

Total revenues remained relatively flat at $455.7 in the second quarter of 2009, compared with $456.1 in the second quarter of 2008. The revenue mix in the second quarter of 2009 reflected a decrease of $56.3 in license revenues and an increase of $55.8 in services revenues as compared to the second quarter of 2008. Total revenues increased by $31.7, or 4%, to $926.0 in the first half of 2009, compared with $894.3 in the first half of 2008. The growth in revenues in the first half of 2009 reflected a decrease of $93.2 in license revenues and an increase of $124.9 in services revenues as compared to the first half of 2008. The shift in our revenue mix year-over-year is primarily due to a decline in license revenues as a result of the macro-economic environment, while services revenues benefited from strong renewals, multi-year software maintenance contracts sold in previous periods, and additional maintenance contracts sold in conjunction with software licenses. International revenues as a percentage of total revenues in the second quarter and first half of 2009 were relatively flat from the second quarter and first half of 2008, respectively.

We sell our products primarily through a network of channel partners, which includes distributors, resellers, x86 system vendors and systems integrators. As we expand geographically, we may add additional direct channel partners. Our indirect channel partners obtain software licenses and services from our distributors and x86 system vendors and market and sell them to end user customers. In addition, we have a direct sales force that complements these efforts. Our sales force works with our channel partners to introduce them to customers and new sales opportunities. Our channel partners also introduce our sales force to their customers.

Historically, most of our revenue contracts with international customers were denominated in U.S. Dollars. Although the exchange rates between the U.S. Dollar, the Euro, the British Pound and the Australian Dollar have been volatile in recent periods, during the second quarter of 2009, the U.S. Dollar strengthened compared to the second quarter of 2008. In conjunction with the general release of VMware vSphere 4 in the second quarter of 2009, we began to invoice and collect in the Euro, the British Pound, the Japanese Yen, and the Australian Dollar. Due to the timing of the release of VMware vSphere 4, which occurred late in the quarter, invoicing in local currencies did not have a significant impact on our revenues. While variability in operating margin may be reduced in future periods as a result of invoicing in certain local currencies, increased exposure to foreign currency fluctuations introduces additional risk for variability in revenue-related components of our financial statements.

Given the current economic downturn, we continue to apply scrutiny and analysis around the collectibility of transactions with certain customers, including but not limited to those customers in the financial services, insurance, and automotive industries and we continue to monitor the appropriateness of established customer credit limits. We do not record accounts receivable or deferred revenue or recognize revenue relating to transactions where collectibility is not probable. We recognize such transactions upon cash collection and recognize revenue as earned in accordance with our revenue recognition policies. In the second quarter and first half of 2009, there were no significant transactions where collectibility was not deemed probable.

The current economic situation is creating a high degree of uncertainty around how much will be spent on IT over the foreseeable future. Although customers continue to adopt our product platform as a strategic investment that delivers substantial cost savings, improved efficiency and flexibility for their business, we believe the uncertainty is causing customers to be conservative and preserve their cash. Given the global economic conditions, we believe that license revenues will decline during the remainder of 2009 when compared to the same periods in the prior year. This decline may be offset or partially offset, by increasing service revenues, which we expect to increase as a result of our deferred maintenance revenue base which increases as additional software licenses are sold.

License Revenues

Software license revenues decreased by $56.3, or 20%, to $228.0 in the second quarter of 2009, compared with $284.2 in the second quarter of 2008. Software license revenues decreased by $93.2, or 16%, to $485.0 in the first half of 2009, compared with $578.2 in the first half of 2008. We believe a significant majority of the license revenues decrease in the second quarter and first half of 2009 compared with the respective prior-year periods in 2008 was the result of the overall difficult macro-economic environment and the related challenges that our customers face, including restrictions on IT spending. Despite the generally quick return-on-investment of virtualization, the economic environment has slowed capital expenditures. Organizations typically update their IT infrastructure when adopting virtualization, but the hardware investment is a capital outlay that is several times larger than that of our software.

We have promoted the adoption of virtualization and built long-term relationships with our customers through the adoption of ELAs. ELAs continue to be an important component of our revenue growth and are offered both directly and through certain channel partners. ELAs are core to our strategy to build long-term relationships with customers as they commit to our virtualization infrastructure software solutions in their data centers. ELAs provide a base from which to sell additional products, such as our application and infrastructure management suite and our disaster recovery products. Under a typical ELA, a portion of the revenues is attributed to the license and recognized immediately, but the remainder is deferred and recognized as services maintenance revenues in future periods.

Although we recognized license revenues on two of the largest ELAs in our history during the first quarter of 2009, we observed an overall decrease in the dollar value of our ELAs in the second quarter and first half of 2009 as compared to the respective periods in 2008. The decrease in ELAs was primarily due to a customer shift from large ELAs to small and medium-sized ELAs. We believe this trend is correlated to the global economic downturn. In addition, during the second quarter and first half of 2009, customers purchased our solutions in smaller quantities to meet their immediate needs, foregoing larger discounts offered under ELAs. We experienced an increase in our high-volume transactional business, as orders less than fifty thousand dollars in the second quarter of 2009 represented more than 50% of the total value of total orders for the first time in over two years.

In the second quarter of 2009, we released VMware vSphere 4, the next generation of VMware Infrastructure, our flagship VDC-OS product. VMware vSphere 4 includes significant additional functionality, performance and scalability features that will allow customers to aggregate and holistically manage large pools of hardware infrastructure as an “internal cloud” of resources shared by most or all applications within an enterprise or datacenter while enabling federation to external cloud computing resources. Over the longer term, we expect that VMware vSphere 4 can be a significant driver of revenue growth.

Given the reasons discussed above, we expect that license revenues will decline during the remainder of 2009 as compared to the same periods in 2008.

Services Revenues

Services revenues increased by $55.8, or 32%, to $227.7 in the second quarter of 2009, compared with $171.9 in the second quarter of 2008. Services revenues increased by $124.9, or 40%, to $441.0 in the first half of 2009, compared with $316.1 in the first half of 2008. The increase in services revenues during the second quarter and first half of 2009 was primarily attributable to growth in our software maintenance revenues. We expect that services revenues will continue to compose a larger proportion of our revenue mix during the remainder of 2009.

Software maintenance revenues increased by $53.0, or 39%, to $189.0 in the second quarter of 2009, compared with $136.0 in the second quarter of 2008. Software maintenance revenues increased by $116.6, or 47%, to $364.7 in the first half of 2009, compared with $248.1 in the first half of 2008. This growth reflects the benefit from strong renewals, multi-year software maintenance contracts sold in previous periods, and additional maintenance contracts sold in conjunction with software licenses.

Professional services revenues increased by $2.8, or 8%, to $38.7 in the second quarter of 2009, compared with $35.9 in the second quarter of 2008. Professional services revenues increased by $8.3, or 12%, to $76.3 in the first half of 2009, compared with $68.0 in the first half of 2008. Although we continue to serve our customers directly, our strategy has been to encourage our partners to build their professional services businesses around us, which we believe will leverage our license sales through this channel. Professional services revenues increased modestly year-over-year due to this transitioning of some of this business to our partners. We expect this trend to continue during the remainder of 2009. We generally earn a lower margin on professional services fulfilled by our partners than had we performed the work directly.

Operating Expenses

Information about our operating expenses is as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Operating expenses:				
Cost of license revenues	$ 27.9	$ 21.6	$ 48.2	$ 44.5
Cost of services revenues	53.3	58.9	107.9	113.2
Research and development	121.4	114.1	226.8	233.4
Sales and marketing	167.4	158.3	321.6	307.6
General and administrative	47.7	42.2	96.6	86.3
Total operating expenses	$ 417.7	$ 395.1	$ 801.1	$ 785.0
Operating income (1)	$ 38.0	$ 61.0	$ 124.9	$ 109.4
Percentage of revenues:				
Cost of license revenues	6.1%	4.7%	5.2%	5.0%
Cost of services revenues	11.7	12.9	11.7	12.7
Research and development	26.6	25.0	24.5	26.1
Sales and marketing	36.7	34.7	34.7	34.4
General and administrative	10.6	9.3	10.4	9.6
Total operating expenses	91.7%	86.6%	86.5%	87.8%
Operating margin	8.3%	13.4%	13.5%	12.2%

(1) In evaluating our results, we also focus on operating margin excluding stock-based compensation, employer taxes on employee stock transactions, amortization of intangible assets, the write-off of in-process research and development (which did not have an effect in the periods presented), and the net effect of the amortization and capitalization of software development costs as we believe this measure reflects our ongoing business in a manner that allows meaningful period-to-period comparisons. Operating income in the table above includes these items as shown in the table below.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of license revenues				
Stock-based compensation	$ 0.3	$ 0.3	$ 0.6	$ 0.5
Acquisition-related intangible amortization	2.8	2.3	5.5	4.6
Capitalized software development costs amortization	17.6	14.3	28.3	29.1
Cost of services revenues				
Stock-based compensation	3.5	3.8	6.9	7.1
Employer payroll tax on employee stock transactions	—	0.2	—	0.2
Research and development				
Stock-based compensation not capitalized	26.4	19.5	50.3	40.6
Employer payroll tax on employee stock transactions	0.4	1.6	0.6	2.4
Total capitalized software development costs	(18.4)	(14.8)	(54.8)	(19.9)
Stock-based compensation included in total capitalized software development costs above	3.6	3.0	10.1	3.9
Sales and marketing				
Stock-based compensation	13.3	11.7	27.1	23.0
Employer payroll tax on employee stock transactions	0.1	0.9	0.2	1.1
Acquisition-related intangible amortization	0.4	0.9	0.8	1.8
General and administrative				
Stock-based compensation	7.9	6.8	16.2	13.1
Employer payroll tax on employee stock transactions	0.2	0.3	0.2	0.5
Acquisition-related intangible amortization	0.1	0.6	0.2	1.3

Aside from the effects of stock-based compensation, employer taxes on employee stock transactions, amortization of intangible assets, and the net effect of the amortization and capitalization of software development costs shown in the table above, the following discussion highlights additional factors that impacted our operating expenses.

Operating Expenses

While operating expenses increased in the second quarter and first half of 2009, they benefited from the austerity measures we introduced at the end of last year. These austerity measures included, but were not limited to, reduced travel and entertainment costs, decreased contractor costs and hiring limited to roles that fit our strategic initiatives. The purpose of our austerity measures has been to enable us to maintain reasonable margins and preserve cash while at the same time execute on our core initiatives and deliver value to our customers.

In conjunction with the completion of our data center facility, we reviewed and revised the useful lives of certain fixed assets after considering (i) the estimated future benefits we expect to receive from those assets, (ii) the pattern of consumption of those benefits and (iii) the information available regarding those benefits. As a result of the review, we increased the estimated useful lives of certain fixed assets from 3 to 5 years during the second quarter of 2009. This change in estimate was prospectively applied beginning on April 1, 2009. For the second quarter of 2009, this change in estimate reduced depreciation expense by $3.7. After considering the tax effect on the reduction in depreciation expense, there was no impact on basic and diluted earnings per share for the second quarter and first half of 2009.

A portion of our operating expenses, primarily the cost of personnel to deliver technical support on our products and professional services, marketing, and research and development, are denominated in foreign currencies, and are thus exposed to foreign exchange rate fluctuations. Operating expenses benefited by $15.7 million and $34.8 million in the second quarter and first half of 2009, respectively, due to fluctuations in the exchange rates between the U.S. Dollar and foreign currencies as compared to the same periods in the prior year.

Cost of License Revenues

Cost of license revenues increased between the second quarter of 2009 and 2008, and between the first half of 2009 and 2008. After taking into consideration the items in the table above, cost of license revenues increased primarily due to additional royalty costs in connection with products licensed from third-party providers.

Cost of Services Revenues

Cost of services revenues decreased between the second quarter of 2009 and 2008, and between the first half of 2009 and 2008. After taking into consideration the items in the table above, cost of services revenues decreased primarily due to a decrease in certain costs that were previously categorized as cost of services revenues that are now reclassified to other operating expense categories on our consolidated statement of income.

Research and Development Expenses

R&D expenses increased between the second quarter of 2009 and 2008. R&D expenses decreased between the first half of 2009 and 2008. After taking into consideration the items in the table above, R&D expenses increased in the second quarter and first half of 2009. The increases were primarily due to increased facilities, salaries and benefits expenses resulting from incremental headcount added primarily in the second half of 2008. The incremental headcount was added in support of maintenance of existing products and also new product development, which is intended to grow our future business. These costs were offset by decreases in consulting and recruiting expenses, which were the result of the austerity measures we implemented at the end of 2008, including limiting hiring to strategic positions.

Sales and Marketing Expenses

Sales and marketing expenses increased between the second quarter of 2009 and 2008, and between the first half of 2009 and 2008. After considering the effect of the items in the table above, the increases in sales and marketing expenses consisted primarily of higher salaries and benefits due to increases in sales and marketing personnel added primarily in the second half of 2008. These cost increases were partially offset by the benefit we received from the strengthening of the U.S. Dollar in addition to decreased travel and entertainment costs resulting from the austerity measures we implemented in the fourth quarter of 2008. A portion of our sales and marketing expenses is denominated in foreign currencies and thus exposed to foreign exchange rate fluctuations. Upon consolidation, as exchange rates vary, the amount of sales and marketing expenses may fluctuate in response to changes in the exchange rate between the U.S. Dollar and the foreign currencies in which the expenses are payable.

General and Administrative Expenses

After considering the effect of the items in the table above, general and administrative expenses increased between the second quarter of 2009 and 2008, and the first half of 2009 and 2008, respectively, primarily as a result of additional salaries and benefits expenses resulting from additional personnel employed to enhance the infrastructure of our business and to expand our own administrative functions.

Stock-Based Compensation Expense

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Stock-based compensation, excluding amounts capitalized under FAS 86	$ 51.5	$ 42.1	$ 101.3	$ 84.2
Stock-based compensation capitalized under FAS 86	3.6	3.0	10.1	4.0
Stock-based compensation, including amounts capitalized under FAS 86	$ 55.1	$ 45.1	$ 111.4	$ 88.2

Stock-based compensation expense, excluding amounts capitalized under FAS 86, increased primarily due to restricted stock unit grants in the third quarter of 2008 made to certain international employees who were not eligible to participate in the 2008 Exchange Offer and to various other employees for retention purposes.

In June 2009, we granted approximately 4.1 million stock option awards and 2.2 million restricted stock unit awards through refresh awards to our existing employees. These refresh awards increased stock-based compensation expense by $1.2 in the second quarter of 2009. We expect these awards to increase stock-based compensation expense by approximately $6.5 per quarter over the four-year life of the grants. As of June 30, 2009, the total unamortized fair value of our outstanding equity-based awards and EMC equity-based awards held by our employees was approximately $525.7. This amount will be recognized over the awards' requisite service periods, and is expected to result in stock-based compensation expense of approximately $116.8, $210.0, $135.1, $53.3, and $10.5 for the remainder of 2009, 2010, 2011, 2012, and thereafter, respectively.

In future quarters, our stock-based compensation expense is expected to increase as a result of the grants described above and any additional equity grants we make. Stock-based compensation expense is subject to the amount of stock-based compensation that may be capitalized for the development of new software products and the amount of awards that are forfeited.

Capitalized Software Development Costs, net

Capitalization of material development costs of software to be sold, leased, or otherwise marketed are subject to capitalization beginning when the products' technological feasibility has been established and ending when the product is available for general release, in accordance with the provisions of FAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed." Judgment is required in determining when technological feasibility of a product is established, and our amounts capitalized as software development costs may not be comparable to our peer companies due to differences in judgment as to when technological feasibility has been reached or differences in judgment regarding when the product is available for general release. For additional financial information, see Note B to the consolidated financial statements included elsewhere in this filing.

In the second quarter of 2009 and 2008, VMware capitalized $18.4 (including $3.6 of stock-based compensation), and $14.8 (including $3.0 of stock-based compensation), respectively, of costs incurred for the development of software products. In the first half of 2009 and 2008, VMware capitalized $54.8 (including $10.1 of stock-based compensation), and $19.9 (including $3.9 of stock-based compensation), respectively, of costs incurred for the development of software products. These amounts have been excluded from R&D expense on our accompanying consolidated statements of income. We capitalized more costs during the second quarter and first half of 2009 compared with the second quarter and first half of 2008 primarily due to VMware vSphere 4 reaching technological feasibility during the third quarter of 2008. As a result of the general release of VMware vSphere 4 in the second quarter of 2009, we expect our capitalized software development costs to significantly decline throughout the remainder of 2009.

In the second quarter of 2009, amortization expense from capitalized amounts included in cost of license revenues increased by $3.4 to $17.6, compared with $14.3 in the second quarter of 2008. In the first half of 2009, amortization expense from capitalized amounts included in cost of license revenues remained relatively flat at $28.3, compared with $29.1 in the first half of 2008. These amounts are included in cost of license revenues on our accompanying consolidated statements of income. As a result of the general release of VMware vSphere 4 in the second quarter of 2009, we expect amortization expense to increase throughout the remainder of 2009.

Investment Income

Investment income was $2.5 and $6.3 in the second quarter of 2009 and 2008, and $5.6 and $14.3 in the first half of 2009 and 2008, respectively. Investment income consists of interest earned on cash and cash equivalent balances. Investment income decreased in the second quarter of 2009 and the first half of 2009, primarily due to a decrease in the average rate of interest earned. For the second quarter of 2009, the average rate of interest earned decreased to 0.5% from 1.8% in the second quarter of 2008. The decrease in the average rate of interest earned primarily relates to a decrease in Federal Reserve rates in response to the economic downturn, as well as our diversification efforts which resulted in lower yields given the economic environment.

Interest Expense with EMC, Net

Interest expense with EMC, net, was $2.0 and $3.6 in the second quarter of 2009 and 2008, and $4.7 and $9.4 in the first half of 2009 and 2008, respectively. In the second quarter of 2009 and 2008, interest expense with EMC, net, consisted primarily of $2.0 and $3.7, respectively, of interest expense incurred on the note issued to EMC in April 2007. In the first half of 2009 and 2008, interest expense with EMC, net, consisted primarily of $4.2 and $9.7, respectively, of interest expense incurred on the note issued to EMC in April 2007. The decrease in interest expense in the second quarter and first half of 2009 was due to lower interest rates on the note. For the second quarter of 2009 and 2008, the annualized rate was 1.76% and 3.24% respectively, and for the first half of 2009 and 2008, the annualized rate was 1.87% and 4.26%, respectively. We expect our interest expense on the note payable to decrease in the third quarter of 2009 as a result of a 61 basis point decrease in the third quarter interest rate from the rate used in the second quarter of 2009. The interest rate on the note payable resets quarterly and is determined using the 90-day LIBOR rate plus 55 basis points, two business days prior to the first day of each fiscal quarter.

Income Tax Provision

Our effective income tax rate was 16.3% for the second quarter of 2009, compared to 18.4% for the second quarter of 2008. The decrease in the effective rate between the second quarter of 2009 and 2008 was mainly attributable to an increase in tax benefits from tax credits, primarily the research and development tax credit, relative to income before tax and a forecasted shift of earnings from the U.S. to low-tax non-U.S. jurisdictions, partially offset by an increase in unrecognized tax benefits from uncertain tax positions relative to income before tax. The effective tax rate for the first half of 2009 was relatively flat at 17.6%, compared with 17.1% for the first half of 2008. Income earned abroad is considered indefinitely reinvested in our foreign operations and no provision for U.S. taxes has been provided with respect thereto.

Our rate of taxation in foreign jurisdictions is lower than our United States tax rate.

Liquidity and Capital Resources

	June 30, 2009	June 30, 2008
Cash and cash equivalents	$2,275.7	$1,540.3

Our cash flows for the second quarter and first half of 2009 and 2008 were as follows:

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Net cash provided by operating activities	$ 243.3	$ 150.6	$ 502.6	$ 283.8
Net cash used in investing activities	$ (69.0)	$ (65.4)	$ (135.5)	$ (151.0)
Net cash provided by financing activities	$ 69.9	$ 149.0	$ 67.8	$ 176.3

Our operating activities in the second quarter and first half of 2009 and 2008, respectively, generated adequate cash to meet our operating needs. As of June 30, 2009, we had cash and cash equivalents totaling $2,275.7, compared with $1,540.3 as of June 30,

2008. During the second quarter of 2009, key drivers in the increase of cash included the generation of $243.3 of cash from operating activities primarily due to our net income adjusted for non-cash items and the collection of $87.9 on the income tax receivable from EMC, as well as $77.1 of cash from financing activities primarily due to stock option exercises.

We invest excess cash predominantly in money market securities that are liquid and of high-quality investment grade. The fair value for securities is determined based on quoted market prices as of the valuation date. We limit the amount of our domestic and international investments with any one issuer and also monitor the diversity of the portfolio, thereby diversifying the credit risk. We hold a diversified portfolio of money market funds, which invest in municipal bonds and notes, government agency debt, time deposits, corporate bonds, and commercial paper. As of June 30, 2009, our domestic money market funds that we held as of September 19, 2008 continued to participate in the Temporary Guarantee Program for Money Market Funds, which is backed by the U.S. Treasury Department. The Temporary Guarantee Program for Money Market Funds expires on September 18, 2009. As of June 30, 2009, $2,167.5 or 95% of our cash and cash equivalents balance was invested in money market securities. Of our money market portfolio, 65% of our money market securities were held domestically and 35% were held internationally, and $756.7 or 35% were guaranteed under the Temporary Guarantee Program. In addition to investment in money market securities, we also use excess cash to support our growing infrastructure needs, to expand our operations, and as consideration for acquisitions and strategic investments.

We expect to continue to generate positive cash flow from operations during the remainder of 2009, and we will use cash generated by operations as our primary source of liquidity. We believe that existing cash and cash equivalents, together with any cash generated from operations will be sufficient to meet normal operating requirements including strategic acquisitions and capital expenditures for at least the next twelve months.

Cash Flows from Operating Activities

Cash provided by operating activities is driven by our net income, adjusted for non-cash items and changes in assets and liabilities. Non-cash adjustments include depreciation, amortization of intangible assets, stock-based compensation expense, excess tax benefits from stock-based compensation and other adjustments.

Both the second quarter of 2009 and the first half of 2009 were positively impacted by the collection of $87.9 on the income tax receivable from EMC. The receivable arose from our stand-alone taxable loss for the first half of 2008, which was primarily attributable to tax deductions arising from both non-qualified stock option exercises and from restricted stock where the restrictions lapsed. Under the tax sharing agreement with EMC, EMC is obligated to pay to us an amount equal to the tax benefit that EMC will recognize on its consolidated tax return. We expect to collect the remainder of the income tax receivable from EMC in the fourth quarter of 2009. In the second quarter and first half of 2008, we made a $62.3 payment to EMC for our portion of EMC’s 2007 consolidated federal income taxes.

Both the second quarter of 2009 and 2008 and the first half of 2009 and 2008 benefited from an increase in our deferred revenue balance. The increase in our deferred revenue balance is largely driven by increases in deferred maintenance revenue for which we are typically paid in advance.

The second quarter and first half of 2009 benefited from a decrease in our accounts receivable balance. The same periods in 2008 were negatively impacted by an increase in our accounts receivable balance. The decline of our accounts receivable balance in 2009 primarily corresponds to the decline in our sales this year.

With the release of VMware vSphere 4, we expect that capitalized software development costs will decrease, thereby shifting the related cash flows from investing cash flows to operating cash flows.

Cash Flows from Investing Activities

Cash used in investing activities is primarily attributable to capital expenditures, capitalized software development costs, the purchase of investments, and business acquisitions. We made no acquisitions in the second quarter and first half of 2009, compared with $33.3 for acquisitions in the first half of 2008. Acquisitions are an important element of our corporate strategy and we expect to continue to invest in strategic acquisitions in the future.

Our capital expenditures totaled $29.8 and $51.9 in the second quarter of 2009 and 2008, and $65.7 and $100.9 in the first half of 2009 and 2008, respectively. During the second quarter and first half of 2009, our capital expenditures primarily related to the completion of construction of our headquarters facility and completion of our data center and related equipment, as well as software development and computer and network equipment to support increased personnel and related infrastructure requirements. During the second quarter and first half of 2008, our capital expenditures were primarily related to the purchase of furniture and fixtures for our headquarters facilities and investment of cash in the buildings that remained under development. We also invested in computer and network equipment to support increased personnel and related infrastructure requirements both domestically and internationally.

Our capitalized software development costs, excluding stock-based compensation expense, totaled $14.7 and $11.8 in the second quarter of 2009 and 2008, respectively, and $44.7 and $15.9 in the first half of 2009 and 2008, respectively. The increase in capitalized software development costs was primarily the result of our VMware vSphere 4 product reaching technological feasibility during the third quarter of 2008, and the deployment of additional resources to support its development. As a result of the general release of VMware vSphere 4 in the second quarter of 2009, we expect our capitalized software costs to decline significantly for the remainder of 2009.

Our purchase of investments totaled $25.0 and $25.7 in the second quarter and first half of 2009, respectively, and $1.8 in both the second quarter and the first half of 2008.

Cash Flows from Financing Activities

In the second quarter and first half of 2009 and 2008, we received proceeds from the issuance of our common stock from the exercise of stock options and the purchase of shares under the VMware Employee Stock Purchase Plan, which were $77.1 and $109.7 in the second quarter of 2009 and 2008, and $81.6 and $133.3 in the first half of 2009 and 2008, respectively. Additionally, the excess tax benefit from stock-based compensation was $4.2 and $56.7 in the second quarter of 2009 and 2008, respectively and $4.5 and $79.4 in the first half of 2009 and 2008, respectively. These changes year-over-year in the excess tax benefit from stock-based compensation were primarily due to the decline in the market value of our stock and the number of awards exercised, sold or vested. These cash inflows were partially offset by cash outflows to repurchase our shares to cover tax withholding obligations of $11.4 and $17.4 in the second quarter of 2009 and 2008, respectively, and $18.2 and $36.5 in the first half of 2009 and 2008, respectively.

Future cash proceeds from issuances of common stock and the excess tax benefit from stock-based compensation will depend upon and could fluctuate significantly from period-to-period based on the market value of our stock, the number of awards exercised, sold or vested, the tax benefit realized, and the tax-affected compensation recognized.

To date, inflation has not had a material impact on our financial results.

Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments

There were no substantial changes to our guarantee and indemnification obligations or our contractual commitments in the second quarter of 2009.

Critical Accounting Policies

Our consolidated financial statements are based on the selection and application of generally accepted accounting principles that require us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our financial statements. We believe that the critical accounting policies set forth within Item 7 of our 2008 Annual Report on Form 10-K may involve a higher degree of judgment and complexity in their application than our other significant accounting policies and represent the critical accounting policies used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results. Our significant accounting policies are presented within Note A to our consolidated financial statements of our 2008 Annual Report on Form 10-K.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued FAS No. 167, "Amendments to FASB Interpretation No. 46 (R)" ("FAS No. 167"), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). This statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. We are currently evaluating the potential impact of FAS No. 167 on our financial statements.

In June 2009, the FASB issued FAS No. 168, "Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles" (the "Codification"), which will be the single source of authoritative nongovernmental U.S. GAAP beginning July 1, 2009. The Codification will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current U.S. GAAP, the Codification is not intended to change GAAP, but is anticipated to make it easier to find and research GAAP applicable to a particular transaction or specific accounting issue. Although the adoption of the Codification is not expected to have an impact on our financial position and results of operations, all future references to authoritative accounting literature in our financial statements will be consistent with the Codification.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations between the U.S. Dollar and various foreign currencies, the most significant of which is the Euro.

In order to manage our exposure to foreign currency fluctuations, we started a program to enter into foreign currency hedges related to outstanding monetary assets and liabilities. As of July 1, 2009, we entered into forward contracts to hedge certain net monetary asset positions. We expect the market risks of our foreign currency forward contracts to be offset by corresponding gains and losses on the transactions being hedged. We will continue to experience foreign currency gains and losses in certain instances where it is not possible or cost effective to hedge our foreign currency exposures. In accordance with FAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, we would recognize derivative instruments as either assets or liabilities on the consolidated balance sheets at fair value. Changes in the fair value (i.e. gains or losses) of the derivatives would be recorded in the consolidated statements of income as other income (expense), net. We do not plan to execute foreign currency hedges for speculative purposes.

International revenues as a percentage of total revenues in the second quarter and first half of 2009 were similar to the second quarter and first half of 2008. Historically, our revenue contracts were primarily denominated in U.S. Dollars and the vast majority of our purchase contracts are denominated in U.S. Dollars. With the general release of VMware vSphere 4 in the second quarter of 2009, we began to invoice and collect in the Euro, the British Pound, the Japanese Yen, and the Australian Dollar in addition to invoicing in the U.S. Dollar. A portion of our operating expenses, primarily the cost of personnel to deliver technical support on our products and professional services, sales and sales support, and research and development, are denominated in foreign currencies, primarily the Euro, the British Pound, the Indian Rupee, and the Australian Dollar. These costs, revenues resulting from selling in local currencies, and the resulting effect on operating income are exposed to foreign exchange rate fluctuations. Upon consolidation, as exchange rates vary, operating margins may differ materially from expectations.

Operating expenses benefited by $15.7 million and $34.8 million in the second quarter and first half of 2009, respectively, due to fluctuations in the exchange rates between the U.S. Dollar and foreign currencies as compared to the same periods in the prior year. In conjunction with the general release of VMware vSphere 4 in the second quarter of 2009, we started to invoice and collect in the Euro, the British Pound, the Japanese Yen, and the Australian Dollar. Due to the timing of the release of VMware vSphere 4, which occurred late in the second quarter of 2009, invoicing in local currencies did not have a significant impact on our revenues.

Interest Rate Risk

As of June 30, 2009, $450.0 million was outstanding on the consolidated balance sheet in relation to the note payable to EMC. The annualized interest rate for the second quarter of 2009 and 2008 was 1.76% and 3.24%, respectively, and the annualized interest rate for the first half of 2009 and 2008 was 1.87% and 4.26%, respectively. For the second quarter of 2009 and 2008, $2.0 million and $3.7 million, respectively, of interest expense was recorded related to the note payable. For the first half of 2009 and 2008, $4.2 million and $9.7 million, respectively, of interest expense was recorded related to the note payable.

Our exposure to market risk for changes in interest rates relates primarily to the variable interest obligation on the $450.0 million outstanding on the consolidated balance sheet in relation to the note payable to EMC. The note may be repaid, without penalty, at any time. The note matures in April 2012 and bears an interest rate of the 90-day LIBOR plus 55 basis points, with interest payable quarterly in arrears. The interest rate on the note resets quarterly and is determined on the two business days prior to the first day of each fiscal quarter. We expect our interest expense on the note payable to decrease in the third quarter of 2009 as a result of a 61 basis point decrease in the third quarter interest rate from the rate used in the second quarter of 2009. If the interest rate on the note payable were to change 100 basis points from the June 30, 2009 rate and assuming no additional repayments on the principal were made, our annual interest expense would change by $4.5 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Security and Exchange Commission’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

VMware is named from time to time as a party to lawsuits in the normal course of its business. In such cases it is our policy to defend against such claims, or if considered appropriate, negotiate a settlement on commercially reasonable terms. However, no assurance can be given that we will be able to negotiate settlements on commercially reasonable terms, or at all, or that any litigation resulting from such claims would not have a material adverse effect on our consolidated results of operations, financial position, and cash flows, or consolidated financial statements taken as a whole.

ITEM 1A. RISK FACTORS

The risk factors that appear below could materially affect our business, financial condition and results of operations. The risks and uncertainties described below are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies.

Risks Related to Our Business

The virtualization products and services we sell are based on an emerging technology and therefore the potential market for our products remains uncertain.

The virtualization products and services we develop and sell are based on an emerging technology platform and our success depends on organizations and customers perceiving technological and operational benefits and cost savings associated with adopting virtual infrastructure solutions. Our relatively limited operating history and the relatively limited extent to which virtual infrastructure solutions have been currently adopted may make it difficult to evaluate our business because the potential market for our products remains uncertain. The markets for our virtualization products are new and have grown rapidly from a small base. As the markets for our products mature and the scale of our business increases, the rate of growth in our product sales will likely be lower than those we have experienced in earlier periods. In addition, to the extent that rates of adoption of virtualization infrastructure solutions occur more slowly or less comprehensively than we expect, our revenue growth rates may slow materially or our revenue may decline substantially.

We expect to face increasing competition that could result in a loss of customers, reduced revenues or decreased operating margins.

The market for our products is competitive and we expect competition to significantly intensify in the future. For example, Microsoft currently provides products that compete with some of our free offerings, and has released virtual infrastructure and virtual management products, announced plans to add higher-end features to those products and announced a cloud-based computing initiative. Microsoft's offerings are positioned to compete with our virtual infrastructure and other virtualization product offerings. We also face competition from other companies and there have been a number of announcements of new product initiatives, alliances and consolidation efforts by our competitors. For example, Citrix Systems continues to enhance its server virtualization offerings, and its virtual desktop offering. In the first half of 2009, Oracle completed its acquisition of Virtual Iron and agreed to acquire Sun Microsystems which has its own hypervisor-based virtualization technology, Microsoft has announced cloud and virtual desktop offerings as well as plans to release the second version of its hypervisor-based server virtualization product and IBM announced new cloud computing initiatives. Other companies have also indicated their intention to expand offerings of virtual management solutions. Existing and future competitors may introduce products in the same markets we serve or intend to serve, and competing products may have better performance, lower prices, better functionality and broader acceptance than our products. Our competitors may also add features to their virtualization products similar to features that presently differentiate our product offerings from theirs. Many of our current or potential competitors also have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. This competition could result in increased pricing pressure and sales and marketing expenses, thereby materially reducing our operating margins, and could harm our ability to increase, or cause us to lose, market share. Increased competition also may prevent us from entering into or renewing service contracts on terms similar to those that we currently offer and may cause the length of our sales cycle to increase.

Some of our competitors and potential competitors supply a wide variety of products to, and have well-established relationships with, our current and prospective end users. Some of these competitors have in the past and may in the future take advantage of their existing relationships to engage in business practices that make our products less attractive to our end users. For example, Microsoft has implemented distribution arrangements with x86 system vendors and independent software vendors, or ISVs, related to certain of their operating systems that only permit the use of Microsoft's virtualization format and do not allow the use of our corresponding format. Microsoft has in the past also implemented pricing policies that require customers to pay additional license fees based on certain uses of virtualization technology and other competitors have limited or denied support for their applications running in VMware virtualization environments. These distribution and licensing restrictions, as well as other business practices that may be adopted in the future by our competitors, could materially impact our prospects regardless of the merits of our products. In addition, competitors with existing relationships with our current or prospective end users could in the future integrate competitive capabilities into their existing products and make them available without additional charge. For example, Oracle provides free server virtualization software intended to support Oracle and non-Oracle applications and Microsoft offers its own server virtualization software packaged with the 2008 release of its Windows server product. By engaging in such business practices, our competitors can diminish competitive advantages we may possess by incentivizing end users to choose products that lack some of the technical advantages of our own offerings.

We also face potential competition from our partners. For example, third parties currently selling our products could build and market their own competing products and services or market competing products and services of third parties. If we are unable to compete effectively, our growth and our ability to sell products at profitable margins could be materially and adversely affected.

The current economic downturn and ongoing uncertainty in global economic conditions and the resulting reduction in information technology spending may be longer or deeper than currently expected and therefore continue to adversely impact our revenues, impede end user adoption of new products and product upgrades and adversely impact our competitive position.

Our business depends on the overall demand for information technology and on the economic health of our current and prospective customers. The purchase of our products is often discretionary and may involve a significant commitment of capital and other resources. Weak economic conditions, or a reduction in information technology spending even if economic conditions improve, could continue to adversely impact our business, financial condition and results of operations in a number of ways, including by lengthening sales cycles (for example, for enterprise license agreements (“ELAs”)), lowering prices for our products and services, reducing unit sales, decreasing or reversing quarterly growth in our revenues, reducing the rate of adoption of our products by new customers and the willingness of current customers to purchase upgrades to our existing products.

The current global economic crisis has also caused a general tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy, and extreme volatility in credit, equity and fixed income markets. For example, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services. Even if customers are willing to purchase our products and services, if they do not meet our credit requirements, we may not be able to record accounts receivable or deferred revenue or recognize revenues from these customers until we receive payment, which could adversely affect the amount of revenues we are able recognize in a particular period.

Additionally, while we plan to continue making strategic investments in our business during the economic downturn, many of our competitors have significantly greater financial, technical and other resources than us and if economic conditions continue to worsen, they may be better positioned to sustain investment in competitive technologies.

Industry alliances or consolidation may result in increased competition.

Some of our competitors have made acquisitions or entered into partnerships or other strategic relationships with one another to offer a more comprehensive virtualization solution than they individually had offered. For example, in 2008, Red Hat acquired Qumranet, a developer of virtual infrastructure solutions, and Citrix and Intel announced a desktop virtualization collaboration. In the first half of 2009, Oracle and Sun Microsystems announced that they had entered into an agreement under which Oracle will acquire Sun, Oracle completed its acquisition of Virtual Iron and Microsoft announced an additional expansion of its alliance with Citrix. We expect these trends to continue as companies attempt to strengthen or maintain their market positions in the evolving virtualization infrastructure industry. Many of the companies driving this trend have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary products and technologies. The companies resulting from these possible combinations may create more compelling product offerings and be able to offer greater pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or product functionality. These pressures could result in a substantial loss of customers or a reduction in our revenues.

Our operating results may fluctuate significantly, which makes our future results difficult to predict and may result in our operating results falling below expectations or our guidance, which could cause the price of our Class A common stock to decline.

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful. Our past results should not be relied upon as an indication of our future performance. In addition, a significant portion of our quarterly sales typically occurs during the last month of the quarter, which we believe generally reflects customer buying patterns for enterprise technology. As a result, our quarterly operating results are difficult to predict even in the near term. If our revenues or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, the price of our Class A common stock would likely decline substantially.

In addition, factors that may affect our operating results include, among others:

- general economic conditions in our domestic and international markets;
- fluctuations in demand, adoption rates, sales cycles and pricing levels for our products and services;

- fluctuations in foreign currency exchange rates;
- changes in customers’ budgets for information technology purchases and in the timing of their purchasing decisions;
- the timing of recognizing revenues in any given quarter, which, as a result of software revenue recognition policies, can be affected by a number of factors, including product announcements and beta programs;
- the sale of our products in the timeframes we anticipate, including the number and size of orders in each quarter;
- our ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer demand, certification requirements and technical requirements;
- the timing of the announcement or release of upgrades or new products by us or by our competitors;
- our ability to maintain scalable internal systems for reporting, order processing, license fulfillment, product delivery, purchasing, billing and general accounting, among other functions;
- our ability to control costs, including our operating expenses;
- changes to our effective tax rate;
- the increasing scale of our business and its effect on our ability to maintain historical rates of growth;
- our ability to attract and retain highly skilled employees, particularly those with relevant experience in software development and sales;
- our ability to conform to emerging industry standards and to technological developments by our competitors and customers;
- the timing and amount of capitalized software development costs beginning when technological feasibility has been established and ending when the product is available for general release; and
- the recoverability of benefits from goodwill and intangible assets and the potential impairment of these assets.

If operating system and hardware vendors do not cooperate with us or we are unable to obtain early access to their new products, or access to certain information about their new products to ensure that our solutions interoperate with those products, our product development efforts may be delayed or foreclosed.

Our products interoperate with Windows, Linux and other operating systems and the hardware devices of numerous manufacturers. Developing products that interoperate properly requires substantial partnering, capital investment and employee resources, as well as the cooperation of the vendors or developers of the operating systems and hardware. Operating system and hardware vendors may not provide us with early access to their technology and products, assist us in these development efforts or share with or sell to us any application protocol interfaces (“APIs”), formats, or protocols we may need. If they do not provide us with the necessary early access, assistance or proprietary technology on a timely basis, we may experience product development delays or be unable to expand our products into other areas. To the extent that software or hardware vendors develop products that compete with ours or those of our controlling stockholder, EMC, they may have an incentive to withhold their cooperation, decline to share access or sell to us their proprietary APIs, protocols or formats or engage in practices to actively limit the functionality, or compatibility, and certification of our products. In addition, hardware or operating system vendors may fail to certify or support or continue to certify or support, our products for their systems. If any of the foregoing occurs, our product development efforts may be delayed or foreclosed and our business and results of operations may be adversely affected.

Our product and technology initiatives subject us to additional business, legal and competitive risks.

We recently announced new product and technology initiatives which aim to leverage our virtualization infrastructure software products into the emerging areas of cloud and virtual desktop computing as alternatives to the provisioning of physical computing resources. These initiatives may present new and difficult technology challenges, end users may choose not to adopt our new product or service offerings, and we may be subject to claims if customers of these offerings experience service disruptions or failures, security breaches or other quality issues. Further, the success of these new offerings depends upon the cooperation of hardware, software and cloud hosting vendors to ensure interoperability with our products and offer compatible products and services to end users.

Both the cloud computing and virtual desktop markets are in early stages of development. Other companies seeking to enter and develop competing standards for the cloud computing market such as Microsoft, IBM, Oracle, Google and Amazon and the virtual desktop market such as Microsoft and Citrix have introduced or are likely to introduce their own initiatives that may compete with or not be compatible with our cloud and virtual desktop computing initiatives which could limit the degree to which other vendors develop products and services around our offerings and end users adopt our platforms. Additionally, our operating margins in our newer initiatives may be lower than those we have achieved in the markets we currently serve, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth and negatively affect our operating results.

We rely on distributors, resellers, x86 system vendors and systems integrators to sell our products, and our failure to effectively develop, manage or prevent disruptions to our distribution channels and the processes and procedures that support them could cause a reduction in the number of end users of our products.

Our future success is highly dependent upon maintaining and increasing the number of our relationships with distributors, resellers, x86 system vendors and systems integrators. By relying on distributors, resellers, x86 system vendors and systems integrators, we may have little or no contact with the ultimate users of our products, thereby making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing customer requirements, estimate end user demand and respond to evolving customer needs.

Recruiting and retaining qualified channel partners and training them in the use of our technology and product offerings requires significant time and resources. In order to develop and expand our distribution channel, we must continue to expand and improve our processes and procedures that support our channel, including our investment in systems and training, and those processes and procedures may become increasingly complex and difficult to manage. The time and expense required for sales and marketing organizations of our channel partners to become familiar with our product offerings, including our new product developments, may make it more difficult to introduce those products to end users and delay end user adoption of our product offerings. We generally do not have long-term contracts or minimum purchase commitments with our distributors, resellers, x86 system vendors and systems integrators, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Our competitors may be effective in providing incentives to existing and potential channel partners to favor products of our competitors or to prevent or reduce sales of our products. Certain x86 system vendors now offer competing virtualization products preinstalled on their server products. Additionally, our competitors could attempt to require key distributors to enter into exclusivity arrangements with them or otherwise apply their pricing or marketing leverage to discourage distributors from offering our products. Accordingly, our channel partners and x86 system vendors may choose not to offer our products exclusively or at all. Our failure to maintain and increase the number of relationships with channel partners would likely lead to a loss of end users of our products which would result in us receiving lower revenues from our channel partners. One of the Company's distribution agreements is with Ingram Micro, which accounted for 17% and 18% of our revenues in the first half of 2009 and fiscal year 2008, respectively. The agreement with Ingram Micro under which the Company receives the substantial majority of its Ingram Micro revenues is terminable by either party upon 90 days' prior written notice to the other party, and neither party has any obligation to purchase or sell any products under the agreement. The terms of this agreement between Ingram Micro and us are substantially similar to the terms of the agreements we have with other distributors, except for certain differences in shipment and payment terms, indemnification obligations and product return rights. While we believe that we have in place, or would have in place by the date of any such termination, agreements with other distributors sufficient to maintain our revenues from distribution, if we were to lose Ingram Micro's distribution services, such loss could have a negative impact on our results of operations until such time as we arrange to replace these distribution services with the services of existing or new distributors.

The concentration of our product sales among a limited number of distributors and the weakness in credit markets increases our potential credit risk and could cause significant fluctuations or declines in our product revenues.

One distributor accounted for 17% and 18% of revenues in the first half of 2009 and fiscal year 2008, respectively. Additionally, another distributor accounted for 16% of revenues in both the first half of 2009 and fiscal year 2008. We anticipate that sales of our products to a limited number of distributors will continue to account for a significant portion of our total product revenues for the foreseeable future. The concentration of product sales among certain distributors increases our potential credit risks. For example, approximately 47% of our total accounts receivable as of June 30, 2009 was from two distributors. Some of our distributors may experience financial difficulties, which could adversely impact our collection of accounts receivable. One or more of these distributors could delay payments or default on credit extended to them. Our exposure to credit risks of our distributors may increase if our distributors and their customers are adversely affected by the current global economic downturn, or if there is a continuation or worsening of the downturn. Any significant delay or default in the collection of significant accounts receivable could result in an increased need for us to obtain working capital from other sources, possibly on worse terms than we could have negotiated if we had established such working capital resources prior to such delays or defaults. Any significant default could result in a negative impact on our results of operations.

The large majority of our revenues have come from our data center virtualization products including our flagship VDC-OS, Virtual Infrastructure product line. Decreases in demand for our data center virtualization products could adversely affect our results of operations and financial condition.

In fiscal year 2008, over 90% of our license revenues were from our data center solutions with the balance from our other solutions. Although we are continuing to develop applications for our virtualization technology such as our desktop virtualization products, we expect our data center virtualization products and related enhancements and upgrades will constitute a majority of our revenue for the foreseeable future. Declines and variability in demand for our data center virtualization products could occur as a result of:

- an improved version of products being offered by competitors in the market in which we participate;

- competitive pressures on our pricing models;
- a failure to release new or enhanced versions of our data center virtualization products on a timely basis;
- technological change that we are unable to address with our data center virtualization products;
- general economic conditions; or
- increased pressure from competitors that offer broader product lines.

Due to our product concentration, our business, results of operations, financial condition, and cash flows would therefore be adversely affected by a decline in demand for our data center virtualization products.

Our revenues, collection of accounts receivable and financial results may be adversely impacted by fluctuation of foreign currency exchange rates. While foreign currency hedges can offset some of the risk related to foreign currency fluctuations, we will continue to experience foreign currency gains and losses in certain instances where it is not possible or cost effective to hedge our foreign currency exposures or if our foreign currency hedges do not perform as expected.

Our revenues and our collection of accounts receivable may be adversely impacted as a result of fluctuations in the exchange rates between the U.S. Dollar and foreign currencies. For example, we have distributors in foreign countries that may incur higher costs due to the strengthening of the U.S. Dollar. One or more of these distributors could delay payments or default on credit extended to them. Any significant delay or default in the collection of significant accounts receivable could result in an increased need for us to obtain working capital from other sources. If we determine that the amount of accounts receivable to be uncollectible is greater than our estimates, we would recognize an increase in bad debt expense, which would have a negative impact on our results of operations. In addition, in periods when the value of the U.S. Dollar strengthens, we may need to offer additional discounts, reduce prices or offer other incentives to mitigate the negative effect on demand.

In the second quarter of 2009, we began to invoice in non-U.S. Dollar denominated currencies, thereby conducting a portion of our revenue transactions in currencies other than the U.S. Dollar. Although this program may alleviate credit risk from our distributors during periods when the U.S. Dollar strengthens, it may also negatively impact our revenues, anticipated cash flows and financial results due to fluctuations in foreign currency exchange rates, particularly the Euro, the British Pound, the Japanese Yen and the Australian Dollar relative to the U.S. Dollar. While variability in operating margin may be reduced due to invoicing in certain of the local currencies in which we also recognize expenses, increased exposure to foreign currency fluctuations will introduce additional risk for variability in revenue-related components of our financial statements.

In order to manage our exposure to foreign currency fluctuations, we started a program to enter into foreign currency hedges related to outstanding monetary assets and liabilities. As of July 1, 2009, we entered into forward contracts to hedge certain net monetary asset positions. Although we expect the market risks of our foreign currency forward contracts to be offset by corresponding gains and losses on the transactions being hedged, our hedging transactions may not yield the results we expect. Additionally, we expect to continue to experience foreign currency gains and losses in certain instances where it is not possible or cost effective to hedge our foreign currency exposures.

We are dependent on our management and our key development personnel, and the loss of key personnel may prevent us from implementing our business plan in a timely manner.

Our success depends largely upon the continued services of our existing management. We are also substantially dependent on the continued service of our key development personnel for product innovation. We generally do not have employment or non-compete agreements with our existing management or development personnel and, therefore, they could terminate their employment with us at any time without penalty and could pursue employment opportunities with any of our competitors. Changes to management and key employees can also lead to additional unplanned losses of key employees. The loss of key employees could seriously harm our ability to release new products on a timely basis and could significantly help our competitors.

Because competition for our target employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our planned growth and our compensation expenses may increase.

To execute on our strategy, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for senior sales executives and engineers with high levels of experience in designing and developing software. We may not be successful in attracting and retaining qualified personnel. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. In addition, in making employment decisions, particularly in the high-technology industry, job candidates often consider the value of the stock options, restricted stock grants or other stock-based compensation they are to receive in connection with their employment. Declines in the value of our stock could adversely affect our ability to attract or retain key employees and result in increased employee compensation expenses. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. As such, despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the United States. Further, with respect to patent rights, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. Even if patents are issued from our patent applications, which is not certain, they may be contested, circumvented or invalidated in the future. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future. In addition, we rely on confidentiality or license agreements with third parties in connection with their use of our products and technology. There is no guarantee that such parties will abide by the terms of such agreements or that we will be able to adequately enforce our rights, in part because we rely on “click-wrap” and “shrink-wrap” licenses in some instances.

Detecting and protecting against the unauthorized use of our products, technology and proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business, financial condition and results of operations, and there is no guarantee that we would be successful. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to protecting their technology or intellectual property rights than we do. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property, which could result in a substantial loss of our market share.

We provide access to our hypervisor and other selected source code to partners, which creates additional risk that our competitors could develop products that are similar or better than ours.

Our success and ability to compete depend substantially upon our internally developed technology, which is incorporated in the source code for our products. We seek to protect the source code, design code, documentation and other written materials for our software, under trade secret and copyright laws. However, we have chosen to provide access to our hypervisor and other selected source code to more than 50 of our partners for co-development, as well as for open APIs, formats and protocols. Though we generally control access to our source code and other intellectual property, and enter into confidentiality or license agreements with such partners, as well as with our employees and consultants, our safeguards may be insufficient to protect our trade secrets and other rights to our technology. Our protective measures may be inadequate, especially because we may not be able to prevent our partners, employees or consultants from violating any agreements or licenses we may have in place or abusing their access granted to our source code. Improper disclosure or use of our source code could help competitors develop products similar to or better than ours.

Claims by others that we infringe their proprietary technology could force us to pay damages or prevent us from using certain technology in our products.

Third parties could claim that our products or technology infringe their proprietary rights. This risk may increase as the number of products and competitors in our market increases and overlaps occur. In addition, to the extent that we gain greater visibility and market exposure as a public company, we face a higher risk of being the subject of intellectual property infringement claims. Any claim of infringement by a third party, even one without merit, could cause us to incur substantial costs defending against the claim, and could distract our management from our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. A judgment could also include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Any of these events could seriously harm our business, operating results and financial condition. Third parties may also assert infringement claims against our customers and channel partners. Any of these claims could require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and channel partners from claims of infringement of proprietary rights of third parties in connection with the use of our products. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or channel partners, which could negatively affect our results of operations.

Our use of “open source” software could negatively affect our ability to sell our products and subject us to possible litigation.

A significant portion 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, “Apache-style” licenses, “Berkeley Software Distribution,” “BSD-style” licenses and other open source licenses. We monitor our use of open source software in an effort 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 such that we have not triggered any such conditions, 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. For example, we may be subjected 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 subject to significant damages, enjoined from the distribution of our products that contained the open source software and required to comply with the foregoing conditions, 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, which could substantially help our competitors develop products that are similar to or better than ours.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties or assurance of title or controls on origin of the software. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source, but we cannot be sure that all open source software is submitted for approval prior to use in our products. In addition, many of the risks associated with usage of open source such as the lack of warranties or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect our business.

Our sales cycles can be long and unpredictable, our sales efforts require considerable time and expense and timing of sales is subject to changing purchasing behaviors of our customers. As a result, our sales are difficult to predict and may vary substantially from quarter to quarter, which may cause our operating results to fluctuate significantly.

The timing of our revenues is difficult to predict. Our sales efforts involve educating our customers about the use and benefit of our products, including their technical capabilities, potential cost savings to an organization and advantages compared to lower-cost products offered by our competitors. Customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle, which typically lasts several months, and may last a year or longer. We spend substantial time, effort and money on our sales efforts without any assurance that our efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing and other delays. Additionally, the greater number of competitive alternatives, as well as announcements by our competitors that they intend to introduce competitive alternatives at some point in the future, can lengthen customer procurement cycles, cause us to spend additional time and resources to educate end users on the advantages of our product offerings and delay product sales. These factors can have a particular impact on the timing and length of our ELA sales cycles.

Additionally, our quarterly sales have historically reflected an uneven pattern in which a disproportionate percentage of a quarter’s total sales occur in the last month, weeks and days of each quarter. This pattern makes prediction of revenues, earnings and working capital for each financial period especially difficult and uncertain and increases the risk of unanticipated variations in financial condition and results of operations. We believe this uneven sales pattern is a result of many factors including the following:

- the tendency of customers to wait until late in a quarter to commit to a purchase in the hope of obtaining more favorable pricing;
- the fourth quarter influence of customers spending their remaining capital budget authorization prior to new budget constraints in the first nine months of the following year; and
- seasonal influences.

If sales expected from a specific customer for a particular quarter are not realized in that quarter or at all, our results could fall short of public expectations and our business, financial condition and results of operations could be materially adversely affected.

Our current research and development efforts may not produce significant revenues for several years, if at all.

Developing our products is expensive. Our investment in research and development may not result in marketable products or may result in products that take longer to generate revenues, or generate less revenues, than we anticipate. Our research and development expenses were $226.8 million, or 24% of our total revenues, in the six months ended June 30, 2009, and $429.2 million, or 23% of our total revenues, in 2008. 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 receive significant revenues from these investments for several years, if at all.

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

The markets for our software solutions are characterized by rapid technological changes, changing customer needs, frequent new software product introductions and evolving industry standards. The introduction of third-party solutions embodying new technologies and the emergence of new industry standards could make our existing and future software solutions obsolete and unmarketable. We may not be able to develop updated products that keep pace with technological developments and emerging industry standards and that address the increasingly sophisticated needs of our customers or that interoperate with new or updated operating systems and hardware devices or certify our products to work with these systems and devices. There is no assurance that any of our new offerings would be accepted in the marketplace. Significant reductions in server-related costs or the rise of more efficient infrastructure management software could also affect demand for our software solutions. As hardware and processors become more powerful, we will have to adapt our product and service offerings to take advantage of the increased capabilities. For example, while the introduction of more powerful servers presents an opportunity for us to provide better products for our customers, the migration of servers from dual-core to quad-core and greater multi-core microprocessor technology will also allow an end user with a given number of licensed copies of our software to more than double the number of virtualization machines run per server socket without having to purchase additional licenses from us. As a result, we may not be able to accurately predict the lifecycle of our software solutions, 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 and revenues in the virtualization software market could be materially adversely affected.

Our success depends upon our ability to develop new products and services, integrate acquired products and services and enhance our existing products and services.

If we are unable to develop new products and services, or to enhance and improve our products and support services in a timely manner or to position and/or price our products and services to meet market demand, customers may not buy new software licenses or renew software license updates and product support. In addition, information technology standards from both consortia and formal standards-setting forums as well as de facto marketplace standards are rapidly evolving. We cannot provide any assurance that the standards on which we choose to develop new products will allow us to compete effectively for business opportunities in emerging areas such as cloud computing.

New product development and introduction involves a significant commitment of time and resources and is subject to a number of risks and challenges including:

- managing the length of the development cycle for new products and product enhancements, which has frequently been longer than we originally expected;
- managing customers’ transitions to new products, which can result in delays in their purchasing decisions;
- adapting to emerging and evolving industry standards and to technological developments by our competitors and customers;
- entering into new or unproven markets with which we have limited experience;
- incorporating and integrating acquired products and technologies; and
- developing or expanding efficient sales channels.

In addition, if we cannot adapt our business models to keep pace with industry trends, our revenues could be negatively impacted.

Our ability to sell our products is dependent on the quality of our support and services offerings, and our failure to offer high-quality support and services could have a material adverse effect on our sales and results of operations.

Once our products are integrated within our customers’ hardware and software systems, our customers may depend on our support organization to resolve any issues relating to our products. A high level of support is critical for the successful marketing and sale of our products. If we or our channel partners do not effectively assist our customers in deploying our products, succeed in helping our customers quickly resolve post-deployment issues, and provide effective ongoing support, our ability to sell our products to existing customers would be adversely affected, and our reputation with potential customers could be harmed. In addition, as we expand our operations internationally, our support organization will face additional challenges, including those associated with delivering support, training and documentation in languages other than English. As a result, our failure to maintain high-quality support and services, or to adequately assist our channel partners in providing high-quality support and services, could result in customers choosing to use our competitors’ products instead of ours in the future.

We may engage in future acquisitions that could disrupt our business, cause dilution to our stockholders and harm our business, financial condition and results of operations.

In the future we may seek to acquire other businesses, products or technologies. However, we may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, or they may be viewed negatively by customers, financial markets or investors.

Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses and adversely impact our business, financial condition and results of operations. An acquired business may not deliver the expected results. For example, an acquisition may not further our strategies or results in expected benefits, which may include benefits relating to enhanced revenues, technology, human resources, cost savings, operating efficiencies and other synergies. Future acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable intangible assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt.

Additionally, we have limited historical experience with the integration of acquired companies. There can be no assurance that we will be able to manage the integration of acquired businesses effectively or be able to retain and motivate key personnel from these businesses. Any difficulties we encounter in the integration process could divert management from day-to-day responsibilities, increase our expenses and have a material adverse effect on our business, financial condition and results of operations. We may also face difficulties due to the lack of experience in new markets, products or technologies or the initial dependence on unfamiliar supply or distribution partners. Other risks related to acquisitions include the assumption of the liabilities of the acquired business, including litigation-related liability.

In addition, we review our amortizable intangible assets annually for impairment, or more frequently, when events or changes in circumstances indicate the carrying value may not be recoverable, and we are required to test goodwill for impairment at least annually. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets resulting from an acquisition or otherwise is determined, resulting in an adverse impact on our results of operations. In addition to the risks commonly encountered in the acquisition of a business as described above, we may also experience risks relating to the challenges and costs of closing a transaction. Further, the risks described above may be exacerbated as a result of managing multiple acquisitions at the same time. We also seek to invest in businesses that offer complementary products, services or technologies. These investments are accompanied by risks similar to those encountered in an acquisition of a business.

Operating in foreign countries subjects us to additional risks that may harm our ability to increase or maintain our international sales and operations.

In the first half of 2009 and in fiscal year 2008, we derived approximately 48% of our revenues from customers outside the United States. We have sales, administrative, research and development and technical support personnel in numerous countries worldwide. We expect to continue to add personnel in additional countries. Our international operations subject us to a variety of risks, including:

- the difficulty of managing and staffing international offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- increased exposure to foreign currency exchange rate risk;
- difficulties in enforcing contracts and collecting accounts receivable, and longer payment cycles, especially in emerging markets;
- difficulties in delivering support, training and documentation in certain foreign markets;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- economic or political instability and security concerns in countries that are important to our international sales and operations;
- the overlap of different tax structures or changes in international tax laws;
- reduced protection for intellectual property rights, including reduced protection from software piracy in some countries;
- difficulties in transferring funds from certain countries; and
- difficulties in maintaining appropriate controls relating to revenue recognition practices.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. We expect a significant portion of our growth to occur in foreign countries which can add to the difficulties in maintaining adequate management systems and internal controls over financial reporting and increase challenges in managing an organization operating in various countries.

Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales.

Our products are highly technical and may contain errors, which could cause harm to our reputation and adversely affect our business.

Our products are highly technical and complex and, when deployed, have contained and may contain errors, defects or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by customers. Any errors, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, financial condition and results of operations. Undiscovered vulnerabilities in our products could expose them to hackers or other unscrupulous third parties who develop and deploy viruses, worms, and other malicious software programs that could attack our products. Actual or perceived security vulnerabilities in our products could harm our reputation and lead some customers to return products, to reduce or delay future purchases or use competitive products. End users, who rely on our products and services for the interoperability of enterprise servers and applications that are critical to their information systems, may have a greater sensitivity to product errors and security vulnerabilities than customers for software products generally. Any security breaches could lead to interruptions, delays and data loss and protection concerns. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our channel partners. Our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld. Defending a lawsuit, regardless of its merit, is costly and time-consuming and may divert management’s attention and adversely affect the market’s perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, financial condition and results of operations could be adversely impacted.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our common stock.

We have complied with Section 404 by assessing, strengthening and testing our system of internal controls. Even though our system of internal controls has achieved compliance with Section 404, we need to continue to maintain our processes and systems and adapt them to changes as our business changes and we rearrange management responsibilities and reorganize our business accordingly. We may also seek to automate certain processes to improve efficiencies and better ensure ongoing compliance. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive and time-consuming, and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as our business changes, our internal controls may become more complex and we will require significantly more resources to ensure our internal controls overall remain effective. 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 meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remedied, could reduce the market’s confidence in our financial statements and harm our stock price. In addition, if we are unable to continue to comply with Section 404, our non-compliance could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from the New York Stock Exchange and the inability of registered broker-dealers to make a market in our common stock, which could reduce our stock price.

Problems with our information systems could interfere with our business and operations.

We rely on our information systems and those of third parties for processing customer orders, delivery of products, providing services and support to our customers, billing and tracking our customers, fulfilling contractual obligations, and otherwise running our business. Any disruption in our information systems and those of the third parties upon whom we rely could have a significant impact on our business. In addition, we are in the process of enhancing our information systems. The implementation of these types of enhancements is frequently disruptive to the underlying business of an enterprise, which may especially be the case for us due to the size and complexity of our businesses. Any disruptions relating to our systems enhancements, particularly any disruptions impacting our operations during the implementation period, could adversely affect our business in a number of respects. Even if we do not encounter these adverse effects, the implementation of these enhancements may be much more costly than we anticipated. If we are unable to successfully implement the information systems enhancements as planned, our financial position, results of operations, and cash flows could be negatively impacted.

If we fail to manage future growth effectively, we may not be able to meet our customers’ needs or be able to meet our future reporting obligations.

We have expanded our operations since inception and anticipate further expansion in the future. This future growth, if it occurs, will place significant demands on our management, infrastructure and other resources. Additionally, further international growth may occur in regions where we presently have little or no infrastructure. To manage any future growth, we will need to hire, integrate and retain highly skilled and motivated employees. We will also need to continue to improve our financial and management controls, reporting and operational systems and procedures. If we do not effectively manage our growth we may not be able to meet our customers’ needs, thereby adversely affecting our sales, or be able to meet our future reporting obligations.

Our financial results may be adversely impacted by higher than expected tax rates and we may have exposure to additional tax liabilities.

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file and changes to tax laws. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. From time to time, we are subject to income tax audits. While we believe we have complied with all applicable income tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed with additional taxes, there could be a material adverse effect on our financial condition or results of operations.

Our future effective tax rate may be affected by such factors as changes in tax laws, regulations or rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation, the impact of accounting for business combinations under the new accounting standard FAS No. 141R, changes in our international organization, and changes in overall levels of income before tax. In addition, in the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. Although we believe that our tax estimates are reasonable, we cannot assure you that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

We are also subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the United States and various foreign jurisdictions. We are under audit from time to time by tax authorities with respect to these non-income taxes and may have exposure to additional non-income tax liabilities.

Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events, and to interruption by man-made problems, such as computer viruses or terrorism, which could result in delays or cancellations of customer orders or the deployment of our products.

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire or a flood, could have a material adverse impact on our business, financial condition and results of operations. As we continue to grow internationally, increasing amounts of our business will be located in foreign countries that may be more subject to political or social instability that could disrupt operations. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. Furthermore, acts of terrorism or war could cause disruptions in our or our customers' business or the economy as a whole. To the extent that such disruptions result in delays or cancellations of customer orders, or the deployment of our products, our revenues would be adversely affected.

Risks Related to Our Relationship with EMC

As long as EMC controls us, holders of our Class A common stock will have limited ability to influence matters requiring stockholder approval.

As of June 30, 2009, EMC owned 27,000,000 shares of our Class A common stock and all 300,000,000 shares of our Class B common stock, representing approximately 83% of the total outstanding shares of common stock or 98% of the voting power of outstanding common stock. The holders of our Class A common stock and our Class B common stock have identical rights, preferences and privileges except with respect to voting and conversion rights, the election of directors, certain actions that require the consent of holders of Class B common stock and other protective provisions as set forth in our certificate of incorporation. Holders of our Class B common stock are entitled to 10 votes per share of Class B common stock on all matters except for the election of our Group II directors, in which case they are entitled to one vote per share, and the holders of our Class A common stock are entitled to one vote per share of Class A common stock. The holders of Class B common stock, voting separately as a class, are entitled to elect 80% of the total number of directors on our board of directors that we would have if there were no vacancies on our board of directors at the time. These are our Group I directors. Subject to any rights of any series of preferred stock to elect directors, the holders of Class A common stock and the holders of Class B common stock, voting together as a single class, are entitled to elect our remaining directors, which at no time will be less than one director—our Group II director(s). Shares of Class B common stock are entitled to one vote per share when voting for such remaining directors. Accordingly, the holders of our Class B common stock currently are entitled to elect 7 of our 8 directors. If EMC transfers shares of our Class B common stock to any party other than a successor-in-interest or a subsidiary of EMC (other than in a distribution to its stockholders under Section 355 of the Internal Revenue Code of 1986, as amended, or the Code, or in transfers following such a distribution), those shares will automatically convert into Class A common stock. For so long as EMC or its successor-in-interest beneficially owns shares of our common stock representing at least a majority of the votes entitled to be cast by the holders of outstanding voting stock, EMC will be able to elect all of the members of our board of directors.

In addition, until such time as EMC or its successor-in-interest beneficially owns shares of our common stock representing less than a majority of the votes entitled to be cast by the holders of outstanding voting stock, EMC will have the ability to take stockholder action without the vote of any other stockholder and without having to call a stockholder meeting, and holders of our Class A common stock will not be able to affect the outcome of any stockholder vote during this period. As a result, EMC will have the ability to control all matters affecting us, including:

- the composition of our board of directors and, through our board of directors, any determination with respect to our business plans and policies;
- any determinations with respect to mergers, acquisitions and other business combinations;
- our acquisition or disposition of assets;
- our financing activities;
- certain changes to our certificate of incorporation;
- changes to the agreements providing for our transition to becoming a public company;
- corporate opportunities that may be suitable for us and EMC;
- determinations with respect to enforcement of rights we may have against third parties, including with respect to intellectual property rights;
- the payment of dividends on our common stock; and
- the number of shares available for issuance under our stock plans for our prospective and existing employees.

Our certificate of incorporation and the master transaction agreement between us and EMC also contain provisions that require that as long as EMC beneficially owns at least 20% or more of the outstanding shares of our common stock, the prior affirmative vote or written consent of EMC (or its successor-in-interest) as the holder of the Class B common stock is required (subject in each case to certain exceptions) in order to authorize us to:

- consolidate or merge with any other entity;
- acquire the stock or assets of another entity in excess of $100 million;
- issue any stock or securities except to our subsidiaries or pursuant to our employee benefit plans;
- establish the aggregate annual amount of shares we may issue in equity awards;
- dissolve, liquidate or wind us up;
- declare dividends on our stock;
- enter into any exclusive or exclusionary arrangement with a third party involving, in whole or in part, products or services that are similar to EMC's; and
- amend, terminate or adopt any provision inconsistent with certain provisions of our certificate of incorporation or bylaws.

If EMC does not provide any requisite consent allowing us to conduct such activities when requested, we will not be able to conduct such activities and, as a result, our business and our operating results may be harmed. EMC's voting control and its additional rights described above may discourage transactions involving a change of control of us, including transactions in which holders of our Class A common stock might otherwise receive a premium for their shares over the then-current market price. EMC is not prohibited from selling a controlling interest in us to a third party and may do so without the approval of the holders of our Class A common stock and without providing for a purchase of any shares of Class A common stock held by persons other than EMC. Accordingly, shares of Class A common stock may be worth less than they would be if EMC did not maintain voting control over us or have the additional rights described above.

In the event EMC is acquired or otherwise undergoes a change of control, any acquirer or successor will be entitled to exercise the voting control and contractual rights of EMC, and may do so in a manner that could vary significantly from that of EMC.

By becoming a stockholder in our company, holders of our Class A common stock are deemed to have notice of and have consented to the provisions of our certificate of incorporation and the master transaction agreement with respect to the limitations that are described above.

Our business and that of EMC overlap, and EMC may compete with us, which could reduce our market share.

EMC and we are both IT infrastructure companies providing products related to storage management, back-up, disaster recovery, security, system management and automation, provisioning and resource management. There can be no assurance that EMC will not engage in increased competition with us in the future. In addition, the intellectual property agreement that we have entered into with EMC will provide EMC the ability to use our source code and intellectual property, which, subject to limitations, it may use to produce certain products that compete with ours. EMC's rights in this regard extend to its majority-owned subsidiaries, which could include joint ventures where EMC holds a majority position and one or more of our competitors hold minority positions.

EMC could assert control over us in a manner which could impede our growth or our ability to enter new markets or otherwise adversely affect our business. Further, EMC could utilize its control over us to cause us to take or refrain from taking certain actions, including entering into relationships with channel, technology and other marketing partners, enforcing our intellectual property rights or pursuing corporate opportunities or product development initiatives that could adversely affect our competitive position, including our competitive position relative to that of EMC in markets where we compete with them. In addition, EMC maintains significant partnerships with certain of our competitors, including Microsoft.

EMC's competition in certain markets may affect our ability to build and maintain partnerships.

Our existing and potential partner relationships may be affected by our relationship with EMC. We partner with a number of companies that compete with EMC in certain markets in which EMC participates. EMC's majority ownership in us might affect our ability to effectively partner with these companies. These companies may favor our competitors because of our relationship with EMC.

EMC competes with certain of our significant channel, technology and other marketing partners, including IBM and Hewlett-Packard. Pursuant to our certificate of incorporation and other agreements that we have with EMC, EMC may have the ability to impact our relationship with those of our partners that compete with EMC, which could have a material adverse effect on our results of operations or our ability to pursue opportunities which may otherwise be available to us.

Our historical financial information as a business segment of EMC may not be representative of our results as an independent public company.

The historical financial information covering the periods prior to our initial public offering ("IPO") in August 2007 included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 does not necessarily reflect what our financial position, results of operations or cash flows would have been had we been an independent entity during those historical periods. The historical costs and expenses reflected in our consolidated financial statements prior to 2008 include an allocation for certain corporate functions historically provided by EMC, including tax, accounting, treasury, legal and human resources services. Although we have transitioned most of these corporate functions to VMware personnel, in certain geographic regions where we do not have an established legal entity, we contract with EMC subsidiaries for support services and EMC employees who are managed by VMware personnel. The costs incurred by EMC on VMware's behalf related to these employees include a mark-up intended to approximate costs that would have been charged had such arrangements been with an unrelated third party. These costs have been charged by EMC and are included as expenses in our consolidated statements of income. Our historical financial information is not necessarily indicative of what our financial position, results of operations or cash flows will be in the future if and when we contract at arm's-length with independent third parties for the services we have received and currently receive from EMC. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and notes thereto.

In order to preserve the ability for EMC to distribute its shares of our Class B common stock on a tax-free basis, we may be prevented from pursuing opportunities to raise capital, to effectuate acquisitions or to provide equity incentives to our employees, which could hurt our ability to grow.

Beneficial ownership of at least 80% of the total voting power and 80% of each class of nonvoting capital stock is required in order for EMC to effect a tax-free spin-off of VMware or certain other tax-free transactions. We have agreed that for so long as EMC or its successor-in-interest continues to own greater than 50% of the voting control of our outstanding common stock, we will not knowingly take or fail to take any action that could reasonably be expected to preclude EMC's or its successor-in-interest's ability to undertake a tax-free spin-off. Additionally, under our certificate of incorporation and the master transaction agreement we entered into with EMC, we must obtain the consent of EMC or its successor-in-interest, as the holder of our Class B common stock, to issue stock or other VMware securities, excluding pursuant to employee benefit plans (provided that we obtain Class B common stockholder approval of the aggregate annual number of shares to be granted under such plans), which could cause us to forgo capital raising or acquisition opportunities that would otherwise be available to us. As a result, we may be precluded from pursuing certain growth initiatives.

Third parties may seek to hold us responsible for liabilities of EMC, which could result in a decrease in our income.

Third parties may seek to hold us responsible for EMC's liabilities. Under our master transaction agreement with EMC, EMC will indemnify us for claims and losses relating to liabilities related to EMC's business and not related to our business. However, if those liabilities are significant and we are ultimately held liable for them, we cannot be certain that we will be able to recover the full amount of our losses from EMC.

Although we have entered into a tax sharing agreement with EMC under which our tax liabilities effectively will be determined as if we were not part of any consolidated, combined or unitary tax group of EMC Corporation and/or its subsidiaries, we nonetheless could be held liable for the tax liabilities of other members of these groups.

We have historically been included in EMC's consolidated group for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups that include EMC Corporation and/or certain of its subsidiaries for state and local income tax purposes. Pursuant to our tax sharing agreement with EMC, we and EMC generally will make payments to each other such that, with respect to tax returns for any taxable period in which we or any of our subsidiaries are included in EMC's consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of EMC Corporation and/or its subsidiaries, the amount of taxes to be paid by us will be determined, subject to certain adjustments, as if we and each of our subsidiaries included in such consolidated, combined or unitary group filed our own consolidated, combined or unitary tax return.

Prior to our IPO in August 2007, we were included in the EMC consolidated group for U.S. federal income tax purposes, and expect to continue to be included in such consolidated group for periods in which EMC owned at least 80% of the total voting power and value of our outstanding stock. Each member of a consolidated group during any part of a consolidated return year is jointly and severally liable for tax on the consolidated return of such year and for any subsequently determined deficiency thereon. Similarly, in some jurisdictions, each member of a consolidated, combined or unitary group for state, local or foreign income tax purposes is jointly and severally liable for the state, local or foreign income tax liability of each other member of the consolidated, combined or unitary group. Accordingly, for any period in which we are included in the EMC consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of EMC Corporation and/or its subsidiaries, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of any such group.

Any inability to resolve favorably any disputes that arise between us and EMC with respect to our past and ongoing relationships may result in a significant reduction of our revenues and earnings.

Disputes may arise between EMC and us in a number of areas relating to our ongoing relationships, including:

- labor, tax, employee benefit, indemnification and other matters arising from our separation from EMC;
- employee retention and recruiting;
- business combinations involving us;
- our ability to engage in activities with certain channel, technology or other marketing partners;
- sales or dispositions by EMC of all or any portion of its ownership interest in us;
- the nature, quality and pricing of services EMC has agreed to provide us;
- arrangements with third parties that are exclusionary to EMC;
- business opportunities that may be attractive to both EMC and us; and
- product or technology development or marketing activities or customer agreements which may require the consent of EMC.

We may not be able to resolve any potential conflicts, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party.

The agreements we enter into with EMC may be amended upon agreement between the parties. While we are controlled by EMC, we may not have the leverage to negotiate amendments to these agreements if required on terms as favorable to us as those we would negotiate with an unaffiliated third party.

Some of our directors and executive officers own EMC common stock, restricted shares of EMC common stock and/ or options to acquire EMC common stock and hold management positions with EMC, which could cause conflicts of interests that result in our not acting on opportunities we otherwise may have.

Some of our directors and executive officers own EMC common stock and/or options to purchase EMC common stock. In addition, some of our directors are executive officers and/or directors of EMC. Ownership of EMC common stock, restricted shares of EMC common stock and options to purchase EMC common stock by our directors and officers and the presence of executive officers or directors of EMC on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and EMC that could have different implications for EMC than they do for us. Provisions of our certificate of incorporation and the master transaction agreement between EMC and us address corporate opportunities that are presented to our directors or officers that are also directors or officers of EMC. There can be no assurance that the provisions in our certificate of incorporation or the master transaction agreement will adequately address potential conflicts of interest or that potential conflicts of interest will be resolved in our favor or that we will be able to take advantage of corporate opportunities presented to individuals who are officers or directors of both us and EMC. As a result, we may be precluded from pursuing certain growth initiatives.

EMC's ability to control our board of directors may make it difficult for us to recruit independent directors.

So long as EMC beneficially owns shares of our common stock representing at least a majority of the votes entitled to be cast by the holders of outstanding voting stock, EMC can effectively control and direct our board of directors. Further, the interests of EMC and our other stockholders may diverge. Under these circumstances, persons who might otherwise accept our invitation to join our board of directors may decline.

We are a "controlled company" within the meaning of the New York Stock Exchange rules, and, as a result, are relying on exemptions from certain corporate governance requirements that provide protection to stockholders of companies that are not "controlled companies."

EMC owns more than 50% of the total voting power of our common shares and, as a result, we are a "controlled company" under the New York Stock Exchange corporate governance standards. As a controlled company, we are exempt under the New York Stock Exchange standards from the obligation to comply with certain New York Stock Exchange corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of independent directors;
- that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- for an annual performance evaluation of the nominating and governance committee and compensation committee.

While we have voluntarily caused our Compensation and Corporate Governance Committee to currently be composed entirely of independent directors in compliance with the requirements of the New York Stock Exchange, we are not required to maintain the independent composition of the committee. As a result of our use of the "controlled company" exemptions, holders of our Class A common stock will not have the same protection afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Risks Related to Owning Our Class A Common Stock

Our Class A common stock has only been publicly traded since August 14, 2007 and the price of our Class A common stock has fluctuated substantially since then and may fluctuate substantially in the future.

Our Class A common stock has only been publicly traded since our IPO on August 14, 2007. The trading price of our Class A common stock has fluctuated significantly since then. For example, between January 1, 2008 and June 30, 2009, the closing trading price of our Class A common stock was very volatile, ranging between $17.88 and $84.60 per share. Our trading price could fluctuate substantially in the future due to the factors discussed in this Risk Factors section and elsewhere in this Quarterly Report on Form 10-Q.

Substantial amounts of Class A common stock are held by our employees, EMC, Intel Corporation ("Intel") and Cisco Systems ("Cisco"), and all of the shares of our Class B common stock, which may be converted to Class A common stock upon request of the holder, are held by EMC. Contractual restrictions on the sale of shares held by EMC, Cisco and Intel expired in 2008. Since the expiration of the contractual restrictions on its sale of VMware stock, Intel has sold a portion of the shares that it initially purchased and disclosed that as of May 12, 2009, it held approximately 5.0 million of the shares of Class A common stock it had originally purchased. Cisco and EMC each purchased 500,000 of the shares sold by Intel during 2008, thereby increasing their holdings. Shares of Class A common stock held by EMC (including shares of Class A common stock that might be issued upon the conversion of Class B common stock) are eligible for sale subject to the volume, manner of sale and other restrictions of Rule 144 of the Securities Exchange Act of 1933 which allow the holder to sell up to the greater of 1% of our outstanding Class A common stock or our average weekly trading volume during any three-month period and following the expiration of their contractual restrictions. Additionally, EMC possesses registration rights with respect to the shares of our common stock that it holds. If EMC chooses to exercise such rights, its sale of the shares that are registered would not be subject to the Rule 144 limitations. If a significant amount of the shares that become eligible for resale enter the public trading markets in a short period of time, the market price of our Class A common stock may decline.

Additionally, broad market and industry factors may decrease the market price of our Class A common stock, regardless of our actual operating performance. The stock market in general, and technology companies in particular, also have often experienced extreme price and volume fluctuations. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted, including against us, and, if not resolved swiftly, can result in substantial costs and a diversion of management's attention and resources.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our Class A common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who may cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Delaware law and our certificate of incorporation and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.

Provisions in our certificate of incorporation and bylaws will have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the division of our board of directors into three classes, with each class serving for a staggered three-year term, which would prevent stockholders from electing an entirely new board of directors at any annual meeting;
- the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors;
- following a distribution of Class B common stock by EMC to its stockholders, the restriction that a beneficial owner of 10% or more of our Class B common stock may not vote in any election of directors unless such person or group also owns at least an equivalent percentage of Class A common stock or obtains approval of our board of directors prior to acquiring beneficial ownership of at least 5% of Class B common stock;
- the prohibition of cumulative voting in the election of directors or any other matters, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement for advance notice for nominations for election to the board of directors or for proposing matters that can be acted upon at a stockholders' meeting;
- the ability of the board of directors to issue, without stockholder approval, up to 100,000,000 shares of preferred stock with terms set by the board of directors, which rights could be senior to those of common stock; and
- in the event that EMC or its successor-in-interest no longer owns shares of our common stock representing at least a majority of the votes entitled to be cast in the election of directors, stockholders may not act by written consent and may not call special meetings of the stockholders.

Until such time as EMC or its successor-in-interest ceases to beneficially own 20% or more of the outstanding shares of our common stock, the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Class B common stock will be required to:

- amend certain provisions of our bylaws or certificate of incorporation;
- make certain acquisitions or dispositions;
- declare dividends, or undertake a recapitalization or liquidation;
- adopt any stockholder rights plan, "poison pill" or other similar arrangement;
- approve any transactions that would involve a merger, consolidation, restructuring, sale of substantially all of our assets or any of our subsidiaries or otherwise result in any person or entity obtaining control of us or any of our subsidiaries; or
- undertake certain other actions.

In addition, we have elected to apply the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts and could reduce the price that investors might be willing to pay for shares of our common stock.

Intel's and Cisco's ownership relationship with us and the membership on our board of individuals proposed by Intel and Cisco may create actual or potential conflicts of interest.

As a result of an investment by Intel Capital in our Class A common stock in August 2007, Intel has an ownership interest in us and pursuant to Intel's right to designate a director acceptable to our board of directors, we appointed an Intel executive to our board of directors. Cisco, pursuant to its purchase of our Class A common stock from EMC, also has an ownership relationship with us, and we appointed an executive officer of Cisco (since retired from that position) proposed by Cisco as one of our directors. These relationships may create actual or potential conflicts of interest and the best interests of Intel or Cisco may not reflect the best interests of other holders of our Class A common stock.

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Public Offering of Common Stock

None.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities during the quarter ended June 30, 2009:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs
April 1 – April 30, 2009	1,188	$ 28.67	—	$ —
May 1 – May 31, 2009	7,108	28.21	—	—
June 1 – June 30, 2009	345,411	32.42	—	—
	353,707	32.37	—	$ —

We do not have a publicly announced stock repurchase program. All shares referenced in the above table were withheld through net share settlements during the fiscal quarter ending June 30, 2009 upon the vesting of restricted stock under our equity compensation plan to satisfy tax withholding obligations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our 2009 Annual Meeting of Stockholders (the “Annual Meeting”) on May 27, 2009. At the Annual Meeting, our Class B stockholders elected two Class II, Group I directors to each serve a three-year term and our Class A common and Class B common stockholders:

1. ratified the selection by the Audit Committee of our Board of Directors of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2009, and
2. approved an amendment to VMware’s 2007 Equity and Incentive Plan to increase the number of shares of Class A common stock available for grant under the plan by 20 million shares.

The election of the Class II, Group I directors nominated for election at the Annual Meeting was voted on solely by the Class B common stock. Each share of Class B common stock was entitled to ten votes per share on all matters to be voted on at the Annual Meeting. Each shares of Class A common stock was entitled to one vote per share on all matters to be voted on at the Annual Meeting for which Class A common stockholder votes were solicited.

The results of the votes for each of the above proposals were as follows:

1. Election of Directors:

	Class	In Favor	Against
Michael W. Brown (Group I director)	Class B	3,000,000,000	—
Dennis D. Powell (Group I director)	Class B	3,000,000,000	—

2. Ratified the selection by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2009:

Class	In Favor	Against	Abstain
Class A	80,752,066	240,556	100,212
Class B	3,000,000,000	—	—

3. Approved the amendment to the VMware, Inc. 2007 Equity Incentive Plan:

Class	In Favor	Against	Abstain	Broker Non-Votes
Class A	52,082,618	16,877,502	28,474	12,104,240
Class B	3,000,000,000	—	—	—

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

10.1	VMware, Inc. 2007 Equity and Incentive Plan, as amended (incorporated by reference to Exhibit 99.1 to VMware, Inc.'s Registration Statement on Form S-8 filed on June 4, 2009).
10.2	2009 Executive Bonus Plan, as amended.
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VMWARE, INC.

Dated: August 6, 2009

By: /s/ MARK S. PEEK
Mark S. Peek
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

EXHIBIT INDEX

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Exhibit 10.2

VMware, Inc.
2009 Executive Bonus Program
Amended and Restated April 14, 2009

Executive Bonus Program Objectives

Among the objectives of the VMware Bonus Program – 2009 are to:

- motivate our executives to achieve our strategic, operational and financial goals
- reward superior performance
- attract and retain exceptional executives; and
- reward behaviors that result in long term increased stockholder value

Overview

The Compensation and Corporate Governance Committee has adopted a cash bonus program relating to performance in 2009 (the "2009 Program") under the 2007 Equity and Incentive Plan (the "Plan") providing for possible cash bonuses to specified executives of VMware, Inc. and its consolidated subsidiaries (the "Company"). Unless otherwise indicated herein, provisions of the Plan shall apply to the 2009 Program.

In keeping with VMware's philosophy of tying a substantial portion of our executive compensation to the achievement of measurable achievements, a goals-based cash bonus program has been developed and implemented. The determination of bonus payout will be made semiannually after the conclusion of the semi-annual measurement periods ending on June 30 and December 31 based on results achieved by the company, as reported to the Compensation and Corporate Governance Committee by the Corporate Controller. Bonuses will be determined by the Compensation and Corporate Governance Committee of the Board of Directors (the "Administrator"). Bonus payments will only occur if certain predetermined company and individual ("MBO") objectives are successfully achieved. Bonus amounts will be calculated ("Calculated Bonus Amounts") based upon the degree of achievement of the predetermined objectives. The Compensation and Corporate Governance Committee shall determine final bonus payouts and, in its discretion, taking into account review and discussion of recommendations made by the Chief Executive Officer, may reduce, but not increase, final bonus payouts from the Calculated Bonus Amounts.

Bonus awards represent an unfunded, unsecured promise by the Company to pay a bonus amount determined by the Compensation and Corporate Governance Committee to each Participant, but only upon satisfaction of the performance criteria determined by the Compensation and Corporate Governance Committee in accordance with the provisions set forth below.

Eligibility

All senior executives are eligible to be considered for participation. However, no person is automatically entitled to participate in the 2009 Program. Participants will be approved solely at the discretion of the Compensation and Corporate Governance Committee and may be amended at any time by the Compensation and Corporate Governance Committee. Additionally, the executive must be an employee of the Company at the time the bonus is paid out in order to vest in right to receive payment.

Participants may include officers of the Company as defined under Rule 16a-1 of the 1934 Securities Exchange Act ("Section 16 Officers") and other senior executives who are not Section 16 Officers. At its discretion, the Compensation and Corporate Governance Committee may delegate authority to the Chief Executive Officer to add senior executives who are not Section 16 Officers to the 2009 Program.

Administration

As Administrator, the Compensation and Corporate Governance Committee is ultimately responsible for administering the 2009 Program. The Administrator has all powers and discretion necessary or appropriate to review and approve the 2009 Program and its operation, including, but not limited to, the power to (a) determine Participants, (b) interpret the provisions of the 2009 Program, (c) adopt rules for the administration, interpretation and application of the 2009 Program consistent with the Plan, and (d) interpret, amend or revoke any such rules. All determinations and decisions made by the Administrator and any decision of the Administrator shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law. The Administrator, in its sole discretion, may amend or terminate the 2009 Program, or any part thereof, at any time and for any reason, subject to the limitations set forth in Sections 3, 6(b)(iv) and 7 of the Plan.

The Administrator shall exercise full authority to make final determinations with respect to bonuses granted under the 2009 Program to Section 16 Officers. The Administrator may, in its discretion, delegate authority over bonuses to Participants who are not Section 16 Officers to the Chief Executive Officer of the Company.

Target Percentage

The Administrator shall establish target bonuses (“Bonus Targets”) and bonus formulas for the 2009 Program.

Target bonus amounts will be a percentage of a Participant’s semi-annual base salary as of the date the target bonus percentage is established (the “Target Bonus Percentage”).

The Calculated Bonus Amount, if any, may range 0% to 200% of the Target Bonus Percentage depending upon performance achievement. Minimum bonus thresholds are described below.

Performance Period

Unless otherwise indicated, the performance periods for bonuses granted under the 2009 Program shall run from January 1, 2009 to June 30, 2009 and from July 1, 2009 to December 31, 2009. (each, a “Performance Period”). Participants are rewarded during the period that they are actively employed by VMware.

Participants are not eligible to participate in any other Company bonus or incentive plan during a Performance Period. This exclusion does not apply, however, to applicable employee referral bonuses, spot bonuses, equity awards, or Company contributions to qualified retirement or savings plans.

New Hires : Calculated Bonus Amounts will be prorated for newly hired participants based on the number of days they are employed during the Performance Period.

Leaves of Absence : Calculated Bonus Amounts will be prorated for any time during the Performance Period that a Participant is on an unpaid leave of absence status. Unpaid leaves of absence exclude those absences for which vacation, sick leave or other compensation is paid directly by the Company. Unpaid absences include those absences for which compensation is received from any source other than directly from the Company.

Changes in Position : Participants who move from one 2009 bonus-eligible position to a different 2009 bonus-eligible position with a different target bonus percentage may earn a target bonus prorated on base pay and bonus at the start of each period.

Termination : In order to vest and the right to receive a bonus under the 2009 Program, an employee must be in an active employment status or on approved leave at the day the bonus is paid out. An employee whose employment ends for any reason prior to that date will not earn and will not be paid any bonus under this 2009 Program.

The Compensation and Corporate Governance Committee shall have the exclusive discretion to determine when a Participant is no longer actively employed for purposes of the 2009 Program. Participants have no right or interest in any bonus and such bonus is not earned unless the Administrator determines a bonus payout is due.

Performance Metrics

The Calculated Bonus Amount will depend on both a company component ("Corporate Financial Metric") and an individual component ("MBO") selected from the performance goals from the 2007 Plan. The Company must meet a threshold of 80% of the Corporate Financial Metric in order for any bonus payouts to be made. If the 80% threshold is not achieved, the 2009 Program shall not be funded and no bonus payouts shall be made. The Corporate Financial Metrics, the MBO's and their relative weighting shall be determined by the Committee within 45 days of the commencement of the performance period.

Corporate Financial Metric Component

The Corporate Financial Metric shall be determined by calculating success against company-wide financial metrics and, as applicable, business unit performance metrics, as determined by the Compensation and Corporate Governance Committee.

MBO (Individual) Component

Each Participant will be assigned individual performance goals by the Compensation and Corporate Governance Committee that are appropriate to the Participant's role at the Company. If threshold achievement of 80% of the Corporate Financial Metric is met, then the MBO component is funded at the same percentage as the Corporate Financial Metric. The Compensation and Corporate Governance Committee can exercise negative discretion to reduce the bonus for the MBO component. In making its determination whether to reduce the bonus for the MBO component, the Committee's shall review and discuss the Chief Executive Officer's assessment of each Participant's achievement of his or her individual performance goals.

Bonus Determination and Payment

The Compensation and Corporate Governance Committee shall determine final bonus payouts to Participants based upon achievement of the foregoing metrics and goals. The Committee reserves the right to reduce bonus payouts below Calculated Bonus Amounts or not make any bonus payouts in its sole discretion.

Cancellation, Rescission and Recoupment of Awards

Any bonus granted under this 2009 Program to a Participant shall be subject to cancellation, rescission, repayment or other action at the discretion of the Compensation Committee as set forth in Section 7(c) of the Plan in the event that such Participant engages in "Detrimental Activity" as such term is defined in Section 7(c)

Additionally, the Compensation and Corporate Governance Committee shall have the discretion to require that each Participant reimburse the Company for all or any portion of any bonuses paid under the 2009 Program if –

(a) the payment was predicated upon the achievement of certain financial results that were subsequently the subject of a material financial restatement,

(b) in the Board's view, the Participant engaged in fraud or misconduct that caused or partially caused the need for a material financial restatement by the Company or any substantial affiliate, and

(c) a lower payment, award, or vesting would have occurred based upon the restated financial results.

In each such instance, upon the determination of the Compensation and Corporate Governance Committee to require recoupment of a previously paid bonus awarded under the 2009 Program, the Company will, to the extent practicable and allowable under applicable laws, require reimbursement of any bonus awarded for the relevant period exceeded the lower payment that would have been made based on the restated financial results, provided that the Company will not seek to recover bonuses compensation paid more than three years prior to the date the applicable restatement is disclosed.

At-Will Employment (US Only)

This Plan does not affect the terminable-at-will status of the employment relationship. Neither the attainment of goals nor the continuous service requirement necessary to earn a bonus alters the ability of an employee or the Company to terminate employment at any time, with or without reason and with or without advance notice.

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul Maritz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VMware, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2009

By: /s/ PAUL MARITZ
Paul Maritz
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark S. Peek, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VMware, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2009

By: /s/ MARK S. PEEK
Mark S. Peek
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Paul Maritz, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of VMware, Inc. on Form 10-Q for the quarterly period ended June 30, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of VMware, Inc.

Date: August 6, 2009	By:	/s/ PAUL MARITZ
		Paul Maritz
		President and Chief Executive Officer
		(Principal Executive Officer)

This certification "accompanies" the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Mark S. Peek, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of VMware, Inc. on Form 10-Q for the quarterly period ended June 30, 2009 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of VMware, Inc.

Date: August 6, 2009

By: /s/ MARK S. PEEK
Mark S. Peek
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification "accompanies" the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.