VMWARE, INC.
Form S-1/A
July 24, 2007
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As filed with the Securities and Exchange Commission on July 24, 2007.

Registration No. 333-142368

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 3 to

Form S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

VMWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	7372	94-3292913
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

3401 Hillview Avenue

Palo Alto, CA 94304

(650) 427-5000

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

Rashmi Garde, Esq.

Vice President and General Counsel

VMware, Inc.

3401 Hillview Avenue

Palo Alto, CA 94304

(650) 427-5000

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

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(617) 573-4800		(212) 225-2000

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

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

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

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

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

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

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

SUBJECT TO COMPLETION, DATED JULY 24, 2007

P R O S P E C T U S

33,000,000 Shares

VMware, Inc.

Class A Common Stock

$ per share

We are selling 33,000,000 shares of Class A common stock. We have granted the underwriters an option to purchase up to 4,950,000 additional shares of Class A common stock from us to cover over-allotments.

This is the initial public offering of our Class A common stock. We currently expect the initial public offering price of our Class A common stock to be between $23.00 and $25.00 per share. Our Class A common stock has been approved for listing on the New York Stock Exchange under the symbol VMW.

EMC Corporation, or EMC, currently owns substantially all of our outstanding common stock, and following this offering EMC will continue to be our controlling stockholder. Following this offering, we will have two classes of authorized common stock: Class A common stock and Class B common stock. EMC, will own 32,500,000 shares of Class A common stock and all 300,000,000 shares of Class B common stock, representing approximately 89% of our total outstanding shares of common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, the election of directors, conversion, certain actions that require the consent of holders of Class B common stock and other protective provisions as set forth in this prospectus. The holders of Class B common stock shall be entitled to 10 votes per share and the holders of Class A common stock shall be entitled to one vote per share. Therefore, EMC will hold approximately 99% of the combined voting power of our outstanding common stock upon completion of this offering.

Investing in our Class A common stock involves risks. See Risk Factors beginning on page 14.

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

	Per Share	Total
Public Offering Price	$	$

Underwriting Discount	$	$
Proceeds to VMware	$	$

The underwriters expect to deliver the shares to purchasers on or about , 2007.

Citi **JPMorgan** **Lehman Brothers**

Credit Suisse **Merrill Lynch & Co.** **Deutsche Bank Securities**

, 2007.

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

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Dealer Prospectus Delivery Obligation

Through and including , 2007 (25 days after commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary sets forth the material terms of this offering, but does not contain all of the information that you should consider before investing in our Class A common stock. You should read the entire prospectus carefully before making an investment decision, especially the risks of investing in our Class A common stock discussed under Risk Factors. Unless the context otherwise requires, the terms we, us, our, our company and VMware refer to VMware, Inc. and its consolidated subsidiaries. Unless the context otherwise requires, the term EMC refers to our parent company, EMC Corporation, and its consolidated subsidiaries other than us.

Our Business

We are the leading provider of virtualization solutions. Our virtualization solutions represent a pioneering approach to computing that separates the operating system and application software from the underlying hardware to achieve significant improvements in efficiency, availability, flexibility and manageability. Our solutions enable organizations to aggregate multiple servers, storage infrastructure and networks together into shared pools of capacity that can be allocated dynamically, securely and reliably to applications as needed, increasing hardware utilization and reducing spending. We believe that the market opportunity for our virtualization solutions is large and expanding, with 24.6 million x86 servers and 489.7 million business client PCs installed worldwide as of December 2006. Our customer base includes 100% of the Fortune 100 and over 84% of the Fortune 1,000. Our customer base for our server solutions has grown to include 20,000 organizations of all sizes across numerous industries. We believe our solutions deliver significant economic value for customers, and many have adopted our solutions as the strategic and architectural foundation for their future computing initiatives.

In the eight years since the introduction of our first virtualization platform, we have expanded our offering with virtual infrastructure automation and management products to address distributed and heterogeneous infrastructure challenges such as system recoverability and reliability, backup and recovery, resource provisioning and management, capacity and performance management and desktop security. Our broad and proven suite of virtualization solutions addresses a range of complex IT problems that include infrastructure optimization, business continuity, software lifecycle management and desktop management.

We work closely with over 200 technology partners, including leading server, processor, storage, networking and software vendors. We have shared the economic opportunities surrounding virtualization with our partners by facilitating solution development through open application programming interfaces (APIs), formats and protocols and providing access to our source code and technology. The endorsement and support of our partners have further enhanced the awareness, reputation and adoption of our virtualization solutions.

We have developed a multi-channel distribution model to expand our presence and reach various segments of the market. We derive a significant majority of our revenues from our large indirect sales channel of more than 4,000 channel partners that include distributors, resellers, x86 system vendors and systems integrators. We believe that our partners benefit greatly from the sale of our solutions through additional services, software and hardware sales opportunities. We have trained a large number of partners and end users to deploy and leverage our solutions.

We have achieved strong financial performance to date, as demonstrated by our revenue growth. Our total revenues were $703.9 million in 2006 and $387.1 million in 2005, representing an increase of 82% in 2006. Software license revenues were $491.9 million in 2006 and $287.0 million in 2005, representing an increase of 71% in 2006.

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The historical financial information we have included in this prospectus includes allocations of certain corporate functions historically provided to us by EMC, including tax, accounting, treasury, legal and human resources services and other general corporate expenses. These allocations were made based on estimates which are considered reasonable by our management. Our historical results are not necessarily indicative of what our results of operations, financial position, cash flows or costs and expenses would have been had we been an independent entity during the historical periods presented or what our results of operations, financial position, cash flows or costs and expenses will be in the future when we are a publicly traded, stand-alone company.

Industry Background

The introduction of x86 servers in the 1980s provided a low-cost alternative to mainframe and proprietary UNIX systems. The broad adoption of Windows and the emergence of Linux as server operating systems in the 1990s established x86 servers as the industry standard. The growth in x86 server and desktop deployments has introduced new operational risks and IT infrastructure challenges. These challenges include:

Low Infrastructure Utilization. Typical x86 server deployments achieve an average utilization of only 10% to 15% of total capacity, according to International Data Corporation (IDC), a market research firm. Organizations typically run one application per server to avoid the risk of vulnerabilities in one application affecting the availability of another application on the same server.

Increasing Physical Infrastructure Costs. The operational costs to support growing physical infrastructure have steadily increased. Most computing infrastructure must remain operational at all times, resulting in power consumption, cooling and facilities costs that do not vary with utilization levels.

Increasing IT Management Costs. As computing environments become more complex, the level of specialized education and experience required for infrastructure management personnel and the associated costs of such personnel have increased. Organizations spend disproportionate time and resources on manual tasks associated with server maintenance, and thus require more personnel to complete these tasks.

Insufficient Failover and Disaster Protection. Organizations are increasingly affected by the downtime of critical server applications and inaccessibility of critical end user desktops. The threat of security attacks, natural disasters, health pandemics and terrorism has elevated the importance of business continuity planning for both desktops and servers.

Desktop Management and Security. Managing and securing enterprise desktops present numerous challenges. Controlling a distributed desktop environment and enforcing management, access and security policies without impairing users ability to work effectively is complex and expensive. Numerous patches and upgrades must be continually applied to desktop environments to eliminate security vulnerabilities.

Virtualization was first introduced in the 1970s to enable multiple business applications to share and fully harness the centralized computing capacity of mainframe systems. Virtualization was effectively abandoned during the 1980s and 1990s when client-server applications and inexpensive x86 servers and desktops established the model of distributed computing. Rather than sharing resources centrally in the mainframe model, organizations used the low cost of distributed systems to build up islands of computing capacity, providing some benefits but also introducing new challenges. In 1999, VMware introduced virtualization to x86 systems as a means to efficiently address many of these challenges and to transform x86 systems into general purpose, shared hardware infrastructure that offers full isolation, mobility and operating system choice for application environments.

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We believe that the addressable market opportunity for our virtualization solutions is large and expanding. IDC estimates that less than one million of the 24.6 million x86 servers and less than five million of the 489.7 million business client PCs deployed worldwide are running virtualization software. We believe industry trends towards more powerful yet under-utilized multi-core servers and the increasing complexity of managing desktop environments will further accelerate the widespread adoption of virtualization for both server and desktop deployments.

Our Solution

Our virtualization solutions run on industry-standard servers and desktops and support a wide range of operating system and application environments, as well as networking and storage infrastructure. We have designed our solutions to function independently of the hardware and operating system to provide customers with a broad platform choice. Our solutions provide a key integration point for hardware and infrastructure management vendors to deliver differentiated value that can be applied uniformly across all application and operating system environments. Key benefits to our virtualization solutions include:

Server Consolidation and Infrastructure Optimization. Our solutions enable organizations to achieve significantly higher resource utilization by pooling common infrastructure resources and breaking the legacy one application to one server model.

Physical Infrastructure Cost Reduction. Through server consolidation and containment, our solutions reduce the required number of servers and other related infrastructure overhead. Organizations are able to significantly decrease physical infrastructure costs through reduced data center space, power and cooling requirements.

Improved Operational Flexibility and Responsiveness. We offer a set of automation and management solutions that reduce the amount of time IT professionals must spend on largely reactive tasks, such as provisioning, configuration, monitoring and maintenance. Additionally, as the need for physical infrastructure decreases, so does the need for the highly-specialized personnel required to manage and maintain such environments.

Increased Application Availability and Improved Business Continuity. Our solutions enable organizations to reduce both planned and unplanned downtime in their computing environments by allowing them to securely migrate entire virtual environments to separate servers or even data center locations without user interruption.

Improved Desktop Manageability and Security. Our desktop virtualization solutions allow IT organizations to efficiently control and secure desktop environments to end users regardless of their location, desktop hardware, operating system or business application access needs.

Our Competitive Strengths

We believe that the following competitive strengths position us well to maintain and extend our leadership in virtualization solutions:

leading technology and market position;

broad product portfolio;

open standards and choice of operating systems;

large installed base of customers;

strong partner network; and

robust global support operations and services.

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Our Growth Strategy

Our objective is to extend our market leadership in virtualization solutions. To accomplish this objective, we intend to:

- broaden our product portfolio;
- enable choice for customers and drive standards;
- expand our network of technology and distribution partners;
- increase sales to existing customers and pursue new customers; and
- increase market awareness and drive adoption of virtualization.

Risks that We Face

You should carefully consider the risks described under Risk Factors and elsewhere in this prospectus. These risks could materially and adversely impact our business, financial condition, operating results and cash flow, which could cause the trading price of our Class A common stock to decline and could result in a partial or total loss of your investment.

Our Relationship with EMC

We were acquired by EMC in January 2004, and prior to this offering we were operated as a wholly owned subsidiary of EMC. As a result, in the ordinary course of our business, we have received various services provided by EMC, including tax, accounting, treasury, legal and human resources services. EMC has also provided us with the services of a number of its executives and employees prior to this offering and will continue to do so after this offering.

EMC Will Be Our Controlling Stockholder. Immediately following this offering, EMC, which will hold approximately 43% of our Class A common stock and 100% of our Class B common stock, will own approximately 89% of our outstanding common stock and 99% of the combined voting power of our outstanding common stock (approximately 88% of our outstanding common stock and 98% of the combined voting power of our outstanding common stock if the underwriters exercise in full their over-allotment option). As a result, EMC will continue to control us following the completion of this offering, and will be able to exercise control over all matters requiring stockholder approval, including the election of our directors and approval of significant corporate transactions.

Agreements Between EMC and Us. We will enter into several agreements with EMC prior to the completion of this offering, including a master transaction agreement, an administrative services agreement, a new tax sharing agreement, an intellectual property agreement, an employee benefits agreement, an insurance matters agreement and a real estate agreement. For a description of these agreements and the other agreements that we will enter into with EMC, read Certain Relationships and Related Person Transactions Relationship with EMC Corporation.

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Exchange Offer

In connection with the offering, we are conducting a voluntary exchange offer pursuant to which we are offering our eligible employees the ability to exchange their existing EMC options and restricted stock awards for options to purchase our Class A common stock and restricted stock awards of our Class A common stock, respectively, at an exchange ratio based upon EMC s two-day weighted average trading price prior to the consummation of this offering and the initial public offering price of our Class A common stock. The exchange ratio is designed to preserve the intrinsic value of the tendered EMC awards. In this prospectus, we refer to this voluntary exchange offer as the exchange offer. We are making the exchange offer to eligible employees for compensatory purposes. Our board of directors believes that ownership by our employees of options to purchase our Class A common stock and restricted stock awards of our Class A common stock received in the exchange offer will serve as an effective tool to encourage stock option and restricted stock recipients to act in the VMware stockholders interest by enabling the option recipients to have an economic stake in our success.

We and EMC commenced the exchange offer on July 9, 2007, prior to the effectiveness of our registration statement on Form S-4, in accordance with Rule 162 of the Securities Act of 1933, as amended, and Rule 13e-4(e)(2) of the Securities Exchange Act of 1934, as amended. We commenced the exchange offer on such date as was expected to cause the exchange offer to expire concurrently with the pricing of shares in this offering. We believe that the proposed timing of the exchange offer relative to this offering, such that the initial value of the VMware options and restricted stock received by eligible employees in the exchange offer will be based upon the initial offering price of shares in this offering, will advance the compensatory objectives of the exchange offer and that tying equity compensation to the initial offering price of shares will provide eligible employees a strong incentive to participate in our potential growth from the time we become a public company.

All of our employees in the United States who hold EMC options and EMC restricted stock will be eligible to participate in the exchange offer. As of June 30, 2007, there were approximately 1,900 employees who would be eligible to participate in the exchange offer. Based on an assumed initial public offering price of $24.00 per share (the midpoint of the range set forth on the cover page of this prospectus) and an assumed EMC two-day weighted average trading price of $19.54 (the average of the volume-weighted average price per share of EMC stock for the two days ended July 20, 2007), a maximum of approximately 14.7 million shares of our Class A class common stock underlying options or in the form of restricted stock awards granted would be issued pursuant to the exchange offer, if all eligible employees tendered all of their EMC options and EMC restricted stock. We estimate that the unamortized fair value of the exchanged awards will be approximately $103.1 million, which will be recognized over their vesting periods.

To assist potential investors in understanding the potential impact of the exchange offer on earnings per share, we note that supplemental pro forma basic and supplemental pro forma diluted earnings per share amounts would have been $0.22 and $0.22 for the year ended December 31, 2006 and $0.11 and $0.11 for the three months ended March 31, 2007, respectively, assuming the following:

- Supplemental pro forma basic and diluted earnings per share data assumes actual pre-tax income is reduced by $380,000 and $3,756,000 for the three months ended March 31, 2007 and the year ended December 31, 2006, respectively, and net income is reduced by $238,000 and $2,348,000 for the three months ended March 31, 2007 and the year ended December 31, 2006, respectively, to reflect the estimated impact of the respective period s amortization of the incremental stock compensation expense resulting from the exchange offer.

- Supplemental pro forma basic weighted average shares data assumes the issuance and sale of the full 37,950,000 shares of our Class A common stock (assuming the over-allotment option is exercised in full) had occurred January 1, 2006. Supplemental pro forma basic weighted average shares also assumes the issuance and sale of 9,500,000 shares of our Class A common stock to Intel Capital (described

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below under Recent Developments) had occurred January 1, 2006. (This differs from the basic pro forma per share data presented under Summary Consolidated Financial Data, Selected Consolidated Financial Data and the consolidated financial statements. That presentation includes only the incremental number of shares necessary to be sold to fund the amount of the April 2007 dividend to EMC in excess of the most recent twelve month s earnings.) The calculation includes the exercise of the over-allotment option to provide potential investors the ability to understand the maximum amount of dilution that may occur as a result of this offering and the exchange offer. This assumption varies from other pro forma amounts shown in other parts of the prospectus that give effect to the offering in which the over-allotment option is not assumed to be exercised.

Supplemental pro forma diluted earnings per share amounts assume (1) the issuance and sale of the Class A common stock (pursuant to this offering and to the Intel investment) on the terms described above and (2) the consummation of the exchange offer assuming 100% of all the options and shares are exchanged, assuming an initial public offering price of $24.00 per share (the midpoint of the range set forth on the cover of this prospectus) and assuming EMC s two-day weighted average trading price prior to the consummation of the initial public offering of Class A common stock is $19.54 per share (the average of the volume-weighted average price per share of EMC stock for the two days ended July 20, 2007). If zero equity instruments were assumed to be exchanged, diluted income per share for these periods would be the same as the basic earnings per share.

This compares to reported basic and diluted earnings per share of $0.26 and $0.26 for the year ended December 31, 2006 and $0.12 and $0.12 for the three months ended March 31, 2007, respectively.

Recent Developments

VMware and Intel Corporation, or Intel, have had an ongoing strategic relationship. VMware s base virtualization platform virtualizes Intel architecture. Intel Capital Corporation, or Intel Capital, the global investment arm of Intel, has agreed to invest $218.5 million in our Class A common stock at $23.00 per share, subject to the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or the HSR Act, and the satisfaction of other customary closing conditions. Upon the closing of the investment, Intel Capital will own 9.5 million shares, or approximately 12.7%, of our Class A common stock to be outstanding after this offering and approximately 2.5% of our total common stock which will then be outstanding, which shares will represent less than 1% of the combined voting power of our outstanding common stock. Pursuant to Intel Capital s proposed investment, at the later of the closing of the investment, and the earlier of the completion of this offering and September 30, 2007, our board of directors will appoint a new board member, an Intel executive to be designated by Intel and acceptable to our board. We have also entered into an investor rights agreement with Intel Capital pursuant to which Intel Capital will have certain registration and other rights as a holder of our Class A common stock. See Description of Capital Stock. In addition, we and Intel have entered into a routine and customary collaboration partnering agreement that expresses the parties intent to continue to expand their cooperative efforts around joint development, marketing and industry initiatives. Intel s investment is intended to foster strengthened intercompany collaboration towards accelerating VMware virtualization product adoption on Intel architecture and reinforcing the value of virtualization technology for customers.

This investment will not cause any change to VMware s continued operation under our rules of engagement with respect to open industry partnerships and confidentiality principles that we publish to our technology partners.

In June 2007, VMware adopted the 2007 Equity and Incentive Plan, which provides for the granting of stock options or other stock-based awards, including awards of restricted stock. Through July 2, 2007, VMware s

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Compensation and Corporate Governance Committee made broad-based grants to issue approximately 35.8 million stock options and approximately 453,000 restricted stock units. These awards have a fair value of approximately $260.5 million, which will be recognized over the awards vesting periods, resulting in incremental equity-based compensation expense through 2011. See Management s Discussion and Analysis of Financial Condition and Results of Operations Equity-based Compensation.

Corporate Facts

We were incorporated in Delaware in 1998 and have operated, in large part, as an independent entity since our inception. Since our acquisition by EMC in January 2004, we have been operated as a wholly owned subsidiary of EMC. Our headquarters are located at 3401 Hillview Avenue, Palo Alto, California 94304 and our phone number is (650) 427-5000. Our website is www.vmware.com. Information contained on, or that can be accessed through, our website does not constitute part of this prospectus.

VMware is our registered trademark. The VMware logo is our trademark. This prospectus also includes tradenames, trademarks and service marks of other companies and organizations. Throughout this prospectus, references to desktops refer to various common types of personal computers, including desktops, laptops, and notebooks among others, and references to business client PCs refer to desktops used by business users.

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THE OFFERING

Class A common stock offered by us	33,000,000 shares
Class A common stock to be outstanding after this offering	75,000,000 shares, including 9,500,000 shares to be issued to Intel Capital, subject to the closing of the Intel investment, and 32,500,000 shares currently held by EMC[(1)]
Class B common stock to be outstanding after this offering	300,000,000 shares, all of which are held by EMC[(1)]
Total common stock to be outstanding after this offering	375,000,000 shares
Voting rights	Following this offering, we will have two classes of authorized common stock: Class A common stock and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, conversion, 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 this prospectus. The holders of Class B common stock are entitled to 10 votes per share, and the holders of Class A common stock are entitled to one vote per share. The holders of Class B common stock, voting separately as a class, are entitled to elect 80% of the total number of the directors on our board of directors which we would have if there were no vacancies on our board of directors at the time. 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 the remaining directors on our board of directors, which at no time will be less than one director. Each share of Class B common stock is convertible into one share of Class A common stock at any time. See Description of Capital Stock.
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $741.4 million ($853.7 million if the underwriters exercise in full their over-allotment option), based on the assumed initial public offering price of $24.00 per share (the midpoint of the range set forth on the cover page of this prospectus). We intend to use these net proceeds to repay approximately $350.0 million of intercompany indebtedness owed to EMC incurred to fund a dividend to EMC, to purchase from EMC our new headquarter facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which totaled approximately $127.0 million as of June 30, 2007, and for working capital and other general corporate purposes, including to finance our growth, develop new products, fund capital expenditures and potential acquisitions. See Use of Proceeds.
Listing	Our Class A common stock has been authorized for listing on the New York Stock Exchange.
Proposed symbol	VMW

(1) EMC s ownership of our Class A and Class B common stock will represent approximately 89% of our total outstanding shares of common stock and 99% of the combined voting power of our outstanding common stock following this offering.

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Unless otherwise stated, the number of shares of Class A and Class B common stock outstanding immediately after this offering is based upon the offering of 33,000,000 shares of Class A common stock pursuant to this offering, 9,500,000 shares of Class A common stock to be acquired by Intel Capital (as described above under Recent Developments), 32,500,000 shares of Class A common stock and 300,000,000 shares of Class B common stock held by EMC and excludes 80,000,000 shares of Class A common stock reserved for issuance under our 2007 Equity and Incentive Plan, including:

- 35,799,411 shares of Class A common stock issuable upon the exercise of stock option awards granted in June and July 2007 with an exercise price of $23.00 per share and 452,676 shares of our Class A common stock deliverable upon the vesting of restricted stock units; and

- shares of Class A common stock issuable either upon the exercise of stock option awards or restricted stock awards that will be granted pursuant to the terms of the exchange offer.

Assuming that:

- all employees eligible to take part in the exchange offer tender their existing EMC options and restricted stock awards in exchange for options to purchase our Class A common stock and restricted stock awards of our Class A common stock, respectively;

- EMC s weighted average stock price, as calculated pursuant to the terms of the exchange offer, is equal to EMC s closing price of $19.54 (the average of the volume-weighted average price per share of EMC stock for the two days ended July 20, 2007); and

- the initial public offering price for shares of our Class A common stock is $24.00 (the midpoint of the range set forth on the cover page of this prospectus),

then 10.0 million shares of Class A common stock with a weighted average strike price of $14.47 will be issuable upon the exercise of stock options granted pursuant to the exchange offer and 4.7 million shares of Class A common stock will be subject to restricted stock awards granted pursuant to the exchange offer.

If EMC s weighted average stock price as calculated pursuant to the terms of the exchange offer is $1.00 greater and the other assumptions set forth above remain the same, then 0.5 million more shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and 0.2 million more shares of Class A common stock will be subject to restricted stock awards granted in the exchange offer. If EMC s weighted average stock price as calculated pursuant to the terms of the exchange offer is $1.00 less and the other assumptions set forth above remain the same, then 0.5 million fewer shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and 0.2 million fewer shares of Class A common stock will be subject to restricted stock awards granted in the exchange offer.

If the initial public offering price for shares of our Class A common stock is $1.00 greater and the other assumptions set forth above remain the same, then 0.4 million fewer shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and 0.2 million fewer shares of Class A common stock will be subject to restricted stock awards granted in the exchange offer. If the initial public offering price for shares of our Class A common stock is $1.00 less and the other assumptions set forth above remain the same, then 0.4 million more shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and 0.2 million more shares of Class A common stock will be subject to restricted stock awards granted in the exchange offer.

Unless otherwise stated, all information in this prospectus assumes the underwriters do not exercise their over-allotment option.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables present our summary consolidated historical financial information. You should read this information together with the consolidated financial statements and related notes and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

The data for the years ended December 31, 2006 and 2005 and the period from January 9, 2004 to December 31, 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The data for the three months ended March 31, 2007 and 2006 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited consolidated financial statements on the same basis as the audited consolidated financial statements and, in the opinion of management, the statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial information set forth in these statements. On January 8, 2004, all of our capital stock was purchased by EMC. The acquisition was accounted for as a purchase; accordingly, our assets and liabilities were adjusted to their fair market values. Prior to the acquisition by EMC, our fiscal year ended on January 31. In connection with the acquisition, our fiscal year end was changed to December 31 to conform to EMC s year end. The data for the fiscal year ended January 31, 2003 was derived from the audited consolidated financial statements of our predecessor, which are not included in this prospectus. The data for the period from February 1, 2003 to January 8, 2004 was derived from the unaudited consolidated financial statements of our predecessor, which are not included in this prospectus. As a result of our acquisition by EMC and the resulting change in basis, the results of operations and financial position of our predecessor are not comparable with our results of operations and financial position following our acquisition by EMC.

Our consolidated financial statements include allocations of certain corporate functions provided to us by EMC, including general corporate expenses. These allocations were made based on estimates of effort or resources incurred on our behalf and which are considered reasonable by management. Additionally, certain other costs incurred by EMC for our direct benefit, such as rent, salaries and benefits have been included in our financial statements.

The financial statements included in this prospectus may not necessarily reflect our results of operations, financial position and cash flows as if we had operated as a stand-alone company during all periods presented. Accordingly, our historical results should not be relied upon as an indicator of our future performance.

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	Successor Company					Predecessor Company	
	Three Months Ended March 31,		Years Ended December 31,		Period from January 9, 2004 to December 31, 2004	Period from February 1, 2003 to January 8, 2004	Year Ended January 31, 2003
	2007	2006	2006[1]	2005			
	(in thousands, except per share amounts)					(in thousands)	
Summary of Operations:							
Revenues:							
License[2]	$ 169,557	$ 90,300	$ 491,902	$ 287,006	$ 178,873	$ 61,980	$ 31,216
Services[2]	89,138	38,777	212,002	100,068	39,883	12,220	
Total revenues	258,695	129,077	703,904	387,074	218,756	74,200	31,216
Costs of revenues:							
Cost of license revenues[2][3]	20,556	12,405	59,202	40,340	32,811	3,449	5,596
Cost of services revenues[2][3]	23,468	9,599	64,180	24,852	12,625	4,770	
	44,024	22,004	123,382	65,192	45,436	8,219	5,596
Gross profit	214,671	107,073	580,522	321,882	173,320	65,981	25,620
Operating expenses:							
Research and development[3]	54,958	22,335	148,254	72,561	43,900	25,382	15,788
Sales and marketing[3]	86,707	42,566	238,327	124,964	59,976	23,028	12,457
General and administrative[3]	26,624	11,847	69,602	30,762	19,037	11,539	4,168
In-process research and development			3,700		15,200		
Operating income (loss)	46,382	30,325	120,639	93,595	35,207	6,032	(6,793)
Investment income	2,977	340	3,271	3,077	53	463	554
Other income (expense), net	59	(348)	(1,363)	(1,332)	(110)	(27)	
Income (loss) before taxes	49,418	30,317	122,547	95,340	35,150	6,468	(6,239)
Income tax provision[4]	8,338	9,981	36,832	28,565	18,369	1,848	145
Income (loss) before cumulative effect of change in accounting principle	41,080	20,336	85,715	66,775	16,781	4,620	(6,384)
Cumulative effect of a change in accounting principle (net of tax)		175	175				
Net income (loss)	$ 41,080	$ 20,511	$ 85,890	$ 66,775	$ 16,781	$ 4,620	$ (6,384)
Net income per weighted average share, basic and diluted for Class A and Class B	$ 0.12	$ 0.06	$ 0.26	$ 0.20	$ 0.05	N/A	N/A
Weighted average shares, basic and diluted for Class A and Class B	332,500	332,500	332,500	332,500	332,500	N/A	N/A
Pro forma basic and diluted earnings per share for Class A and Class B [5]	$ 0.11		$ 0.24				
Pro forma weighted average shares, basic and diluted for Class A and Class B	363,366		363,366				

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	As of March 31, 2007		
	Actual	Pro Forma [6]	Pro Forma As Adjusted[7]
	(in thousands)		
Balance Sheet Data:			
Cash and cash equivalents	$ 258,468	$ 476,968	$ 741,408
Working capital	3,448	221,948	486,388
Total assets	1,244,317	1,462,817	1,854,257
Total debt	800,000	800,000	450,000
Redeemable common stock		218,500	
Total stockholders equity (deficit)[8]	(183,493)	(183,493)	776,447

(1) In June 2006, we acquired all of the outstanding shares of Akimbi Systems, Inc. See Note B to the consolidated financial statements included elsewhere in this prospectus.

(2) The Company did not separate its revenues or cost of revenues between license and services for the year ended January 31, 2003. For purposes of this presentation, the total revenues and total cost of revenues for such period have been presented as license revenues and cost of license revenues, respectively.

(3) Includes stock-based compensation, acquisition-related intangible amortization and capitalized software development costs amortization, and excludes capitalized software development costs, as indicated in the table below.

	Successor Company					Predecessor Company	
	Three Months Ended March 31,		Year Ended December 31,		Period from January 9, 2004 to December 31,	Period from February 1, 2003 to January 8,	Year Ended January 31, 2003
	2007	2006	2006	2005	2004	2004	
Cost of license revenues							
Stock-based compensation	$ 36	$ 14	$ 99	$	$	$	$
Acquisition-related intangible amortization	5,215	5,387	21,840	23,357	25,487		
Capitalized software development costs amortization	7,987	2,769	22,299	6,159	1,317		
Cost of services revenues							
Stock-based compensation	494	395	2,384	1,299	1,061		
Research and development							
Stock-based compensation not capitalized	6,392	2,225	26,342	14,656	10,292		
Total capitalized software development costs	(7,599)	(17,671)	(43,012)	(25,103)	(8,155)		
Stock-based compensation included in total capitalized software development costs above	927	5,329	10,489	3,545			
Sales and marketing							
Stock-based compensation	2,944	1,840	12,020	5,341	4,672		
Acquisition-related intangible amortization	577	544	2,188	1,785			
General and administrative							
Stock-based compensation	1,778	1,995	10,381	5,775	3,518		

Acquisition-related intangible amortization	493	374	1,494	1,000	773

(4) The income tax effect of stock-based compensation, acquisition-related intangible amortization, capitalized software development costs and amortization of capitalized software development costs was $5,144, $(167), $18,042, $9,567, $9,083, $ and $ for the three months ended March 31, 2007 and 2006, the years ended

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December 31, 2006 and 2005, the period from January 9, 2004 to December 31, 2004, the period from February 1, 2003 to January 8, 2004 and 2003, respectively.

(5) Unaudited pro forma per share data gives effect, in the weighted average shares used in the calculation, to the additional 30.9 million shares, which, when multiplied by the assumed offering price of $24.00 per share (the midpoint of the range set forth on the cover page of this prospectus), and after giving effect to a pro rata allocation of offering costs, would have been required to be issued to generate proceeds sufficient to pay the portion of the $800,000 dividend declared in April 2007 (see Note M to the consolidated financial statements included elsewhere in this prospectus) that exceeded the most recent twelve months net earnings.

(6) The pro forma balance sheet data gives effect to the issuance and sale of 9,500,000 shares of our Class A common stock to Intel Capital for proceeds of $218,500. Pursuant to the terms of the investor rights agreement with Intel Capital, in the event we do not complete an underwritten public offering with an aggregate price to the public of at least $250,000 on or before December 31, 2007, Intel Capital may require us to repurchase the Class A common stock that it holds. The pro forma balance sheet data gives effect to the investment as redeemable common stock due to this repurchase feature.

(7) The pro forma as adjusted balance sheet data gives effect to (i) the issuance and sale of 9,500,000 shares of our Class A common stock to Intel Capital for proceeds of $218,500, (ii) the reclassification of the capital proceeds of $218,500 from the Intel sale from redeemable common stock to permanent equity since the redemption feature described above lapses upon completion of this offering, (iii) the issuance and sale of 33,000,000 shares of our Class A common stock in this offering at an assumed initial public offering price of $24.00 per share (the midpoint of the range set forth on the cover page of this prospectus), (iv) the repayment of $350,000 of principal amount of the $800,000 intercompany note we incurred to fund a dividend to EMC, (v) the purchase from EMC of our new headquarters facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which totaled approximately $127,000 as of June 30, 2007, and (vi) the deduction of estimated underwriting discounts and offering expenses payable by us.

(8) The stockholders equity (deficit) as of March 31, 2007, gives retroactive effect to the $800,000 dividend paid to EMC in the form of a note in April 2007. See Note M to the financial statements.

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RISK FACTORS

You should carefully consider the risks described below before making a decision to buy our Class A common stock. If any of the following risks actually occur, our business, financial condition and results of operations could be harmed. In that case, the trading price of our Class A common stock could decline and you might lose all or part of your investment in our Class A common stock. You should also refer to the other information set forth in this prospectus, including Forward-Looking Statements and our consolidated financial statements and the related notes.

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 virtualization solutions. Our relatively limited operating history and the relatively limited extent to which virtualization solutions have been currently adopted may make it difficult to evaluate our business because the potential market for our products remains uncertain. To the extent that the virtualization market develops 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 profit 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 entry-level offerings and has announced its intention to provide products that will compete with some of our enterprise-class products in the future. We also face competition from other companies, including several recent market entrants. 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. 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 profit 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.

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 recently 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 also recently implemented pricing policies that require customers to pay additional license fees based on certain uses of virtualization technology. 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.

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.

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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. 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. You should not rely on our past results 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 revenue 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 common stock would likely decline substantially.

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

- fluctuations in demand, adoption, sales cycles and pricing levels for our products and services;
- changes in customers budgets for information technology purchases and in the timing of their purchasing decisions;
- the timing of recognizing revenue in any given quarter as a result of software revenue recognition policies;
- 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 products or upgrades by us or by our competitors;
- our ability to implement 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;
- our ability to attract and retain highly skilled employees, particularly those with relevant experience in software development and sales; and

general economic conditions in our domestic and international markets.

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 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 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.

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. 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. 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 29% of our revenues in 2006. 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. We believe that we could replace the revenues earned from Ingram Micro s distribution services in a relatively short period after a loss of these services and that the negative impact on our results of operations due to such a loss would be short-term.

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

As of December 31, 2006, approximately 28% and 11%, and as of December 31, 2005, approximately 30% and 11%, of our total accounts receivable outstanding were from two distributors. 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. 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, 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.

We are dependent on our existing 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. 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.

To execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for engineers with high levels of experience in designing and developing software and senior sales executives. 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 equity-based compensation they are to receive in connection with their employment. A decline in the value of our stock after this offering could adversely affect our ability to attract or retain key employees. 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 contractual and 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

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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, operating results and financial condition, 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 do we. 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 35 of our partners for co-development, as well as for