

VMWARE, INC.

FORM S-1/A (Securities Registration Statement)

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CIK	0001124610
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SIC Code	7372 - Services-Prepackaged Software
Industry	IT Services & Consulting
Sector	Technology
Fiscal Year	01/31

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

**Amendment No. 1 to
Form S-1
REGISTRATION STATEMENT**
Under
THE SECURITIES ACT OF 1933

VMWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

7372
(Primary Standard Industrial
Classification Code Number)

94-3292913
(I.R.S. Employer
Identification No.)

**3145 Porter Drive
Palo Alto, CA 94304
(650) 475-5000**

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

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3145 Porter Drive
Palo Alto, CA 94304
(650) 475-5000**

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

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

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

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, 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.

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 JUNE 11, 2007

PROSPECTUS



Shares

VMware, Inc.

Class A Common Stock
\$ per share

We are selling _____ shares of Class A common stock. We have granted the underwriters an option to purchase up to _____ 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 \$ _____ and \$ _____ per share. We expect to apply to list our Class A common stock on the New York Stock Exchange under the symbol “VMW.”

We are currently a wholly owned subsidiary of EMC Corporation, or EMC, 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 _____ % 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, 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 _____ % 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 12.

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

Banc of America Securities LLC
Wachovia Securities

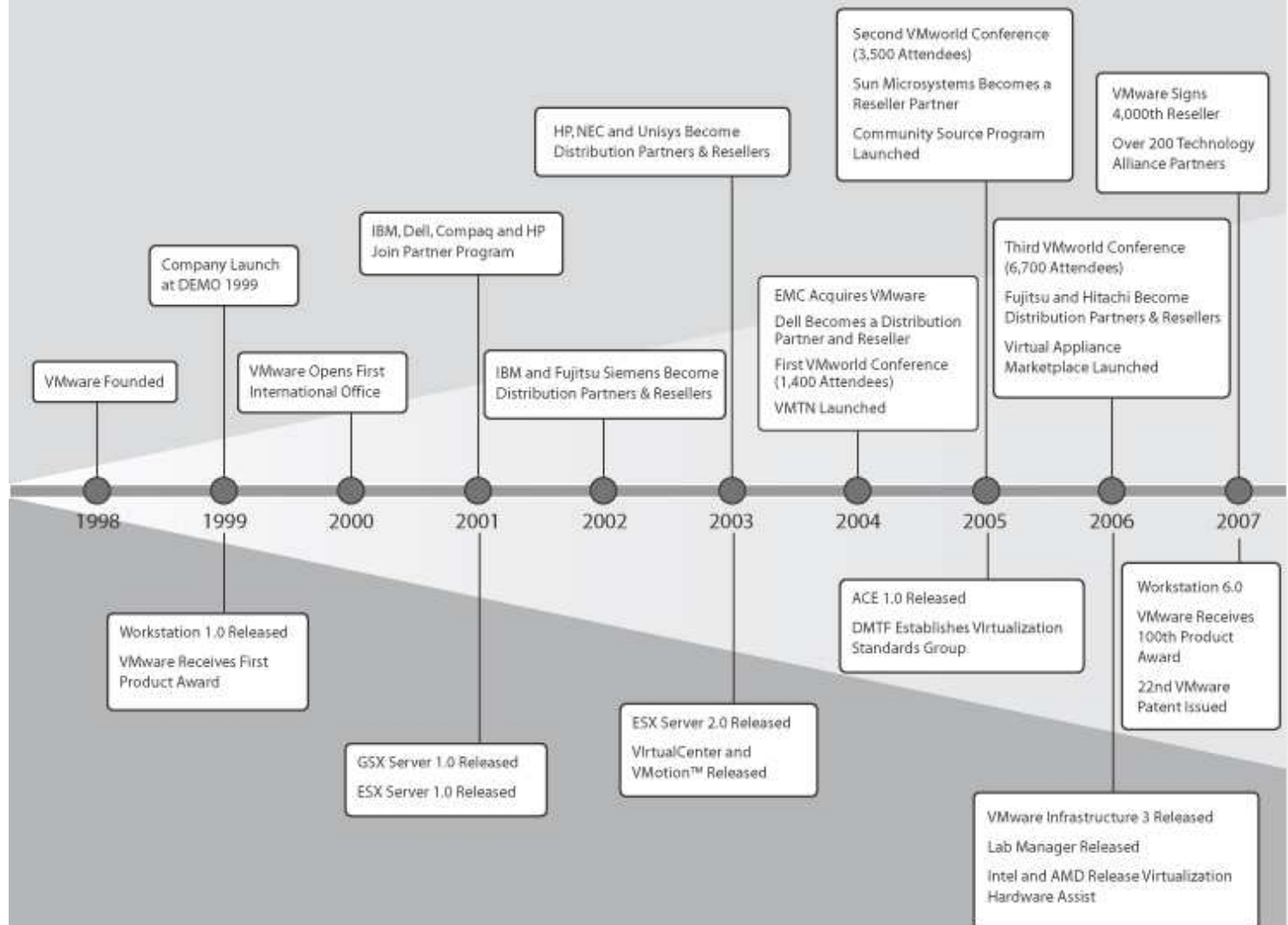
Bear, Stearns & Co. Inc.
A.G. Edwards

UBS Investment Bank
HSBC

, 2007.

VMware Corporate Timeline

Business and Industry Milestones



Product and Technology Milestones



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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.

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 24.8 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 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. We have also complemented our virtualization platforms with a suite of related virtual infrastructure management products. 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.

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.

We believe that the addressable market opportunity for our virtualization solutions is large and expanding. IDC estimates that less than one million of the 24.8 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;
- platform neutrality and open standards;
- large installed base of customers;
- strong partner network; and
- robust global support operations and services.

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;
- promote operating system and hardware neutrality;
- 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 % of our Class A common stock and 100% of our Class B common stock, will own approximately % of our outstanding common stock and % of the combined voting power of our outstanding common stock (approximately % of our outstanding common stock and % 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.”

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 a wholly owned subsidiary of EMC. Our headquarters are located at 3145 Porter Drive, Palo Alto, California 94304 and our phone number is (650) 475-5000. 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	shares
Class A common stock to be outstanding after this offering	shares, including 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	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, 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. 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 \$ million (\$ million if the underwriters exercise in full their over-allotment option), based on the assumed initial public offering price of \$ 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 \$ 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 we estimate will be approximately \$ as of , 2007, to fund the costs of completing our new headquarters facilities, which we estimate will be approximately \$, 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 % of our total outstanding shares of common stock and % of the combined voting power of our outstanding common stock following this offering.

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

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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. In this prospectus, we refer to this voluntary exchange offer as the "exchange offer."

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 _____ shares of Class A common stock pursuant to this offering and 32,500,000 shares of Class A common stock and 300,000,000 shares of Class B common stock outstanding immediately prior to this offering and excludes:

- 80 million shares of Class A common stock reserved for issuance under our 2007 Equity and Incentive Plan, including approximately 29 million shares of Class A common stock issuable upon the exercise of stock option awards granted in June 2007 at an exercise price of \$23 per share and approximately 450 thousand 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 \$ _____ as of _____, 2007; and
- the initial public offering price for shares of our Class A common stock is \$ _____ (the midpoint of the range set forth on the cover page of this prospectus),

then _____ shares of Class A common stock will be issuable upon the exercise of stock options granted pursuant to the exchange offer (with a weighted-average strike price of \$ _____) and _____ 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 _____ more shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and _____ 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 _____ fewer shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and _____ 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 _____ fewer shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and _____ 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 _____ more shares of Class A common stock will be issuable upon the exercise of stock options granted in the exchange offer and _____ 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.

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	
	2007	2006	2006 ⁽¹⁾	2005		Year Ended January 31, 2003	
	(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)	—	1,235	1,235	—	—	—	—
Net income (loss)	\$ 41,080	\$ 21,571	\$ 86,950	\$ 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⁾							
Pro forma weighted average shares, basic and diluted for Class A and Class B							

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	As of March 31, 2007	
	Pro Forma	
	Actual	As Adjusted ⁽⁶⁾
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	\$ 258,468	\$
Working capital	3,448	
Total assets	1,244,317	
Total stockholders' equity (deficit) ⁽⁷⁾	(183,493)	

- (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, 2004		Year Ended January 31, 2003
	2007	2006	2006	2005		2003 to January 8, 2004	
<i>Cost of license revenues</i>							
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	—	—
<i>Cost of services revenues</i>							
Stock-based compensation	494	395	2,384	1,299	1,061	—	—
<i>Research and development</i>							
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	—	—	—
<i>Sales and marketing</i>							
Stock-based compensation	2,944	1,840	12,020	5,341	4,672	—	—
Acquisition-related intangible amortization	577	544	2,188	1,785	—	—	—
<i>General and administrative</i>							
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 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.

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- (5) Unaudited pro forma per share data gives effect, in the weighted average shares used in the calculation, to the additional shares, which, when multiplied by the assumed offering price of \$ 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 year's net earnings.
- (6) The pro forma as adjusted balance sheet data gives effect to (i) the issuance and sale of shares of our Class A common stock in this offering at an assumed initial public offering price of \$ per share (the midpoint of the range set forth on the cover page of this prospectus), (ii) the repayment of \$ of principal amount of the \$800,000 intercompany note we incurred to fund a dividend to EMC, (iii) the purchase from EMC of our new headquarter facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which we estimate will be approximately \$ as of , 2007, and (iv) the deduction of estimated underwriting discounts and offering expenses payable by us.
- (7) 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.

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

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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. While we believe that we have in place, or will 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 short-term negative impact on our results of operations.

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 customers could delay payments or default on credit extended to

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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 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

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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 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 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 materially reduce our income.

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

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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.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense. 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 revenue is difficult to predict. Our sales efforts involve educating our customers about the use and benefit of our products, including their technical capabilities and potential cost savings to an organization. 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. 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, operating results and financial condition 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 \$148.3 million, or 21.1% of our total revenues in 2006, and \$72.6 million, or 18.7% of our total revenues in 2005. 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

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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, and 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 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 in the virtualization software market could be materially adversely affected.

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.

Adverse economic conditions or reduced information technology spending may adversely impact our revenues.

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, would likely adversely impact our business, operating results and financial condition in a number of ways, including by lengthening sales cycles, lowering prices for our products and services and reducing unit sales.

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

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 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, operating results and financial condition. Future acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt. 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.

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

In 2006, we derived approximately 44% of our revenue from customers outside the United States. We have sales 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;
- 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;
- increased exposure to foreign currency exchange rate risk;
- reduced protection for intellectual property rights, including reduced protection from software piracy in some 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. 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 revenue or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, operating results and financial condition. 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 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, operating results and financial condition could be adversely impacted.

Our independent registered public accounting firm identified a material weakness in the design and operation of our internal controls as of December 31, 2006, which, if not remedied, could result in material misstatements in our financial statements in future periods.

Our independent registered public accounting firm reported to our board of directors a material weakness in the design and operation of our internal controls as of December 31, 2006 related to the capitalization of software development costs. A material weakness is defined by the standards issued by the Public Company Accounting Oversight Board as a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The material weakness resulted from a lack of adequate internal controls to ensure the timely identification and accumulation of costs once a project reaches technological

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feasibility under applicable accounting standards. The consolidated financial statements included in this prospectus reflect adjustments to properly state our capitalized software development costs for the periods included therein. Our independent registered public accounting firm was not engaged to audit the effectiveness of our internal control over financial reporting as of December 31, 2006. If such an evaluation had been performed, additional material weaknesses may have been identified.

Under Section 404 of the Sarbanes-Oxley Act of 2002 and the current rules of the Securities and Exchange Commission, or SEC, our management and auditors will be required to evaluate and report on the effectiveness of our internal control over financial reporting as of December 31, 2008. We believe we have a plan in place to remediate the material weakness by implementing additional formal policies, procedures and processes, hiring additional accounting personnel and increasing management review and oversight over the financial statement close process. We believe we will have adequate controls in place by June 30, 2007 to remediate the material weakness and that there will not be any material costs associated with such remediation. If our remediation is insufficient to address the material weakness, or if additional material weaknesses in our internal controls are discovered in the future, we may fail to meet our future reporting obligations, our financial statements may contain material misstatements and the price of our common stock may decline.

If we fail to implement 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 are preparing for compliance with Section 404 by addressing the existing material weakness in our internal controls and by strengthening, assessing and testing our system of internal controls. In particular, we believe we will need to increase the number of our accounting personnel and improve our processes and systems to ensure timely and accurate reporting of our financial results in accordance with reporting obligations as a stand-alone public company following this offering. However, the continuous process of strengthening our internal controls and complying with Section 404 is expensive and time-consuming, and requires significant management attention. We cannot be certain that these measures will ensure that we will remediate the existing material weakness or implement adequate control over our financial processes and reporting. In addition, we have identified certain processes that need to be automated in order to ensure that we have effective internal control over financial reporting. If we are not able to automate these processes in a timely fashion, we will not be able to ensure compliance. Furthermore, if we rapidly grow our business, our internal controls will 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 discover additional 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, future non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension or delisting of our common stock from the exchange on which we decide to list and the inability of registered broker-dealers to make a market in our common stock, which could further reduce our stock price.

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 significantly since inception and anticipate that further significant expansion will be required. This future growth, if it occurs, will place significant demands on our management, infrastructure and other resources. 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.

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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, operating results and financial condition. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. In addition, 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.

Changes to financial accounting standards may affect our reported financial results and cause us to change our business practices.

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the SEC and various other bodies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the interpretation of our current practices may adversely affect our reported financial results or the way we conduct our business.

Risks Related to Our Relationship with EMC

As long as EMC controls us, your ability to influence matters requiring stockholder approval will be limited.

After this offering, 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 % of the total outstanding shares of common stock or % 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, certain actions that require the consent of holders of Class B common stock and other protective provisions as set forth in this prospectus. Holders of our Class B common stock will be entitled to 10 votes per share of Class B common stock, and the holders of our Class A common stock will be entitled to one vote per share of Class A common stock. 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 would 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 investors in this offering 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;

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- 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 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 this offering or our employee benefit plans;
- 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 you as a holder of our Class A common stock might otherwise receive a premium for your 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 your approval and without providing for a purchase of your shares of Class A common stock. Accordingly, your 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 acquiror 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, you will be 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,

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the intellectual property agreement that we will enter 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 will have with EMC, EMC may have the ability to impact our relationship with 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 we have included in this prospectus does not necessarily reflect what our financial position, results of operations or cash flows would have been had we been an independent entity during the historical periods presented. The historical costs and expenses reflected in our consolidated financial statements include an allocation for certain corporate functions historically provided by EMC, including tax, accounting, treasury, legal and human resources services. The historical financial information is not necessarily indicative of what our results of operations, financial position, cash flows or costs and expenses will be in the future. We have not made pro forma adjustments to reflect many significant changes that will occur in our cost structure, funding and operations as a result of our transition to becoming a public company, including changes in our employee base, potential increased costs associated with reduced economies of scale and increased costs associated with being a publicly traded, stand-alone company. For additional information, see "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and notes thereto.

Our ability to operate our business effectively may suffer if we are unable to cost-effectively establish our own administrative and other support functions in order to operate as a stand-alone company after the expiration of our transitional services agreements with EMC.

As a subsidiary of EMC, we have relied on administrative and other resources of EMC to operate our business. In connection with this offering, we will enter into various service agreements to retain the ability for specified periods to use these EMC resources. See "Certain Relationships and Related Person Transactions." These services may not be provided at the same level as when we were a wholly owned subsidiary of EMC, and we may not be able to obtain the same benefits that we received prior to this offering. These services may not be sufficient to meet our needs, and after our agreements with EMC expire, we may not be able to replace these

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services at all or obtain these services at prices and on terms as favorable as we currently have with EMC. We will need to create our own administrative and other support systems or contract with third parties to replace EMC's systems. In addition, we have received informal support from EMC which may not be addressed in the agreements we will enter into with EMC; the level of this informal support may diminish as we become a more independent company. Any failure or significant downtime in our own administrative systems or in EMC's administrative systems during the transitional period could result in unexpected costs, impact our results and/or prevent us from paying our suppliers or employees and performing other administrative services on a timely basis. See "Certain Relationships and Related Person Transactions—Relationship with EMC Corporation" for a description of these services.

After this offering, we will be a smaller company relative to EMC, which could result in increased costs because of a decrease in our purchasing power and difficulty maintaining existing customer relationships and obtaining new customers.

Prior to this offering, we were able to take advantage of EMC's size and purchasing power in procuring goods, technology and services, including insurance, employee benefit support and audit and other professional services. We are a smaller company than EMC, and we cannot assure you that we will have access to financial and other resources comparable to those available to us prior to the offering. As a stand-alone company, we may be unable to obtain office space, goods, technology and services at prices or on terms as favorable as those available to us prior to this offering, which could increase our costs and reduce our profitability. Our future success depends on our ability to maintain our current relationships with existing customers, and we may have difficulty attracting new customers.

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 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, which could cause us to forgo capital raising or acquisition opportunities that would otherwise be available to us. See "Certain Relationships and Related Person Transactions—Relationship with EMC Corporation." 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 assure you that we will be able to recover the full amount of our losses from EMC.

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Although we intend to enter into a new 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. We intend to enter into a new tax sharing agreement with EMC that will become effective upon consummation of this offering. Pursuant to the new tax sharing agreement, 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.

We have been included in the EMC consolidated group for U.S. federal income tax purposes for periods in which EMC owned at least 80% of the total voting power and value of our outstanding stock and expect to be included in such consolidated group following this offering. 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.

Our 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 revenue.

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;
- business opportunities that may be attractive to both EMC and us; and
- product or technology development or marketing activities 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 will 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.

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Some of our directors and executive officers own EMC common stock, restricted shares of EMC common stock 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 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 after this offering 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 address corporate opportunities that are presented to our directors or officers that are also directors or officers of EMC. We cannot assure you that the provisions in our certificate of incorporation 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 high-quality 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 will be a "controlled company" within the meaning of the New York Stock Exchange rules, and, as a result, will rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.

After the completion of this offering, EMC will own more than 50% of the total voting power of our common shares and we will be a "controlled company" under the New York Stock Exchange corporate governance standards. As a controlled company, certain exemptions under the New York Stock Exchange standards free us 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 will voluntarily cause our Compensation and Corporate Governance Committee to initially 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, you 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.

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Risks Related to this Offering

Our stock price may be volatile, and you may not be able to resell shares of our Class A common stock at or above the price you paid.

Prior to this offering, our Class A common stock has not been traded in a public market. The estimated initial public offering price for the shares was determined by negotiations between us and the representatives of the underwriters and may not be indicative of prices that will prevail in the trading market. The trading price of our Class A common stock could be subject to wide fluctuations due to the factors discussed in this risk factors section and elsewhere in this prospectus. These 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 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 against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

No public market for our common stock currently exists and an active trading market may not develop or be sustained following this offering.

Prior to this offering, there has been no public market for our common stock. An active trading market may not develop following the closing of this offering or, if developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. In addition, an inactive market may impair our ability to raise capital by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration, which in turn could materially adversely affect our business.

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.

We will have broad discretion in the use of a significant part of the net proceeds from this offering and may not use them effectively.

Our management currently intends to use the net proceeds from this offering in the manner described in "Use of Proceeds" and will have broad discretion in the application of a significant part of the net proceeds from this offering. The failure by our management to apply these funds effectively could affect our ability to continue to develop and market our products.

Substantial future sales of our Class A common stock in the public market could cause our stock price to fall.

Sales of substantial amounts of our Class A common stock in the public market after this offering, or the perception that these sales could occur, could cause the market price of our Class A common stock to decline and impede our ability to raise capital through the issuance of additional equity securities. Upon completion of this offering, we will have shares of Class A common stock outstanding, and EMC will own 32,500,000 shares

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of our Class A common stock and 300,000,000 shares of our Class B common stock, representing approximately % of the outstanding shares of our common stock. All shares sold in this offering will be freely transferable, subject, in the case of affiliates, to applicable volume and other restrictions under Rule 144 under the Securities Act, and subject to the lock-up arrangements described in “Underwriting” and “Shares Eligible for Future Sale”. Our Class B common stock may be converted into Class A common stock at any time. EMC has no contractual obligation to retain these shares, other than the lock-up arrangement. In addition, EMC has the right to cause us to register the sale of its shares of our common stock under the Securities Act. Registration of these shares under the Securities Act would result in these shares, other than shares purchased by our affiliates, becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration.

If EMC elects to convert its shares of Class B common stock into Class A common stock, an additional shares of Class A common stock will be available for sale after the period of 180 days from date of this prospectus, subject to volume and other restrictions as applicable under Rule 144 of the Securities Act.

Immediately after this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering the shares of Class A common stock issuable under outstanding options and the shares of Class A restricted stock which will be outstanding after this offering and shares reserved for future issuance under our 2007 Equity and Incentive Plan. This registration statement will automatically become effective upon filing. Shares registered under this registration statement will be available for sale in the open market, subject to the lock-up arrangements described above, as well as any stock option vesting requirements and the lapsing of restrictions on restricted stock, although sales of shares held by our affiliates will be limited by Rule 144 volume limitations. Sales of substantial amounts of these securities could cause our stock price to fall.

Purchasers in this offering will immediately experience substantial dilution in net tangible book value.

The initial public offering price of our Class A common stock is substantially higher than the net tangible book value per outstanding share of our common stock. Purchasers of our Class A common stock in this offering will incur immediate and substantial dilution of \$ per share in the net tangible book value of our common stock based on the assumed initial public offering price of \$ per share (the midpoint of the range set forth on the cover page of this prospectus). If the underwriters exercise their over-allotment option in full, there will be dilution of \$ per share in the net tangible book value of our common stock. The exercise of options and the grant of restricted stock pursuant to the exchange offer may result in further dilution.

The number of outstanding options to purchase our stock and the potential dilution to purchasers in this offering that may occur upon the exercise of such options will not be known until after the offering is priced.

Our eligible employees who have options to acquire shares of EMC stock or hold shares of EMC restricted stock will have the ability to exchange such options or restricted stock for options to acquire shares of our Class A common stock and our Class A restricted stock, respectively, pursuant to an exchange offer being conducted concurrently with this offering. The precise number of options or shares of our restricted stock to be issued pursuant to this exchange offer will not be known until the pricing of this offering. See “Summary—The Offering” for a description of the potential dilution that could occur as a result of the exchange offer.

The difference in the voting rights of our Class A and our Class B common stock may harm the value and liquidity of our Class A common stock.

The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, 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, as well as certain consent and other rights associated with the Class B common stock, and the holders of our Class A common stock shall be entitled to one vote per share. The difference in the voting rights of our

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Class A and Class B common stock could harm the value of the Class A common stock to the extent that any current or future investor in our common stock ascribes value to the rights of the holders of our Class B common stock to 10 votes per share. The existence of two classes of common stock could result in less liquidity for either class of common stock than if there were only one class of our common stock. See “Description of Capital Stock” for a description of our common stock and rights associated with it.

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;
- 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 in the future and result in the market price of our shares of common stock being lower than it would be without these provisions.

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As a public company we will incur additional costs and face increased demands on our management.

As a public company, we will incur significant legal, accounting and other expenses that we did not directly incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as the rules subsequently implemented by the SEC and the New York Stock Exchange, have required changes in corporate governance practices of public companies. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. For example, as a result of becoming a public company, we intend to add independent directors, create additional board committees and adopt certain policies regarding internal controls and disclosure controls and procedures. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs. Furthermore, our management will have increased demands on its time in order to ensure we comply with public company reporting requirements and the compliance requirements of the Sarbanes-Oxley Act of 2002, as well as the rules subsequently implemented by the SEC and the applicable stock exchange requirements of the New York Stock Exchange.

After the completion of this offering, we do not expect to declare any dividends in the foreseeable future.

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

FORWARD-LOOKING STATEMENTS

Some of the statements under “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this prospectus may contain forward-looking statements that reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words, such as “outlook,” “believes,” “expects,” “potential,” “continues,” “may,” “will,” “should,” “seeks,” “approximately,” “predicts,” “intends,” “plans,” “estimates,” “anticipates” or the negative version of those words or other comparable words. Any forward-looking statements contained in this prospectus are based upon our historical performance and on current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us, the underwriters or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to those described under “Risk Factors.” These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we may have anticipated. Any forward-looking statements you read in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, financial condition, growth strategy and liquidity. You should specifically consider the factors identified in this prospectus that could cause our actual results to differ before making an investment decision.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of the Class A common stock that we are offering will be approximately \$ million, at an assumed initial public offering price of \$ per share (the midpoint of the range set forth on the cover page of this prospectus) and after deducting estimated underwriting discounts and offering expenses that we must pay. If the underwriters' over-allotment option in this offering is exercised in full, we estimate that our net proceeds will be approximately \$ million. A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) the net proceeds to us from this offering by \$ million, assuming the underwriters do not exercise their over-allotment option and assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and offering expenses payable by us.

We currently intend to use the net proceeds:

- to repay \$ of our intercompany indebtedness owed to EMC;
- to purchase from EMC our new headquarters facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which we estimate will be approximately \$, which purchase will be effected through the transfer of the equity interests of the EMC entity which holds the rights to the facilities;
- to fund the costs of completing our new headquarters facilities, which we estimate will be approximately \$; and
- for working capital and other general corporate purposes, including to finance our growth, develop new products and fund capital expenditures and potential acquisitions.

The intercompany indebtedness was incurred in April 2007 to fund an \$800 million dividend paid to EMC in the form of a note. The note matures in April 2012 and bears an interest rate of the 90-day LIBOR plus 55 basis points (% as of , 2007), with interest payable quarterly in arrears commencing June 30, 2007. The note may be repaid, without penalty, at any time commencing July 2007. The dividend was declared to provide a return to EMC on its investment in us, and the purchase price of our headquarters facilities was determined as a means to compensate EMC for costs it expended on our behalf in the construction of the facilities.

We may pursue the acquisition of companies with complementary products and technologies that we believe will enhance our suite of offerings. In April 2007, we entered into an agreement to acquire all of the capital stock of a privately-held offshore software development company for aggregate cash consideration of less than \$10 million. Other than this agreement, we do not have agreements or commitments for any specific acquisitions at this time. Pending the use of proceeds from this offering, we intend to invest the proceeds in a variety of capital preservation investments, generally government securities and cash.

DIVIDEND POLICY

We currently do not anticipate declaring any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to the consent of the holders of our Class B common stock pursuant to our certificate of incorporation. Holders of our Class A common stock and our Class B common stock will share equally on a per share basis in any dividend declared on our common stock by our board of directors. See “Description of Capital Stock—Common Stock—Dividend Rights.”

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CAPITALIZATION

The following table sets forth our capitalization as of _____, 2007:

- on an actual basis; and
- on an as adjusted basis to give effect to (i) our issuance and sale of _____ shares of Class A common stock in this offering at a public offering price of \$ _____ per share (the midpoint of the range set forth on the cover page of this prospectus), (ii) the repayment of \$ _____ of principal amount on the \$800 million note we incurred to fund a dividend to EMC, (iii) the purchase from EMC of our new headquarter facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which we estimate will be approximately \$ _____ as of _____, 2007, and (iv) the deduction of estimated underwriting discounts and offering expenses payable by us. See “Use of Proceeds.”

This table contains unaudited information and should be read in conjunction with “Selected Consolidated Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the accompanying notes that appear elsewhere in this prospectus.

	As of _____, 2007	
	Actual	As Adjusted
	(in thousands)	
Cash	\$ _____	\$ _____
Long-term debt:		
Total debt	\$ _____	\$ _____
Equity:		
Preferred Stock, par value \$0.01 per share, 100,000,000 shares authorized, no shares outstanding actual and as adjusted		
Class A common stock, par value \$0.01 per share, 2,500,000,000 shares authorized and 32,500,000 shares outstanding, actual and 2,500,000,000 shares authorized and _____ shares outstanding, as adjusted		
Class B common stock, par value \$0.01 per share, 1,000,000,000 shares authorized and 300,000,000 shares outstanding, actual and as adjusted		
Additional paid-in capital		
Retained earnings (deficit)		
Total equity	_____	_____
Total capitalization	\$ _____	\$ _____

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

DILUTION

If you invest in our Class A common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our Class A common stock and the net tangible book value per share of our common stock immediately after the completion of this offering.

Net tangible book value per share represents the amount of total tangible assets less total liabilities, divided by the number of common shares then outstanding. Our net tangible book value as of _____ was approximately _____. After giving effect to our sale of shares of our Class A common stock in this offering at an assumed initial public offering price of \$ _____ per share (the midpoint of the range set forth on the cover page of this prospectus), the repayment of \$ _____ of principal amount on the \$800 million note we incurred to fund a dividend to EMC and the purchase from EMC of our new headquarter facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which we estimate will be approximately \$ _____ as of _____, 2007, and deducting estimated underwriting discounts and offering expenses, our pro forma net tangible book value as of _____ would have been \$ _____, or \$ _____ per common share (assuming no exercise of the underwriters' over-allotment option). This represents an immediate increase in the net tangible book value of \$ _____ per share and an immediate and substantial dilution of \$ _____ per share to new investors purchasing shares of our Class A common stock in this offering. The following table illustrates this dilution per share:

Assumed initial public offering price per share	\$
Net tangible book value per share as of _____	\$
Increase in net tangible book value per share attributable to this offering	<u>\$</u>
Net tangible book value per share after giving effect to this offering	<u>\$</u>
Dilution per share to new investors	<u>\$</u>

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share would increase (decrease) the increase in net tangible book value attributable this offering by \$ _____ per share, the pro forma net tangible book value after giving effect to this offering by \$ _____ per share and the dilution to new investors in this offering by \$ _____ per share, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and offering expenses payable by us.

The foregoing discussion and tables assume no exercise of any stock options or issuance of restricted shares that will be outstanding immediately following this offering. As of June 8, 2007, there were options outstanding to purchase approximately 29 million shares of our Class A common stock at an exercise price per share of \$23 and approximately 450 thousand shares of our Class A common stock deliverable upon the vesting of restricted stock units. In addition, we expect to grant options to purchase shares of our Class A common stock and restricted shares of our Class A common stock pursuant to the exchange offer. The precise number of options or shares of restricted stock to be issued pursuant to the exchange offer will not be known until the pricing of this offering. To the extent that any of these options are exercised, there may be further dilution to investors in this offering. Based on the assumptions set forth in "The Offering," _____ additional shares of VMware restricted stock would be issued pursuant to the exchange offer, which would result in total dilution per share to investors in this offering of \$ _____.

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The following table sets forth, as of _____, on the pro forma basis as described above, the difference between the number of shares of common stock purchased from us and the total price paid to us by our existing stockholder, EMC, and by the new investors in this offering at an assumed initial public offering price of \$ _____ per share (the midpoint of the range set forth on the cover page of this prospectus) and prior to deducting the estimated underwriting discounts and offering expenses.

	Shares Purchased (in millions)		Total Consideration		Average Price Per
	Number	Percentage	Amount (\$ in millions)	Percentage	Share
EMC	332.5	%	\$ 539.4	%	\$ 1.62
New investors		%		%	
Total		100%	\$	100%	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share would increase (decrease) the total consideration paid by new investors by \$ _____ million, or increase (decrease) the percent of total consideration paid by new investors by _____ %, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same.

If the underwriters’ over-allotment option is exercised in full, the following will occur:

- the percentage of shares of our common stock held by EMC will decrease to approximately _____ % of the total number of shares of our common stock outstanding; and
- the number of shares of our common stock held by investors in this offering will be increased to shares, or approximately _____ % of the total number of shares of our common stock outstanding.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes 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 (in thousands)	Year Ended January 31, 2003 (in thousands)
	2007	2006	2006 ⁽¹⁾	2005			
	(in thousands, except per share amounts)						
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 a 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)	—	1,235	1,235	—	—	—	—
Net income (loss)	\$ 41,080	\$ 21,571	\$ 86,950	\$ 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⁾							
Pro forma weighted average shares, basic and diluted for Class A and Class B							

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	Successor Company				Predecessor Company	
	March 31, 2007	December 31,			January 8, 2004	January 31, 2003
		2006	2005	2004		
(in thousands)					(in thousands)	
Balance Sheet Data:						
Cash and cash equivalents	\$ 258,468	\$ 176,134	\$ 38,653	\$ 36,059	\$ 49,883	\$ 13,686
Working capital (deficiency)	3,448	(55,318)	(134,198)	(29,166)	12,189	6,566
Total assets	1,244,317	1,145,950	799,803	697,675	82,015	39,559
Total stockholder's equity (deficit) ⁽⁶⁾	(183,493)	(230,812)	453,829	560,282	(27,455)	(35,566)

- (1) In 2006, VMware acquired all of the outstanding shares of Akimbi Systems, Inc. See Note B to the consolidated financial statements.
- (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 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,	Year Ended January 31, 2003
	2007	2006	2006	2005	2004	2003 to January 8, 2004	
<i>Cost of license revenues</i>							
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	—	—
<i>Cost of services revenues</i>							
Stock-based compensation	494	395	2,384	1,299	1,061	—	—
<i>Research and development</i>							
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	—	—	—
<i>Sales and marketing</i>							
Stock-based compensation	2,944	1,840	12,020	5,341	4,672	—	—
Acquisition-related intangible amortization	577	544	2,188	1,785	—	—	—
<i>General and administrative</i>							
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 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.

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- (5) Unaudited pro forma per share data gives effect, in the weighted average shares used in the calculation, to the additional shares, which, when multiplied by the assumed offering price of \$ 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 year's net earnings.
- (6) 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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and notes thereto which appear elsewhere in this prospectus. The following discussion should be read in conjunction with section entitled "Forward-Looking Statements" and the risk factors set forth under "Risk Factors."

**All dollar amounts in this MD&A are in millions.
Certain tables may not add due to rounding.**

Overview

Our primary source of revenue is the licensing of virtualization software 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 infrastructure. Our virtualization 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 infrastructure. We have developed a multi-channel distribution model to expand our presence and reach various segments of the market. We derived over 75% of our revenues in 2006 from our large indirect sales channel of more than 4,000 channel partners. These channel partners include distributors, resellers, x86 systems vendors and system integrators. A majority of our revenue results from contracts that include both perpetual software licenses and ongoing software maintenance contracts. License revenue is recognized when the elements of revenue recognition are complete. Maintenance revenue is recognized ratably over the term of the maintenance period, and includes renewals of maintenance sold after the initial maintenance period expires. We also recognize revenue from professional services provided to our customers.

We have achieved significant revenue growth to date and are focused on extending our growth by broadening our product portfolio, promoting operating system and hardware neutrality, expanding our network of technology and distribution partners, increasing market awareness and driving the adoption of virtualization. In addition to selling to new customers, we are also focused on expanding the use of our products within our existing customer base, as much of our license revenue is based on a per desktop or per server arrangement. We believe it is important that as we grow our sales, we continue to invest in our corporate infrastructure, including customer support, information technology and general and administrative functions. We expect our spending in research and development to increase as we add computer scientists, software engineers, and employees involved in product development and maintenance and continue to promote operating system and hardware neutrality. We believe that equity incentives tied directly to the performance of VMware will help us compete for top-level engineering and other talent. We also intend to continue to invest in hardware, networking and software tools to increase the efficiency of our research and development efforts.

Our current financial focus is on sustaining our growth in revenue to generate cash flow to expand our market segment share and our virtualization solutions. Although we are currently the leading provider of virtualization solutions, we believe the use of virtualization solutions is at very early stages by customers. We expect to face competitive threats to our leadership from a number of companies, some of whom may have significantly greater resources than we do. As a result, we believe it is important to continue to invest in our research and product development, sales and marketing and the support function to maintain or expand our leadership in the virtualization solutions market. This investment could result in contracting operating margins as we invest in our future. We believe that we will be able to continue to fund our product development through operating cash flows as we continue to sell our existing products and services. We believe this is the right priority for the long-term health of our business.

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In evaluating our results, we focus on operating margin and, to a lesser extent, gross margin. A significant portion of our service revenue is recognized in periods of up to five years subsequent to the initial contract, whereas most of our license revenue is recognized within the first quarter of contract signing. As a result, variability in gross margin can result from differences in when we price our service and when the cost is incurred. Additionally, substantially all of our revenue is for contracts in U.S. dollars, whereas a portion of our support services is paid for in currencies other than the U.S. dollar. This difference may cause variability in gross margins and operating margins due to fluctuations in the U.S. dollar compared to other currencies. As a result, we focus our attention on operating margin because it encompasses the entire cost structure supporting our operations. 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 wholly owned subsidiary of EMC, we have relied on it to provide a number of administrative support services and facilities in other countries. Although we will continue to operate under an administrative services agreement and continue to receive support from EMC, our administrative costs may increase. We also are investing in expanding our own administrative functions, including our finance and legal functions, which may be at a higher cost than the comparable services currently provided by EMC. We also will incur additional costs as a public company, including audit, investor relations, stock administration and regulatory compliance costs.

EMC's Acquisition of VMware

On January 9, 2004, EMC acquired all of our outstanding capital stock. The acquisition was accounted for as a purchase. Accordingly, all assets and liabilities were adjusted to their fair market value. For financial statement purposes, the allocation of the purchase price paid by EMC for us has been reflected in our stand-alone financial statements. This allocation includes the goodwill and related intangible assets recognized by EMC from the acquisition of us. See Note A to the consolidated financial statements included elsewhere in this prospectus. We are currently a wholly owned subsidiary of EMC. The results of operations discussed in this analysis for 2004 are for the period from the date of acquisition by EMC, January 9, 2004, to December 31, 2004.

The financial statements include expense allocations for certain corporate functions provided to us by EMC, including accounting, treasury, tax, legal and human resources. These allocations were based on estimates of the level of effort or resources incurred on our behalf and which are considered reasonable by management. The total costs allocated from EMC were \$2.3 and \$1.3 for the three months ended March 31, 2007 and 2006, respectively, and \$5.1 in 2006, \$5.3 in 2005 and \$4.5 in 2004. Additionally, certain other costs incurred by EMC for our direct benefit, such as rent, salaries and benefits have been included as expenses in our financial statements. The total of these other costs were \$20.2 and \$10.5 for the three months ended March 31, 2007 and 2006, respectively, and \$63.7 in 2006, \$27.1 in 2005 and \$7.3 in 2004. Additionally, as part of our tax sharing arrangement, we paid EMC income taxes of \$63.1 and \$6.6 in 2006 and 2005, respectively. We also earned interest income on our intercompany balance from EMC in the amount of \$1.3, \$0.8, and \$2.6 for the three months ended March 31, 2007 and the years ended December 31, 2006 and 2005, respectively. For the three months ended March 31, 2006, we incurred interest expense on our intercompany balance to EMC in the amount of \$0.1.

The financial statements included herein 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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Income Statement Presentation

Sources of Revenue

License revenues . Our license revenues consist of revenues earned from the licensing of our software products. Our licenses are generally sold on a perpetual basis and are generally priced based upon the number of physical desktops or server processors on which our software runs. From inception through early 2004, we licensed certain of our products and provided updates at no additional cost. Because we had not established vendor-specific objective evidence, or VSOE, of the fair value of the updates, we recognized the entire contract value ratably over the contract period. Commencing in early 2004, we offered customers the right to buy updates on a stand-alone basis, thereby establishing VSOE of fair value of the updates. As a result, we recognized the license portion of the contract at the inception of the license agreement and recognized the value of the maintenance portion of the contract over the maintenance period.

Services revenues . Our services revenues consist of software maintenance and professional services. Maintenance revenues are recognized ratably over the contract period. Typically, our contract periods range from one to five years. Customers receive various types of product support based on the level of support purchased. Maintenance also affords customers the right to receive future product upgrades, if and when they become available.

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 that have durations of ninety days or less are recognized in revenue upon completion of the engagement. Professional services engagements of more than ninety days for which we are able to make reasonably dependable estimates of progress toward completion are recognized on a proportional performance basis based upon the hours incurred. Revenue on all other engagements is recognized upon completion.

Costs of Revenue and Operating Expenses

Cost of license revenues. Our cost of license revenues principally consist of the cost of fulfillment of our software. This cost includes product packaging and personnel and related overhead associated with the physical and electronic delivery of our software products. The cost also includes amortization of capitalized software development costs.

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

Research and development expenses . Our research and development, or R&D, expenses include the personnel and related overhead associated with the development of new product offerings and the enhancement of our existing software offerings.

Sales and marketing costs . Our sales and marketing costs include the costs of the personnel and related overhead associated with the sale and marketing of our license and service offerings, as well as the cost of certain specific marketing initiatives, including our annual VMworld conference.

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

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Results of Annual Operations

Our results of operations for the year ended December 31, 2006 and 2005 and the period from January 9, 2004 to December 31, 2004 are as follows:

	Year ended December 31,					
	2006		2005		2004	
Revenues:						
License	\$491.9	69.9%	\$287.0	74.1%	\$178.9	81.8%
Services	212.0	30.1	100.1	25.9	39.9	18.2
	<u>703.9</u>	<u>100.0</u>	<u>387.1</u>	<u>100.0</u>	<u>218.8</u>	<u>100.0</u>
Cost of revenues:						
Cost of license revenues	59.2	8.4	40.3	10.4	32.8	15.0
Cost of services revenues	64.2	9.1	24.9	6.4	12.6	5.8
	<u>123.4</u>	<u>17.5</u>	<u>65.2</u>	<u>16.8</u>	<u>45.4</u>	<u>20.8</u>
Gross profit	580.5	82.5	321.9	83.2	173.3	79.2
Operating expenses:						
Research and development	148.3	21.1	72.6	18.7	43.9	20.1
Sales and marketing	238.3	33.9	125.0	32.3	60.0	27.4
General and administrative	69.6	9.9	30.8	7.9	19.0	8.7
In-process research and development	3.7	0.5	—	—	15.2	6.9
Operating income	120.6	17.1	93.6	24.2	35.2	16.1
Investment income and other expenses, net	1.9	0.3	1.7	0.5	(0.1)	—
Income before income taxes	122.5	17.4	95.3	24.6	35.2	16.1
Provision for income taxes	36.8	5.2	28.6	7.4	18.4	8.4
Cumulative effect of a change in accounting principle	1.2	0.2	—	—	—	—
Net income	<u>\$ 87.0</u>	<u>12.4%</u>	<u>\$ 66.8</u>	<u>17.3%</u>	<u>\$ 16.8</u>	<u>7.7%</u>

Note: Certain columns may not add due to rounding.

Revenues

Total revenues increased by \$316.8, or 82%, in 2006 to \$703.9. License revenues grew by \$204.9, and services revenues grew by \$111.9 year-over-year. In 2005, total revenues increased by \$168.3, or 77%, to \$387.1. The growth in 2005 reflected an increase of \$108.1 in license revenue and an increase of \$60.2 of services revenue. We market and sell our products largely through an indirect network of distributors, resellers, x86 system vendors and systems integrators. One distributor accounted for 29%, 30% and 27% of revenues in 2006, 2005 and 2004, respectively.

License Revenues. Software license revenues were \$491.9 in 2006, \$287.0 in 2005 and \$178.9 in 2004, representing year-over-year increases of 71% in 2006 and 60% in 2005. The increases in software license revenues in 2006 and 2005 were due to greater demand for our virtualization product offerings attributable to wider market acceptance of virtualization as part of organizations' IT infrastructure, a broadened product portfolio and new distribution channels. The majority of the revenue growth is the result of increased volumes. The increase in our sales and marketing spending and the increase in our distribution channels, which grew by over 1,500 new partners in 2006, also contributed to the generation and cultivation of this additional demand accompanied with the broader acceptance of virtualization solutions. Partially offsetting the annual increases in license revenues was a reduction in the accretion of prior year license revenue recognized ratably over the license term. From inception through early 2004, we licensed certain of our products and provided updates at no additional cost. Because we had not established VSOE of the fair value of the updates, we recognized the entire

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contract value ratably over the contract period. Commencing in early 2004, we offered customers the right to buy updates on a stand-alone basis, thereby establishing VSOE of fair value of the updates. As a result, we recognized the license portion of the contract at the inception of the license agreement and recognized the value of the maintenance portion of the contract over the maintenance period. Revenue recognized ratably was \$0.8, \$9.9 and \$27.5 in 2006, 2005 and 2004, respectively.

Services Revenues. Services revenues were \$212.0 in 2006, \$100.1 in 2005 and \$39.9 in 2004, representing year-over-year increases of 112% in 2006 and 151% in 2005. Services revenues consist of software maintenance and professional services revenues. The increases in services revenues in 2006 and 2005 were primarily attributable to growth in our software maintenance revenues of \$88.1 and \$49.1 in 2006 and 2005, respectively, and, to a lesser extent, increases in our professional services offerings of \$23.8 and \$11.1 in 2006 and 2005, respectively. Software maintenance revenues increased due to both renewal sales to our existing customers and sales of maintenance contracts to our new customers. Professional services revenues increased due to growing demand for design and implementation services and training programs.

Cost of Revenues and Gross Profit

Our cost of revenues were \$123.4, \$65.2 and \$45.4 in 2006, 2005 and 2004, representing year-over-year increases of 89% in 2006 and 44% in 2005. Our gross profit was \$580.5, \$321.9 and \$173.3 in 2006, 2005 and 2004, respectively, representing year-over-year increases of 80% in 2006 and 86% in 2005. The annual increases in our cost of sales were primarily attributable to increased direct support, professional services personnel and third-party professional services costs to support the increased services revenues. We also incurred increased costs to fulfill our license sales as the volume of our license sales increased. The aggregate total increase of these costs was \$43.3 and \$16.2 in 2006 and 2005, respectively. Additionally, the amortization of capitalized software development costs increased by \$16.1 in 2006 and \$4.8 in 2005. Our gross margins, as a percentage of revenues, were 82.5% in 2006, 83.2% in 2005 and 79.2% in 2004. The reduction in our gross margin in 2006 compared to 2005 was primarily attributable to a change in the mix of our license and services revenues due to significant renewals of existing maintenance contracts and new customers purchasing maintenance contracts. License revenues, as a percentage of total revenues, decreased from 74.1% in 2005 to 69.9% in 2006. Services revenues have a lower gross margin than our license revenues. For the remainder of 2007, we expect that our services revenues will continue to increase as a percentage of our total revenues, thereby negatively impacting our gross margins. The increase in our gross margin in 2005 compared to 2004 was primarily attributable to acquisition-related intangible amortization expense decreasing from 11.7% of revenues in 2004 to 6.0% in 2005. Acquisition-related intangible amortization expense resulted primarily from EMC's acquisition of us, which has been reflected in our consolidated financial statements. Partially offsetting this improvement was a change in our sales mix in which license revenues, as a percentage of total revenues, decreased from 81.8% in 2004 to 74.1% in 2005.

Research and Development Expenses

Our R&D expenses were \$148.3, \$72.6 and \$43.9 in 2006, 2005 and 2004, representing year-over-year increases of 104% in 2006 and 65% in 2005. The increase in R&D expenses in both 2006 and 2005 consisted primarily of increased salaries and benefits of \$45.5 and \$22.8 in 2006 and 2005, respectively, resulting from additional resources to support new product development. The cost of supplies expensed and the depreciation from equipment capitalized increased by \$8.9 and \$4.2 in 2006 and 2005, respectively. Equity-based compensation associated with higher levels of equity grants increased by \$8.1 in 2006 and \$7.9 in 2005. Partially offsetting these annual increases in R&D expense were higher levels of software capitalization, which increased by \$17.9 million in 2006 and \$16.9 in 2005. As a percentage of revenues, R&D expenses were 21.1%, 18.7% and 20.1% in 2006, 2005 and 2004, respectively. The increase in R&D expenses, as a percentage of revenues, in 2006 compared to 2005 was primarily attributable to incremental headcount to support the growth of our business. The decrease in R&D expense, as a percentage of revenues, in 2005 compared to 2004 was primarily attributable to the increased level of software capitalization in 2005. In 2005, we reached technological feasibility on our current VMware Infrastructure server product.

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Sales and Marketing Expenses

Our sales and marketing expenses were \$238.3, \$125.0 and \$60.0 in 2006, 2005 and 2004, representing year-over-year increases of 91% in 2006 and 108% in 2005. The increase in sales and marketing expenses was the result of higher salaries and benefits, resulting from additional headcount in both sales and marketing personnel, and higher commission expense resulting from increased sales volume. Salaries, benefits and commission expense increased by \$51.3 and \$30.1 in 2006 and 2005, respectively. In certain international countries, EMC hires employees who work on our behalf. The costs incurred by EMC on our behalf, which principally relates to employees dedicated to our marketing effort, increased by \$20.8 and \$17.3 in 2006 and 2005, respectively. An increase in our marketing programs and travel of \$20.7 and \$5.9 in 2006 and 2005, respectively, also contributed to the growth in sales and marketing expenses. Equity-based compensation, associated with higher levels of equity grants, increased sales and marketing expense by \$6.7 in 2006 and \$0.7 in 2005. As a percentage of revenues, sales and marketing expenses were 33.9%, 32.3% and 27.4% in 2006, 2005 and 2004, respectively. The annual increases in sales and marketing expenses, as a percentage of revenues, were primarily attributable to incremental salaries, benefits, commissions and equity-based compensation.

General and Administrative Expenses

Our general and administrative expenses were \$69.6, \$30.8 and \$19.0 in 2006, 2005 and 2004, representing year-over-year increases of 126% in 2006 and 62% in 2005. Increases in general and administrative expenses in both 2006 and 2005 were due to additional salaries and benefits, primarily for new headcount, of \$9.5 and \$5.9 in 2006 and 2005, respectively, related increases in equity-based compensation of \$4.6 and \$2.3 in 2006 and 2005, respectively, and increased recruiting costs to obtain the additional employees of \$1.7 and \$0.6 in 2006 and 2005, respectively. The increase in headcount drove related incremental costs such as travel, equipment, facilities, and depreciation of \$11.7 and \$1.8 in 2006 and 2005, respectively. Other administrative costs, such as legal, audit and tax increased by \$1.1 in 2006. Partially offsetting these cost increases was a reimbursement of \$3.3 of legal fees received in 2005 incurred in previous years. As a percentage of revenues, general and administrative expenses were 9.9%, 7.9% and 8.7% in 2006, 2005 and 2004, respectively. The increase in general and administrative expenses, as a percentage of revenues, in 2006 compared to 2005, was primarily attributable to incremental headcount to support the growth of our business.

In-Process Research and Development Expenses

IPR&D was \$3.7, \$0.0 and \$15.2 in 2006, 2005 and 2004, respectively. The IPR&D charge in 2006 was attributable to our acquisition of Akimbi. The IPR&D charge in 2004 related to EMC's acquisition of VMware.

Investment Income

Investment income was \$3.3, \$3.1 and \$0.1 in 2006, 2005 and 2004, respectively. Investment income consists primarily of interest earned on cash and cash equivalent balances and on amounts due to us from EMC on our intercompany balance. Investment income increased in 2005 compared to 2004 due to higher outstanding cash and cash equivalent balances and amounts owed to us by EMC on our intercompany balances.

Other Expense, Net

Other expense, net was \$1.4, \$1.3 and \$0.1 in 2006, 2005 and 2004, respectively. The increase in other expense, net in 2005 compared to 2004 resulted primarily from increased interest expense on balances owed by us to EMC.

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Provision for Income Taxes

Our effective income tax rate was 30.1%, 30.0% and 52.3% in 2006, 2005 and 2004, respectively. For 2006 and 2005, the effective tax rate varied from the statutory rate primarily as a result of the mix of income attributable to foreign versus domestic jurisdictions. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States. Additionally, we generated tax credits that reduced our effective tax rate by 4.9 percentage points and 3.9 percentage points in 2006 and 2005, respectively. Partially offsetting this benefit in 2006 and 2005 were non-deductible permanent differences. In 2004, the effective tax rate varied substantially from the statutory rate primarily as a result of non-deductible permanent differences, primarily IPR&D charges in connection with our acquisition by EMC. Partially offsetting this expense was the benefit of our mix of income attributable to foreign versus domestic jurisdictions. Additionally, we generated tax credits that reduced our effective tax rate by 8.0 percentage points in 2004.

Selected Quarterly Operating Results

	For the quarter ended (unaudited)								
	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006	June 30, 2006	Mar 31, 2006	Dec 31, 2005	Sept 30, 2005	June 30, 2005	Mar 31, 2005
Revenues:									
License	\$169.6	\$162.0	\$126.3	\$113.3	\$ 90.3	\$ 87.6	\$ 71.0	\$ 66.6	\$ 61.8
Services	89.1	67.6	62.5	43.1	38.8	27.6	29.4	25.0	18.1
	258.7	229.6	188.8	156.4	129.1	115.2	100.4	91.6	79.9
Cost of revenues:									
Cost of license revenues	20.6	14.5	18.5	13.8	12.4	10.8	10.4	10.1	9.0
Cost of services revenues	23.5	22.8	19.0	12.8	9.6	7.4	6.5	5.9	5.1
	44.0	37.3	37.5	26.6	22.0	18.2	16.9	16.0	14.1
Gross profit	214.7	192.3	151.3	129.8	107.1	97.0	83.5	75.6	65.8
Operating expenses:									
Research and development	55.0	50.1	43.2	32.6	22.3	10.3	24.2	22.1	16.0
Sales and marketing	86.7	80.6	61.1	54.1	42.6	39.7	33.9	28.0	23.4
General and administrative	26.6	25.1	18.9	13.7	11.8	6.8	9.5	8.2	6.3
In-process research and development	—	—	—	3.7	—	—	—	—	—
Operating income	46.4	36.5	28.1	25.7	30.3	40.2	16.0	17.3	20.1
Investment income and other expenses, net	3.0	1.2	1.0	(0.3)	—	0.1	1.2	0.3	0.1
Income before income taxes	49.4	37.7	29.1	25.4	30.3	40.3	17.2	17.6	20.2
Provision for income taxes	8.3	6.8	9.8	10.3	10.0	12.4	5.0	5.2	6.0
Cumulative effect of a change in accounting principle	—	—	—	—	1.2	—	—	—	—
Net income	<u>\$ 41.1</u>	<u>\$ 31.0</u>	<u>\$ 19.3</u>	<u>\$ 15.1</u>	<u>\$ 21.6</u>	<u>\$ 28.0</u>	<u>\$ 12.2</u>	<u>\$ 12.4</u>	<u>\$ 14.2</u>

Note: Certain columns may not add due to rounding.

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Liquidity and Financial Condition

In summary, our cash flows were:

	Year Ended December 31,		
	2006	2005 (in millions)	2004
Net cash provided by operating activities	\$ 279.9	\$ 238.2	\$ 94.0
Net cash used in investing activities	(142.4)	(45.7)	(14.0)
Net cash used in financing activities	—	(190.0)	(92.9)

Cash provided by operating activities was \$279.9, \$238.2 and \$94.0 in 2006, 2005 and 2004, respectively.

In 2006, our operating cash flow reflected net income generated during the period of \$87.0, adjusted for non-cash items such as depreciation and amortization expense of \$66.6 and stock-based compensation of \$51.2. Additionally, working capital, including short- and long-term deferred revenue, income taxes payable and deferred income taxes, generated cash flow of \$67.4, primarily the result of an increase in total deferred revenue of \$158.1. Our deferred revenue balance consisted of deferred license revenues of \$65.4 and deferred services revenues of \$241.1 at December 31, 2006, of which \$242.6 was categorized as current. The increase in deferred revenue was partially offset by an increase in accounts receivable of \$98.0 due to increased revenue and an increase in net receivables due from EMC of \$48.4.

In 2005, our operating cash flow reflected net income generated during the period of \$66.8, adjusted for non-cash items such as depreciation and amortization expense of \$39.5 and stock-based compensation of \$27.1. Working capital, including short- and long-term deferred revenue, income taxes payable and deferred income taxes, generated cash flow of \$104.7, primarily the result of an increase in total deferred revenue of \$79.5. Our deferred revenue balance consisted of deferred license revenues of \$51.2 and deferred services revenues of \$97.3 at December 31, 2005, of which \$131.6 was categorized as current. Additionally, our operating cash flow was positively impacted by increased income taxes payable to EMC of \$44.1 and increased net payable due to EMC of \$29.3. These increases in deferred revenue and amounts owed to EMC were partially offset by an increase in accounts receivable of \$52.0 due to increased revenue.

In 2004, our operating cash flow reflected net income generated during the period of \$16.8, adjusted for non-cash items such as depreciation and amortization expense of \$30.2, stock-based compensation of \$19.5 and in-process research and development of \$15.2. Working capital, including short- and long-term deferred revenue, income taxes payable and deferred income taxes, generated cash flow of \$11.1. Our operating cash flow was negatively impacted by an increase in accounts receivable of \$28.1 due to increased revenue. This increase in accounts receivable was partially offset by the positive impact of increased net payable due to EMC of \$17.2 and increased income taxes payable to EMC of \$10.9.

Cash used in investing activities was \$142.4, \$45.7 and \$14.0 in 2006, 2005 and 2004, respectively. Cash paid for business acquisitions, net of cash acquired, was \$46.5 and \$2.2 in 2006 and 2005, respectively. Capital additions were \$52.6, \$20.7 and \$6.0 in 2006, 2005 and 2004, respectively. The annual increases in capital additions were attributable to supporting the growth of the business. Capitalized software development costs on a cash basis were \$32.5, \$21.6 and \$8.2 in 2006, 2005 and 2004, respectively. The increase in the amount capitalized in 2005 compared to 2004 was attributable to the introduction of new and enhanced product offerings. Upon the consummation of the offering, we will purchase from EMC our new headquarter facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which we estimate will be approximately \$ as of , 2007.

Cash used in financing activities was \$190.0 and \$92.9 in 2005 and 2004, resulting from dividends we paid to EMC. We had no financing activities in 2006. In April 2007, we declared an \$800.0 dividend payable to EMC in the form of a note. The note matures in April 2012 and bears an interest rate of the 90-day LIBOR plus 55 basis points (% as of , 2007), with interest payable quarterly in arrears commencing June 30, 2007. The note may be repaid, without penalty, at any time commencing July 2007. We intend to use a portion of the proceeds from the offering to repay a portion of the note.

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Our cash and cash equivalents balance increased from \$38.7 at December 31, 2005 to \$176.1 at December 31, 2006. Based on our current operating and capital expenditure forecasts, we believe that the combination of funds currently available and funds to be generated from operations will be adequate to finance our ongoing operations for at least the next twelve months.

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

Results of First Quarter Operations

Our results of operations for the three months ended March 31, 2007 and 2006 are as follows:

	Three months ended March 31,			
	2007		2006	
Revenues:				
License	\$169.6	65.5%	\$ 90.3	70.0%
Services	89.1	34.5%	38.8	30.0%
	258.7	100.0%	129.1	100.0%
Cost of revenues:				
Cost of license revenues	20.6	7.9%	12.4	9.6%
Cost of services revenues	23.5	9.1%	9.6	7.4%
	44.0	17.0%	22.0	17.0%
Gross profit	214.7	83.0%	107.1	83.0%
Operating expenses:				
Research and development	55.0	21.2%	22.3	17.3%
Sales and marketing	86.7	33.5%	42.6	33.0%
General and administrative	26.6	10.3%	11.8	9.2%
In-process research and development	—	—	—	—
Operating income	46.4	17.9%	30.3	23.5%
Investment income and other expenses, net	3.0	1.2%	—	—
Income before income taxes	49.4	19.1%	30.3	23.5%
Provision for income taxes	8.3	3.2%	10.0	7.7%
Cumulative effect of a change in accounting principle	—	—	1.2	1.0%
Net income	<u>\$41.1</u>	<u>15.9%</u>	<u>\$21.6</u>	<u>16.7%</u>

Note: Certain columns may not add due to rounding.

Revenues

For the first quarter, total revenues were \$258.7 in 2007, which was a 100% increase over 2006 revenues of \$129.1. The growth in 2007 reflected an increase of \$79.3 in license revenue and an increase of \$50.4 in services revenue. We market and sell our products largely through an indirect network of distributors, resellers, x86 system vendors and systems integrators.

License Revenues . Software license revenues increased by 88% from \$90.3 in the first quarter of 2006 to \$169.6 in 2007. The increases in software license revenues in the first quarter of 2007 compared to the same period in 2006 were due to greater demand for our virtualization product offerings attributable to wider market acceptance of virtualization as part of organizations' IT infrastructure, a broadened product portfolio and new distribution channels. The majority of the revenue growth is the result of increased volumes. The increase in our sales and marketing spending and the increase in our distribution channels, which grew by over 400 new partners in the first quarter, also contributed to the generation and cultivation of this additional demand accompanied with the broader acceptance of virtualization solutions.

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Services Revenues. First quarter services revenues were \$89.1 in 2007 and \$38.8 in 2006, representing a year-over-year increase of 130%. Services revenues consist of software maintenance and professional services revenues. The increase in services revenues in 2007 was primarily attributable to growth in our software maintenance revenues of \$38.7 and, to a lesser extent, increases in our professional services offerings of \$11.7. Software maintenance revenues increased due to both renewal sales to our existing customers and sales of maintenance contracts to our new customers. Professional services revenues increased due to growing demand for design and implementation services and training programs.

Cost of Revenues and Gross Profit

Our cost of revenues were \$44.0 and \$22.0 in the first quarter of 2007 and 2006, respectively, representing a year-over-year increase of 100%. Our gross profit for the first quarter was \$214.7 in 2007 and \$107.1 in 2006, which is an increase of 100%. The annual increase in our cost of sales was primarily attributable to increased direct support, professional services personnel and third-party professional services costs to support the increased services revenues. We also incurred increased costs to fulfill our license sales as the volume of our license sales increased. The aggregate total increase of these costs was \$16.1 in the first quarter of 2007. The amortization of capitalized software development costs increased by \$5.2 in 2007, a 188% increase. License revenues, as a percentage of total revenues, decreased from 70.0% in the first quarter of 2006 to 65.5% in the first quarter of 2007. Our gross margins, as a percentage of revenues, were 83.0% in both the first quarter of 2007 and 2006. Although services revenues, which have a lower gross margin than our license revenues, comprised a greater proportion of our revenue mix in the first quarter of 2007, the gross margin on our license revenues improved compared to the first quarter of 2006, resulting in our overall gross margin remaining flat. For the remainder of 2007, we expect that our services revenues will continue to increase as a percentage of our total revenues. Because services revenues have a lower gross margin than our license revenues, we expect our gross margins will be negatively impacted for the remainder of 2007.

Research and Development Expenses

Our R&D expenses were \$55.0 and \$22.3 in the first quarter of 2007 and 2006, respectively, representing a year-over-year increase of 146%. The increase in R&D expenses in 2007 consisted primarily of increased salaries and benefits of \$14.6, resulting from additional resources to support new product development. Software capitalization decreased from \$17.7 in 2006 to \$7.6 in 2007. In 2006, we reached technological feasibility on our current VMware Infrastructure server product and capitalized the costs to develop that product. By contrast, in 2007, we have not reached technological feasibility on a product of similar magnitude. As a percentage of revenues, R&D expenses were 21.2% in 2007 and 17.3% in 2006. The increase in R&D expense as a percentage of revenues in 2007 compared to 2006 was primarily attributable to less software costs being capitalized.

Sales and Marketing Expenses

For the first quarter, our sales and marketing expenses were \$86.7 in 2007 and \$42.6 in 2006, representing a year-over-year increase of 104% in 2007. The increase in sales and marketing expenses was the result of higher salaries and benefits, resulting from additional headcount in both sales and marketing personnel, and higher commission expense resulting from increased sales volume. Salaries, benefits and commission expense increased by \$24.2. In certain international countries, EMC hires employees who work on our behalf. The costs incurred by EMC on our behalf, which principally relates to employees dedicated to our marketing effort, increased by \$9.3. An increase in our marketing programs and travel of \$4.0 also contributed to the growth in sales and marketing expenses. As a percentage of revenues, sales and marketing expenses were 33.5% and 33.0% in 2007 and 2006, respectively. The annual increases in sales and marketing expenses, as a percentage of revenues, were primarily attributable to incremental salaries, benefits and commissions.

General and Administrative Expenses

Our general and administrative expenses for the first quarter were \$26.6 and \$11.8 in 2007 and 2006, respectively, representing a year-over-year increase of 125%. Our general and administrative expenses increased

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primarily as a result of additional salaries, benefits and recruiting costs of \$6.8, resulting from additional resources to support the growth of our business. Administrative costs, such as travel, equipment, facilities and depreciation, increased by \$3.4 in 2007. Other administrative costs, such as legal, audit and tax fees, also contributed \$1.2 to the increase in general and administrative expenses in 2007 compared to 2006. As a percentage of revenues, general and administrative expenses were 10.3% and 9.2% in 2007 and 2006, respectively. The increase in general and administrative expenses as a percentage of revenues was primarily attributable to incremental headcount to support the growth of our business.

Investment Income and Other Net Expenses

Investment income and other expenses, net, were \$3.0 in the first quarter of 2007 as compared with \$0.0 in the same period of 2006. Investment income consists primarily of interest earned on cash and cash equivalent balances and on amounts due to us from EMC on our intercompany balance. Interest expense results primarily from balances owed by us to EMC. Investment income increased in 2007 compared to 2006 due to higher outstanding cash and cash equivalent balances and amounts owed to us by EMC on our intercompany balances.

Provision for Income Taxes

Our effective income tax rate was 16.9% in the first quarter of 2007 as compared with 32.9% for the same period in 2006. The reduction in the effective rate for the first quarter of 2007 compared to the first quarter of 2006 was primarily attributable to the benefit of our tax structure, whereby income in 2007 earned abroad principally qualifies for deferral from U.S. taxation, whereas in 2006 the income was principally taxed in the United States. Our rate of taxation in foreign jurisdictions is lower than our U.S. tax rate.

Liquidity and Financial Condition

For the quarters ended March 31, 2007 and March 31, 2006, our cash flows were:

	Three months ended March 31,	
	2007	2006
Net cash provided by operating activities	\$ 104.9	\$99.6
Net cash used in investing activities	(22.6)	(22.6)
Net cash used in financing activities	—	—

Cash provided by operating activities was \$104.9 and \$99.6 in the first quarter of 2007 and 2006, respectively.

In the first quarter of 2007, our operating cash flow reflected net income generated during the period of \$41.1, adjusted for non-cash items such as depreciation and amortization expense of \$21.2 and stock-based compensation of \$11.6. Additionally, working capital, including short- and long-term deferred revenue, income taxes payable and deferred income taxes, generated cash flow of \$30.4, as a result of a decrease in accounts receivable of \$46.4 and an increase in deferred revenues of \$33.7. Our deferred revenue balance consisted of deferred license revenues of \$76.4 and deferred service revenues of \$263.9 at March 31, 2007, of which \$262.1 of the total deferred revenue balance was classified as current.

In the first quarter of 2006, our operating cash flow reflected net income generated during the period of \$21.6, adjusted for non-cash items such as depreciation and amortization expense of \$12.6 and stock-based compensation of \$6.5. Additionally, working capital, including short- and long-term deferred revenue, income taxes payable and deferred income taxes, generated cash flow of \$59.8, primarily as a result of an increase in deferred revenue of \$29.9 and a decrease in accounts receivable of \$13.9.

Cash used in investing activities was \$22.6 for both the first quarter of 2007 and 2006. Capital additions were \$16.6 and \$10.4 in the first quarter of 2007 and 2006, respectively. Capitalized software development costs

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were \$6.7 and \$12.3 in the first quarter of 2007 and 2006, respectively. The decrease in capitalized software development costs in the first quarter of 2007 compared to the first quarter of 2006 was attributable to the current version of the Virtual Infrastructure software product reaching technological feasibility in 2006.

We had no financing activities in the first quarter of 2007 or 2006.

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

Guarantees and Indemnification Obligations

We enter into agreements in the ordinary course of business with, among others, distributors, resellers, x86 system vendors and systems integrators. Most of these agreements require us to indemnify the other party against third-party claims alleging that one of our products infringes or misappropriates a patent, copyright, trademark, trade secret and/or other intellectual property right. Certain of these agreements require us to indemnify the other party against certain claims relating to property damage, personal injury or the acts or omissions by us, our employees, agents or representatives. In addition, from time to time we have made certain guarantees regarding the performance of our systems to our customers.

Contractual Obligations

We have various contractual obligations impacting our liquidity. The following represents our contractual obligations as of December 31, 2006:

	<u>Total</u>	<u>Payments Due by Period</u>			
		<u>Less than 1 year</u>	<u>1-3 years*</u>	<u>3-5 years**</u>	<u>More than 5 years</u>
Operating leases	\$298.0	\$ 13.6	\$16.8	\$ 14.2	\$ 253.4
Purchase orders	46.7	46.7	—	—	—
Construction contracts	77.6	77.6	—	—	—
Total	<u>\$422.3</u>	<u>\$ 137.9</u>	<u>\$16.8</u>	<u>\$ 14.2</u>	<u>\$ 253.4</u>

* Includes payments from January 1, 2008 through December 31, 2009.

** Includes payments from January 1, 2010 through December 31, 2011.

Our operating leases are primarily for office space around the world. We generally believe leasing such space is more cost-effective than purchasing real estate. While our purchase orders are generally cancelable without penalty, certain vendor agreements provide for percentage-based cancellation fees or minimum restocking charges based on the nature of the product or service. The construction contracts are for the construction of our new headquarter facilities. EMC currently reimburses us for the costs we are incurring under these contracts and will continue to do so through the date of the offering, at which time we will purchase the facilities from EMC. The purchase price of the facilities will be approximately \$ as of , 2007.

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 policies set forth below may involve a higher degree of judgment and complexity in their application than our other 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 included elsewhere in this prospectus.

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Accounting for Stock Options

In 2006, we adopted Financial Accounting Standard No. 123R, “Share-Based Payment,” or FAS No. 123R, to account for equity-based compensation expense. Our financial statements include the adoption of FAS No. 123R using the modified prospective transition method of adoption, which does not result in the restatement of results from prior periods.

FAS No. 123R requires recognizing compensation costs for all share-based payment awards made to employees based upon the awards’ estimated grant date fair value. The standard covers equity grants made by EMC to our employees, including stock options for EMC stock, restricted EMC stock and employee stock purchases related to EMC’s employee stock purchase plan, or ESPP. Additionally, we applied the provisions of SEC Staff Accounting Bulletin No. 107 on Share-Based Payment to our adoption of FAS No. 123R. Prior to 2006, we elected to account for these share-based payment awards under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” or APB No. 25, and elected to only disclose the pro forma impact of expensing the fair value of stock options in the notes to the financial statements.

We elected to estimate the fair value of employee stock option awards and the ESPP using the Black-Scholes model. The determination of the fair value of share-based payment awards on the date of grant using the Black-Scholes model is affected by EMC’s stock price, as well as assumptions regarding a number of subjective variables. These variables include the expected stock price volatility over the term of the awards, the risk-free interest rate associated with the expected term of the awards, expected dividends and actual and projected employee stock option exercise behaviors.

In 2006, the following weighted average assumptions for employee stock options and ESPP were used in the Black-Scholes model:

	Stock Options	ESPP
Dividend yield	None	None
Expected volatility	34.4%	27.6%
Risk free interest rate	4.8%	4.9%
Expected life (in years)	4.0	0.5

To determine the expected volatility, we used a combination of implied volatility for six-month and two-year traded options on EMC’s stock, as well as EMC’s historical stock price volatility. The expected term assumption is based upon actual historical exercises and cancellations of EMC stock options. We are using the same methodology to calculate expected volatility and expected term that was used prior to our adoption of FAS No. 123R. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of employee stock options and ESPP. The dividend yield assumption is based on the history and expectation of dividend payouts. Stock-based compensation expense recognized within a given reporting period is based on awards that are expected to vest in current or future periods. Accordingly, recognized stock-based compensation expense from stock options and ESPP is reduced for expected forfeitures. FAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. See Note I to our consolidated financial statements for more information regarding our implementation of FAS No. 123R.

Changes to the underlying assumptions may have a significant impact on the underlying value of the stock options, which could have a material impact on our financial statements. Should our actual forfeitures differ from our estimates, this could have a material impact on our financial statements.

The value of stock options that will be granted by us after this offering will be based on our volatility, or in the absence of a sufficient period of time to determine such volatility, the volatility of a representative peer group. This volatility may be higher than EMC’s volatility, which will have the effect of increasing our stock-based compensation expense.

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Revenue Recognition.

We derive revenue from the licensing of software and related services. We recognize revenue for software products and related services in accordance with the American Institute of Certified Public Accountants' Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. However, determining whether and when some of these criteria have been satisfied often involves assumptions and judgments that can have a significant impact on the timing and amount of revenue we report.

Our assessment of likelihood of collection is also a critical element in determining the timing of revenue recognition. If we do not believe that collection is probable, the revenue will be deferred until the earlier of when collection is deemed probable or cash is received.

We recognize license revenue from the sale of software when risk of loss transfers, which is generally upon shipment or electronic transfer. We license our software under perpetual licenses, through our direct sales force and through our indirect channel of distributors, resellers, x86 system vendors and systems integrators. We defer revenue relating to products that have shipped to our indirect channel until our products are sold through the channel. We estimate and record reserves for products that are not sold through the channel based on historical trends and relevant current information. We obtain sell-through information from distributors and resellers on a monthly basis and reconcile any estimates, if necessary, made in the previous month. Historically, actual information has not differed materially from the related estimate. For our indirect channel partners who do not report sell-through data, we determine sell-through information based on such distributors' and resellers' accounts receivable balances and other relevant factors. For x86 system vendors, revenue is recognized in arrears upon the receipt of binding royalty reports. The accuracy of our reserves depends on our ability to estimate the product sold through the channels and could have a significant impact on the timing and amount of revenue we report.

We offer rebates to channel partners, which are recognized as a reduction of revenue at the time the related product sale is recognized. We account for marketing development funds and sales incentives to customers or resellers as a reduction of revenue. When rebates are based on the set percentage of actual sales, we recognize the costs of the rebates as a reduction of revenue when the underlying revenue is recognized. In cases where rebates are earned if a cumulative level of sales is achieved, we recognize the cost of the rebates as a reduction of revenue proportionally for each sale that is required to achieve the target. The estimated reserves for channel rebates and sales incentives are based on distributors' and resellers' actual performance against the terms and conditions of the programs, historical trends and the value of the rebates. The accuracy of these reserves for these rebates, marketing development funds and sales incentives depends on our ability to estimate these items and could have a significant impact on the timing and amount of revenue we report.

Although our return policy does not allow end-users to return products for a refund, we may accept returns from time to time. Distributors and resellers may also rotate stock when new versions of a product are released. The product returns reserve is based on historical experience of actual product returns, estimated channel inventory levels, the timing of new product introductions and promotions and other relevant factors. The accuracy of these reserves depends on our ability to estimate sales returns and stock rotation among other criteria. If we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Our services revenue consists of software maintenance and professional services. We recognize maintenance revenues ratably over the contract period. Professional services include design, implementation and training. Professional services are not considered essential to the functionality of our products because these services do not alter the product capabilities and may be performed by our customers or other vendors. Professional services engagements that have durations of 90 days or less are recognized in revenue upon completion of the engagement. Professional services engagements of more than 90 days for which we are able to

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make reasonably dependable estimates of progress toward completion are recognized on a proportional performance basis based upon the hours incurred. Revenue on all other engagements is recognized upon completion. However, if we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Our software products are sold with maintenance and/or professional services. Vendor-specific objective evidence (“VSOE”) of fair value of professional services is based upon the standard rates we charge for such services when sold separately. VSOE for maintenance services is established by the rates charged in stand-alone sales of maintenance contracts or the stated renewal rate for maintenance included in the license agreement. The revenue allocated to software license included in multiple element contracts represents the residual amount of the contract after the fair value of the other elements has been determined. Customers under maintenance agreements are entitled to receive updates and upgrades on a when-and-if-available basis. In the event upgrades have been announced but not delivered, product revenue is deferred after the announcement date until delivery occurs unless we have established VSOE of fair value for the upgrade. VSOE of fair value of upgrades is established based upon the price set by management. We have a history of selling upgrades on a stand-alone basis. We are required to exercise judgment in determining whether VSOE exists for each undelivered element based on whether our pricing for these elements is sufficiently consistent with the sale of these elements on a stand-alone basis. This could cause a material increase or decrease in the amount of revenue that we report in a particular period.

Asset Valuation

Asset valuation includes assessing the recorded value of certain assets, including accounts receivable, goodwill, capitalized software development costs and other intangible assets. We use a variety of factors to assess valuation, depending upon the asset. Accounts receivable are evaluated based upon the creditworthiness of our customers, historical experience, the age of the receivable and current market and economic conditions. Should current market and economic conditions deteriorate, our actual bad debt experience could exceed our estimate. We capitalize software development costs once our projects have reached technological feasibility at the earlier of completion of a detailed project design or a working model. Changes in judgment as to when technological feasibility is reached could materially impact the amount of costs capitalized. We amortize capitalized software development costs over periods ranging from 18 to 24 months, which represent the periods over which we expect to generate revenues. Changes in the periods over which we actually generate revenues or the amounts of revenues generated could result in different amounts of amortization. Other intangible assets are evaluated based upon the expected period during which the asset will be utilized, forecasted cash flows, changes in technology and customer demand. Changes in judgments on any of these factors could materially impact the value of the asset. Our goodwill valuation is based upon a discounted cash flow analysis. The analysis considers estimated revenue and expense growth rates. The estimates are based upon our historical experience and projections of future activity, considering customer demand, changes in technology and a cost structure necessary to achieve the related revenues. Changes in judgments on any of these factors could materially impact the value of the asset.

New Accounting Pronouncements

VMware adopted FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes” (“FIN No. 48”), at the beginning of fiscal year 2007. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS No. 109, “Accounting for Income Taxes.” FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed “more-likely-than-not” to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. We had no changes to the amount of our income tax payable as a result of implementing FIN No. 48. Prior to the adoption of FIN No. 48, our policy was to classify accruals for uncertain positions as a current liability unless it

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was highly probable that there would not be a payment or settlement for such identified risks for a period of at least a year. We reclassified \$4.5 million of income tax liabilities from current to non-current liabilities because a cash settlement of these liabilities is not anticipated within one year of the balance sheet date.

In September 2006, the FASB issued FAS No. 157, “Fair Value Measurements,” or FAS No. 157, which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively, except in the case of a limited number of financial instruments that require retrospective application. We are currently evaluating the potential impact of FAS No. 157 on our financial position and results of operations.

In February 2007, the FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115,” or FAS No. 159. The new statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item’s fair value in subsequent reporting periods must be recognized in current earnings. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the potential impact of FAS No. 159 on our financial position and results of operations.

Quantitative and Qualitative Disclosures about Market Risk

We do not have any significant foreign currency exposure. Our revenue contracts are denominated in U.S. dollars and the vast majority of our purchase contracts are denominated in U.S. dollars. Our exposure to market risk relates primarily to the variable interest obligation on the note we incurred to fund an \$800.0 dividend to EMC.

BUSINESS

VMware is 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 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. The benefits to our customers include substantially lower IT costs, choice of operating systems and a more automated and resilient systems infrastructure capable of responding dynamically to variable business demands. 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.

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. In the eight years since the introduction of our first virtualization platform, we have expanded our offering with virtual infrastructure automation 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. We have also complemented our virtualization platforms with a suite of related virtual infrastructure management products.

We began shipping our first product in 1999, and today we offer 16 products. Our flagship desktop product, VMware Workstation, is in its sixth generation and our flagship server product suite, VMware Infrastructure, is in its third generation. Our products are widely recognized for their innovation and quality. We believe that our technological leadership can be attributed to our highly talented R&D engineers, over 40% of whom have advanced degrees.

We believe that the addressable market opportunity for our virtualization solutions is large and expanding. IDC estimates that less than one million of the 24.8 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 drive widespread adoption of virtualization for both server and desktop deployments. We believe that our innovative virtualization solutions will enable us to maintain our leadership in this large addressable market by increasing our penetration within our substantial installed base and through the addition of new customers.

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 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 were founded in 1998 and have continued to operate in large measure as a stand-alone company following our acquisition by EMC in 2004. Our independence has been critical to building deep and mutually

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beneficial relationships with a broad group of partners. During 2006, we generated \$703.9 million in revenues, an 82% increase over our 2005 results. For financial information about our business by geographic area, see Note L to the consolidated financial statements included elsewhere in this prospectus. We are based in Palo Alto, California with 39 offices worldwide.

Industry Background

The Proliferation of x86 Servers and Desktops Introduces New Challenges

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. x86 server shipments represented 93% of new servers in 2006 according to IDC. 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 IDC. Organizations typically do not run more than one application per server to avoid the risk of faults or security vulnerabilities in one application affecting the availability of another application on the same server. This “one application to one server” approach, combined with the relative inefficiency of most x86-based server applications, has resulted in significant under-utilization of x86-based server resources. IDC estimates that organizations currently maintain total excess computing capacity valued at \$140 billion in the form of over-provisioned or idle servers. We believe that the industry trend towards multi-core architectures, which increase server capacity by combining two or more independent processors into a single package, will likely result in even lower utilization levels. According to IDC, more than 95% of x86-based servers currently have four processors or less. We therefore believe applications currently running on these servers are unlikely to take advantage of the eight- to sixteen-processor architectures that are likely to be the industry standard within the next few years.
- *Increasing Physical Infrastructure Costs* . Although the average selling prices of servers and related IT infrastructure continue to decline, the operational costs to support this growing 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. In some cases, the lack of adequate power supply represents the limiting factor to an organization’s ability to deploy new applications and servers. IDC estimates that organizations spent \$29.0 billion in 2006 to power and cool the worldwide installed base of servers, the vast majority of which are x86 servers.
- *Increasing IT Management Costs* . IDC estimates that organizations typically spend more than 80% of their overall IT budgets on the routine maintenance of existing infrastructure. 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. To support the rapid growth of under-utilized servers and associated IT infrastructure, organizations spend disproportionate time and resources on manual tasks associated with server maintenance, and thus require more personnel to complete these tasks. Furthermore, automation of operational processes is inherently difficult given the complexity and heterogeneity of the environments.
- *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. The increasing dependence on x86-based server applications has elevated the importance of protecting them against local hardware failure, application faults and human error. Traditional solutions for both high availability and business continuity are complex and costly and therefore have only been deployed for a small subset of applications.

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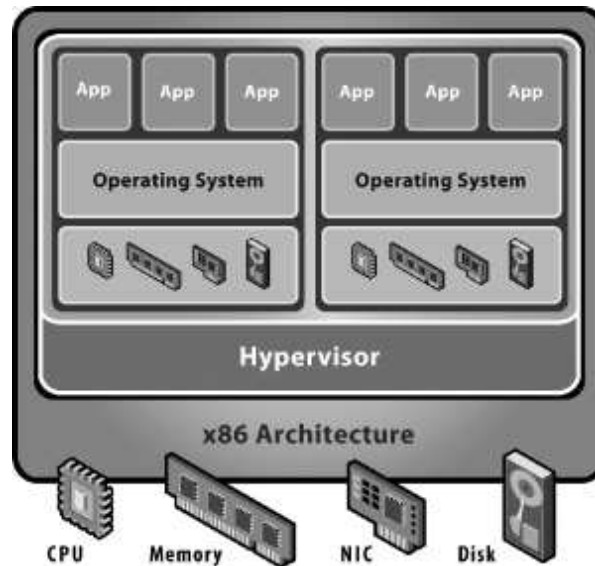
- *Desktop Management and Security.* Managing and securing enterprise desktops present numerous challenges. Controlling a distributed desktop environment and enforcing management, access and security policies without impairing users' ability to work effectively is complex and expensive. Numerous patches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

The Emergence of Industry-Standard Infrastructure Virtualization

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.

Virtualization can be implemented using various approaches. The most prevalent approach uses a layer of software called a “hypervisor” that resides below the operating system (see Exhibit 1). The hypervisor provides the capability to enable multiple applications and operating systems to share the underlying hardware safely by encapsulating each application and operating system in its own “virtual machine.” Organizations use this technology to run multiple applications and heterogeneous operating systems on the same hardware and across different hardware configurations, raising utilization and reducing costs.

Exhibit 1: Virtualization Enables Secure System Partitioning



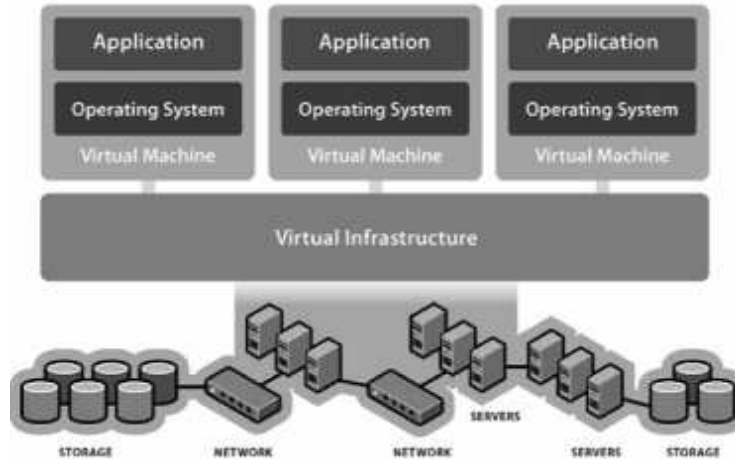
The Need for Virtual Infrastructure Automation and Management

The introduction of virtualization technology presents a number of opportunities for driving capital and operational efficiency above and beyond the simple benefit of safe partitioning. By decoupling the entire software environment from its underlying hardware infrastructure, virtualization enables the aggregation of multiple servers, storage infrastructure and networks into shared pools of resources that can be delivered

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dynamically, securely and reliably to applications as needed (see Exhibit 2). This pioneering approach enables organizations to build a computing infrastructure with high levels of utilization, availability, automation and flexibility using building blocks of inexpensive industry-standard servers. Although virtualization represents the core enabling technology, the enormous benefits associated with this general purpose computing infrastructure cannot be fully realized without virtual infrastructure automation and management solutions.

Exhibit 2: Virtualization Enables a Distributed Virtual Infrastructure



Market Opportunity

IDC estimates the installed base of x86-based servers in 2006 at 24.8 million units, growing to 38.2 million units by 2010. According to IDC, worldwide shipments of x86 servers are expected to increase from 6.9 million units in 2006 to 9.3 million units in 2011. IDC estimates that the percentage of all new x86 server shipments running virtualization software will increase from 5% in 2005 to 17% in 2010, which implies a compound annual growth rate of approximately 41%. We believe industry trends towards more powerful yet under-utilized multi-core servers will further accelerate the widespread adoption of virtualization for server deployments.

Desktop virtualization provides organizations with the ability to manage desktop deployments through the use of virtual machines running on centralized server farms in the corporate data center or IT-managed desktop-based virtual machines. For server-based desktops, users access these desktops remotely from a desktop or a thin client using a remote display protocol. The centralized management of desktop deployments enables organizations to significantly improve the efficiency of desktop installations, upgrades, patches and backups. Desktop virtualization also enables organizations to package an IT-managed desktop within a secured virtual machine and deploy it to an unmanaged physical desktop, which can greatly reduce the manageability challenges associated with remote access deployments. IDC estimated that the installed base of business client PCs reached 489.7 million as of December 2006. We believe that companies spend approximately \$1,000 to \$2,000 per desktop per year to deliver the necessary manageability, security and resilience. We believe that these desktop systems and associated spending represent a significant potential market for virtualization-based solutions.

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

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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 “one application to one server” model. We believe our customers commonly achieve server consolidation ratios that average 5:1 and can achieve ratios that exceed 20:1 by using our solutions to run each of their applications in an isolated and secure virtual machine. Our solutions include numerous availability safeguards to mitigate the risk of loading multiple applications onto the same hardware platform. We have also developed tools and management products to enable easy planning and conversion of physical machines into virtual machines, as well as for the optimization and ongoing maintenance of a consolidated virtual environment.
- *Physical Infrastructure Cost Reduction.* Through significant server consolidation and containment results, our solutions increase utilization rates and reduce the required number of servers and other infrastructure overhead. Our solutions enable organizations to achieve significant reductions in their physical infrastructure costs through reduced data center space, power and cooling costs required to support new and existing applications. Our solutions also allow organizations to reduce or defer capital expenditures for new data center facilities.
- *Improved Operational Flexibility and Responsiveness.* Our solutions include a set of virtual infrastructure automation and management products that simplify and automate labor and resource intensive IT operations across disparate hardware, operating system and software application environments. Our virtual infrastructure automation and management solutions reduce the amount of time IT professionals must spend on largely reactive tasks, such as provisioning, configuration, monitoring and maintenance. In many cases, our solutions enable organizations to reduce the number of IT professionals required to effectively manage and maintain their infrastructure resources and to adapt their IT infrastructure more quickly to respond to changing business needs.
- *Increased Application Availability and Improved Business Continuity .* Our solutions enable organizations to reduce both planned and unplanned downtime in their computing environments. For planned downtime, we provide a live migration product called VMotion that enables users to move virtual machines running applications and operating systems across physically separate machines with no service interruption or data loss. For unplanned downtime, our solutions enable organizations to create a simple, cost-effective and rapid recovery strategy for the vast majority of x86-based workloads, many of which are not currently covered by traditional recovery strategies. The use of our solutions to migrate entire virtual environments to new data center locations enables our customers to implement fast and efficient business continuity strategies.
- *Improved Desktop Manageability and Security.* Our desktop virtualization solutions allow organizations to centrally host and manage desktop environments while providing a desktop-like experience to an end user. This virtual desktop infrastructure allows IT organizations to efficiently control desktop environments regardless of location, desktop hardware, operating system or business application access needs. Our virtualization solutions also allow organizations to deploy portable desktop virtual machines on unmanaged desktops while providing a layer of policy control and security around each virtual machine. The use of desktop virtualization in remote access deployments provides organizations with complete control of the hardware configuration and networking capabilities of an unmanaged desktop to ensure compliance with security policies.

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.* Since our founding in 1998, we have focused exclusively on pioneering virtualization technology, continuously improving our core virtualization platform and

progressively expanding the application of virtualization technology to address previously unsolvable IT challenges. Our flagship desktop product, VMware Workstation, is in its sixth generation and our flagship server product suite, VMware Infrastructure, is in its third generation. Our products and solutions have received over 100 industry awards for excellence and leadership in their category. Our highly skilled employee base includes many of the industry's foremost experts in systems and virtualization technology and provides us with unparalleled experience and knowledge in delivering innovative and high-quality virtualization solutions. Our technology is the most widely deployed on the market today, and industry analysts have independently characterized us as the leading virtualization solution provider in the marketplace. We believe that our commitment to virtualization innovation, combined with our industry-leading market position, creates strong brand recognition and preference among current and prospective customers, technology partners and resellers and accelerates the adoption of our solutions.

- *Broad Product Portfolio.* We offer a broad virtualization product suite that addresses an organization's virtualization needs from the data center to the desktop. We offer 16 virtualization-based products across three product categories. Our flagship server product suite, VMware Infrastructure, bundles several of our products to deliver superior functionality and performance, as well as seamless integration into existing infrastructure of our customers. We believe that our broad product portfolio of virtualization solutions provides us with a substantial advantage over competitors that offer discrete, point virtualization products.
- *Platform Neutrality and Open Standards.* Our virtualization software enables customers to create and manage a shared pool of hardware resources that is independent of specific operating system and x86 hardware platforms. This allows our customers to deploy a heterogeneous environment of operating systems, underlying x86 hardware and associated networking and storage infrastructure. We have successfully certified more than 200 hardware platforms and successfully tested more than 60 operating systems for use with our solutions. We provide our partners access to our source code, as well as open APIs, formats and protocols to facilitate their development of interoperable and differentiated products. We also make our APIs, formats and protocols available for use by our partners and for inclusion in virtualization industry standards. We have designed our virtualization solutions to be an extension of hardware, as opposed to the operating system, resulting in a more flexible and robust solution that delivers both strategic choice and economic value to customers.
- *Large Installed Base of Customers.* We have a large installed customer base of more than 20,000 organizations using our server solutions. Our customer base includes 100% of Fortune 100 companies and over 84% of Fortune 1,000 companies. Our customer base includes organizations of all sizes across numerous industries. We believe that our customers view us as a key strategic solutions provider. The performance and reliability of our products has resulted in high customer satisfaction and strong customer loyalty. Many customers have implemented a policy to standardize and run all their new applications on our solutions, presenting us with significant opportunities to expand our footprint within these organizations as they grow their IT infrastructure.
- *Strong Partner Network.* We have extensive relationships with our technology, channel and consulting partners. Our network of partners continues to expand as the interest in and adoption of our technology grows. We believe the deployment of our leading virtualization solutions represents a strategic IT architecture decision for organizations, which creates significant product and services revenue opportunities for our partners. These opportunities provide strong incentives for our partners to collaborate with us to drive further adoption of our technology. We partner with more than 200 x86 system vendors, ISVs and other technology partners, as well as more than 4,000 distribution, reseller and consulting partners. The endorsement and support of our partners have further enhanced the awareness, reputation and adoption of our virtualization solutions.
- *Robust Global Support Operations and Services .* We offer a full range of 24x7 support offerings for both customers and partners, ranging from incident-level to business-critical service, backed by our

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industry-leading expertise in virtualization solutions. We have nearly a decade of experience installing, integrating and supporting our broad virtualization solutions in various production environments for businesses of all sizes. Our support services cover a broad range of hardware platforms and software configurations. We implement a “follow the sun” approach to deliver continuous customer support through our locations on three continents. We believe that our global support organization and capabilities positively impact our customer satisfaction, maintenance renewal levels and specifically differentiate us from smaller virtualization solution competitors.

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.* We continue to innovate and develop new server and desktop solutions and offer additional services that enhance the value of our current offerings. For example, the introduction of our VMware Infrastructure 3 product suite in 2006 expanded our offerings to include new capabilities in high availability, resource management and backup and recovery. We intend to provide our existing and prospective customers with additional solutions that will leverage virtualization technology to further optimize the value and reliability of their computing infrastructure. We may also pursue the acquisition of companies with complementary products and technologies that we believe will enhance our suite of offerings.
- *Promote Operating System and Hardware Neutrality.* We have designed and plan to maintain our core virtualization platforms as an operating system-independent extension of x86 hardware. By offering the functionality to pool and manage the resources of multiple servers and networking and storage infrastructure, our virtualization solutions extend beyond server virtualization to enable a next-generation, operating system-agnostic, distributed computing infrastructure with significant scalability, reliability, security, availability and flexibility.
- *Expand our Network of Technology and Distribution Partners.* We believe that the endorsement and support of our partners and user community accelerate the adoption of our solutions. We focus on enabling our partners to realize new economic opportunities through the integration and distribution of our solutions. We intend to expand our network of technology and distribution partners and increase the value our solutions provide to the hardware and software solutions of our partners. We will continue to collaborate with, and create additional revenue opportunities for, our partners to encourage their efforts to drive adoption and sales of our virtualization solutions.
- *Increase Sales to Existing Customers and Pursue New Customers.* We believe we have a significant opportunity to increase our sales to existing customers by targeting additional business units, pursuing upgrades and broad enterprise deployments and enhancing the functionality of our existing solutions. We will continue to aggressively pursue new customers globally by expanding our direct and indirect sales channels and our services offerings to complement our virtualization technology.
- *Increase Market Awareness and Drive Adoption of Virtualization.* We offer free solutions, which include VMware Player, VMware Server and VMware Converter. These entry-level solutions allow customers to evaluate the benefits of our virtualization technology and subsequently purchase advanced versions of our solutions. Our free software offerings, together with more than 400 third-party applications distributed in virtual appliances, provide an entry point for potential customers that can lead to additional product sales and broad adoption of our technology. We also host our annual VMworld industry conference to increase global awareness of virtualization solutions.

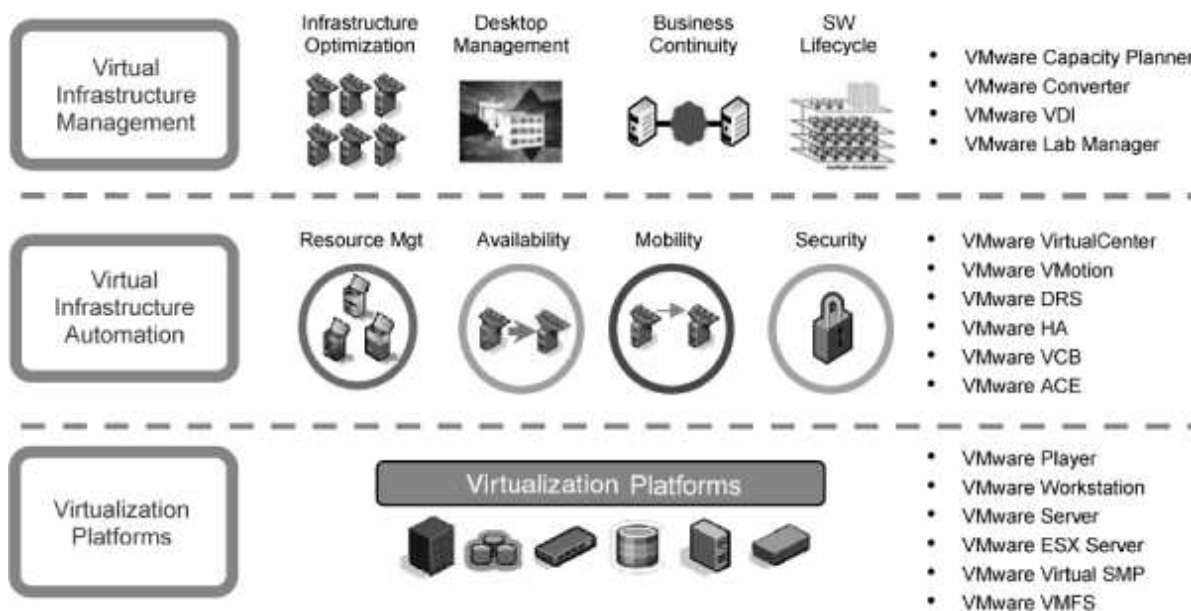
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Our Products and Technology

We offer a broad portfolio of products that spans the consumer desktop to the enterprise data center. Our products generally fall into three categories (see Exhibit 3):

- *Virtualization Platforms.* Our virtualization platforms include a hypervisor for system partitioning that provides the capability to safely, securely and efficiently run multiple operating systems simultaneously on the same physical machine. Our platforms range from free, entry-level products for the desktop and server to more feature-rich desktop and server platforms.
- *Virtual Infrastructure Automation.* Our virtual infrastructure automation products utilize the unique benefits of our virtualization platforms to automate system infrastructure services, such as resource management, availability, mobility and security. By deploying our virtual infrastructure automation products with our virtualization platforms, VMware customers can reduce the operational complexity of their environments.
- *Virtual Infrastructure Management.* Unlike our virtual infrastructure automation products, which improve the runtime availability and reliability of the virtual machines, our virtual infrastructure management products automate the interaction between various IT constituencies and the virtual infrastructure for a specific set of point solutions. These solutions range from capacity sizing and assessment to development lab management.

Exhibit 3: VMware Product Portfolio



Virtualization Platform Products

- *VMware Player.* VMware Player is a free virtualization platform that enables individuals to run virtual machines on their desktops but does not allow virtual machine creation. We use VMware Player primarily as an awareness tool to familiarize individuals with the concept of virtual machines. VMware Player has been downloaded more than 2.6 million times since it was made generally available in December 2005.
- *VMware Workstation.* VMware Workstation is a desktop virtualization product for software developers and enterprise IT professionals who need to run multiple operating systems simultaneously

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on a single desktop. Users can run Windows, Linux, NetWare or Solaris x86 in fully networked, portable virtual machines with no rebooting or hard drive partitioning required. VMware Workstation delivers excellent performance and advanced features, such as memory optimization and the ability to manage multi-tier configurations and multiple snapshots.

- **VMware Server.** VMware Server is a free virtualization platform that enables simple partitioning of a server into multiple virtual machines. VMware Server runs as an application on top of an existing Windows or Linux operating system, unlike our VMware ESX Server platform, which runs its own microkernel. VMware Server is principally an awareness tool for administrators to become familiar with virtualization, though customers may opt to pay an annual support and subscription fee if they would like the product supported in a production or test environment. VMware Server has been downloaded more than 1.7 million times since it was made generally available in November 2006.
- **VMware ESX Server.** VMware ESX Server is our enterprise-class virtualization platform that runs directly on the hardware with its own microkernel and requires no third-party operating system. VMware ESX Server is designed expressly for the purpose of running virtual machines securely, efficiently and flexibly. VMware ESX Server's microkernel architecture provides numerous efficiencies and performance benefits, including advanced resource management features, such as memory over-commitment and share-based resource allocations to guarantee quality of service. VMware ESX Server also has built-in redundancy features, such as device teaming and storage multi-pathing, to mitigate the risk of any component failure in a high-density, shared environment.
- **VMware Virtual SMP.** VMware Virtual SMP enables a single virtual machine to use up to four physical processors simultaneously, thereby allowing customers to run processor- and resource-intensive applications in virtual machines.
- **VMware VMFS.** VMware VMFS is a clustered file-system and volume manager that enables multiple ESX Servers to safely, efficiently and reliably share block-based storage. It was designed expressly for the purpose of handling virtual machines and is required to enable reliable use of our Virtual Infrastructure Automation products.

Virtual Infrastructure Automation Products

- **VMware VirtualCenter.** VMware VirtualCenter provides a central point of control to provision, monitor and manage a virtualized IT environment. VMware VirtualCenter also manages the runtime coordination of infrastructure automation products, such as VMware VMotion, VMware DRS and VMware HA, and provides outbound software interfaces for network and systems management software vendors to incorporate these technologies and other elements of virtual machine management into their user consoles.
- **VMware VMotion.** VMware VMotion allows users to move virtual machines with running applications and operating systems from one physical machine to another with no service interruption or data loss. Our customers have used VMware VMotion for more than three years to improve service levels delivered to their end users. Customers typically use VMware VMotion to perform zero-downtime planned hardware maintenance, non-disruptive server migration or dynamic resource repurposing.
- **VMware DRS.** VMware DRS creates resource pools from an aggregation of physical servers. VMware DRS dynamically allocates virtual machines to resource pools on demand. Once virtual machines have been provisioned, VMware DRS continuously monitors utilization across the resource pool and intelligently balances a collection of virtual machines across the servers in the resource pool using VMware VMotion. The VMware DRS resource management policies may be driven by pre-defined and automated rules that reflect business needs and priorities. VMware DRS delivers higher quality of service by managing resource commitments in a shared environment.
- **VMware HA.** VMware HA provides automated recovery from hardware failure for any application running in a virtual machine, regardless of its operating system or underlying hardware configuration.

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The technology includes an in-memory, replicated database across all of the VMware ESX Servers in a resource pool that tracks the status of every virtual machine. In the event of a failure, affected virtual machines are immediately recovered onto alternate systems. This technology addresses a key need to make workloads instantly recoverable to mitigate the impact of hardware failures in a shared environment.

- **VMware Consolidated Backup.** VMware Consolidated Backup (VCB) enables LAN-free, automated backup of virtual machines from a centralized backup proxy. The product includes software utilities for third-party backup products to efficiently snapshot and back up running virtual machines from a single, secure proxy server. VCB can be used to perform both file-level and full-system backup and recovery with an existing backup infrastructure. It provides a critical, zero-downtime solution to manage the increased density of backup operations in a highly utilized shared environment.
- **VMware ACE.** VMware ACE enables desktop administrators to lock down desktop endpoints and protect critical company resources against the risks presented by unmanaged desktops. With VMware ACE, desktop administrators package an IT-managed desktop within a secured virtual machine and deploy it to an unmanaged physical desktop. Once installed, VMware ACE provides a suite of automated security policies around the virtual machine, such as encryption, expiration, network and device access policies, transforming the unmanaged desktop to ensure compliance with security policies.

Virtual Infrastructure Management Products

- **VMware Capacity Planner.** VMware Capacity Planner is a hosted application that enables VMware service providers to perform capacity assessments onsite at a customer facility. The service provider installs and runs a collector at the customer facility that conducts agent-less discovery and collection of performance information for all servers in an environment. VMware Capacity Planner loads this performance information into a hosted data warehouse and provides web-based analytics tools and consolidation recommendations to the service provider.
- **VMware Converter.** VMware Converter enables customers to quickly and reliably convert local and remote physical machines into virtual machines. Users may also input third-party image formats or third-party virtual machines into VMware Converter to create virtual machines that run on our platforms.
- **VMware Virtual Desktop Infrastructure.** VMware Virtual Desktop Infrastructure (VDI) enables companies to host individual desktops inside virtual machines running on centralized servers in their data center. Users access these virtual desktops remotely from a physical desktop or a thin client using a remote display protocol. Since applications are managed centrally at the corporate data center, organizations gain better control over their desktop deployments. Unlike other server-based solutions that do not provide a complete desktop experience or require specific architectures, VDI includes full desktop environments familiar to end users and not limited by hardware or location.
- **VMware Lab Manager.** VMware Lab Manager automates the setup, capture, storage and sharing of multi-machine software configurations for development and staging environments. Using VMware Lab Manager, development and test teams can access multiple software configurations and virtual machines on demand through a self-service portal.

Support and Services

We believe that our strong services organization and frequent customer touch points help establish loyal customers that provide references and help promote our technology across various industries. We have implemented a broad services strategy that leverages the professional services organizations of our partners. We have also established our own services offerings to complement our partners' services offerings and to ensure

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customer satisfaction, drive additional sales and promote renewals and upgrades. Our services offerings include customized solutions and onsite support that enable us and our channel partners to provide a positive overall customer experience.

We have established our global customer support organization, VMware Global Support Services, to align with and support our expanding customer base.

- *VMware Global Support Services.* We offer a suite of proactive, top-quality support packages backed by industry-leading expertise. We offer three maintenance programs, Platinum, Gold and Silver, that include our support along with periodic minor updates and enhancements to our products. A majority of our server customers purchase Platinum support. In addition to phone support, our customers have access to an online product support database for help with troubleshooting and operational questions. These programs are offered on an annual or multi-year subscription basis. Our support teams, located in California, Canada, Ireland, India and Japan, provide first response and manage the resolution of customer issues. In addition, we have authorized certain systems vendors to provide support for our products on our behalf.

We also offer a range of professional services under our VMware Professional Services offering, which includes:

- *VMware Consulting Services.* VMware Certified Professionals provide on-site assistance throughout the virtualization adoption lifecycle to accelerate the implementation of our virtualization solutions. VMware Certified Professionals conduct initial assessments and upgrade workshops and prepare detailed implementation project plans. Once customers are ready for standardization across their enterprise, VMware Certified Professionals help integrate virtual infrastructure into enterprise systems and processes.
- *VMware Education Services.* VMware courses provide extensive hands-on labs, case study examples and course materials. Customers work in teams of two on servers located offsite using a variety of remote access technologies.

Technology Alliances

Consistent with our partner-centric strategy, we have engaged a broad group of hardware and software vendors to cooperatively advance virtualization technology through joint marketing, product interoperability, collaboration and co-development. We create opportunity for partners by enabling them to build products that utilize our virtualization technology and create differentiated value through joint solutions.

We have over 200 technology partners with whom we bring joint offerings to the marketplace. We classify our partners as:

- *Independent Hardware Vendors (IHVs).* We have established strong relationships with large system vendors, including IBM, HP, Dell, NEC, Fujitsu, Fujitsu-Siemens and Sun, for joint certification and co-development. We also work closely with Intel, AMD and other IHVs to provide input on product development to enable them to deliver hardware advancements that benefit virtualization users. We coordinate with the leading storage and networking vendors to ensure joint interoperability, as well as to enable our software to access their differentiated functionality.
- *Independent Software Vendors (ISVs).* We partner with leading systems management, infrastructure software and application software vendors to enable them to deliver value-added products that integrate with our VMware Infrastructure suite of products. Our Technology Alliance Program facilitates joint solution creation and coordinated go-to-market activities with our partners. Our ISV partners have distributed over 400 software applications as virtual appliances.

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In addition to developing open APIs, formats and protocols at multiple levels in our products, we provide source code access to select partners in our “Community Source” program to facilitate joint development and partner differentiation. We provide access to our ESX source code to over 300 developers from more than 30 partners for joint development projects. We also work with our industry partners to promote and foster the adoption of industry standards.

We invest in testing and certification infrastructure to rigorously ensure our software works well with major hardware and software products. We have certified over 200 hardware platforms and have successfully tested over 60 operating systems for use with our solutions. We believe that the scale and scope of this effort is a significant competitive advantage.

Research and Development

We have made and intend to make significant investments in research and development. We have assembled a strong group of developers with system-level and system management software expertise. We employ approximately 1,100 professionals in our R&D organization and over 40% of the developers in the R&D organization have advanced degrees. We also have strong ties to leading academic institutions around the world and support academic programs that range from shared source code for research to sabbatical programs for visiting professors.

We prioritize our product development efforts through a combination of engineering-driven innovation and customer and market-driven feedback. Our research and development culture places high value on innovation, quality and open collaboration with our partners. We currently participate in numerous standards groups. For example, we co-chair the Distributed Management Task Force (DMTF) working group on System Virtualization, Partitioning and Clustering and chair the Standard Performance Evaluation Corporation (SPEC) working group on virtualization. We believe the strength of our research and development organization is a competitive differentiator.

Sales and Marketing

We sell our products largely through an indirect network of distributors, resellers, x86 system vendors and systems integrators, with over 75% of our revenue in 2006 derived from this indirect network. 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.

One of our distribution agreements is with Ingram Micro, which accounted for 29% of our revenues in 2006. The agreement under which we receive the substantial majority of our 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. No other indirect sales partner or customer accounted for over 10% of our revenues in 2006.

We also have a direct sales force that complements these efforts. As of March 31, 2007, we had agreements with more than 4,000 channel partners and employed approximately 1,100 sales and marketing personnel. We maintain sales offices in 31 countries.

We primarily sell our software under perpetual licenses, and our sales contracts generally require customers to purchase maintenance for the first year. Our sales cycle ranges from less than 90 days to over a year depending on several factors, including the size and complexity of the customer’s infrastructure.

The competitive landscape in which we operate includes not only other software virtualization vendors, but also traditional hardware solutions. In establishing prices for our products, we take into account, among other

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factors, the value our products and solutions deliver, and the cost of both alternative virtualization and hardware solutions. We believe the significant number of customers who also purchase our software services reflects a clear customer perception as to the value of our software services.

Our marketing efforts focus on communicating the benefits of our solutions and educating our customers, distributors, resellers, x86 system vendors, systems integrators, the media and analysts about the advantages of our innovative virtualization technology. We raise the awareness of our company, market our products and generate sales leads through industry events, public relations efforts, marketing materials, free downloads and our website. On average, our website receives approximately 400,000 unique visitors each week, as measured by a third-party tracking system. We also have created an online community called VMware Technology Network (VMTN) that enables customers and partners to share and discuss sales and development resources, implementation best practices, and industry trends among other topics.

Attendance at VMworld, the largest annual industry conference on virtualization and hosted by VMware, has grown from approximately 1,400 attendees in 2004 to more than 6,700 attendees in 2006. We also offer management presentations, seminars and webinars on our products and topics of virtualization. We believe a combination of these efforts strengthens our brand and enhances our leading market position in our industry.

Customers

Our customers include 100% of the Fortune 100 and over 84% of the Fortune 1,000. As of January 2007, our customer base for our server solutions has grown to include 20,000 organizations of all sizes across numerous industries. Our customer deployments range in size from a single virtualized server for small businesses to up to thousands of virtual machines for our largest enterprise customers. In periodic third-party surveys commissioned by us, our customers indicate very high satisfaction rates with our products and many have indicated a strong preference for repeat purchases. Ingram Micro, one of our distributors, accounted for 29% of our revenues in 2006. No other indirect sales partner or customer accounted for over 10% of our revenues in 2006.

Competition

The virtual infrastructure market is evolving, and we expect to face increased competition in the future. We compete with large and small companies in different segments of the virtualization market, and expect that new entrants will enter the market and may develop technologies that, if commercialized, may compete with our products.

We believe that the key competitive factors in the virtual infrastructure market include:

- the level of innovation, quality and maturity of product offerings;
- the ability to provide full virtual infrastructure solutions;
- the proven track record of formulating and delivering a roadmap of virtualization capabilities;
- pricing of products, individually and in bundles;
- the ability to attract and preserve a large installed base of customers;
- the ability to offer products that support multiple hardware platforms and operating systems;
- the ability to create and maintain partnering opportunities with hardware and infrastructure software vendors and development of robust indirect sales channels; and
- the ability to attract and retain virtualization and systems experts as key employees.

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Microsoft is our primary competitor for virtualization solutions. 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 have developed our virtualization solutions as a software layer between the hardware and the operating system that is not tied to a specific operating system. We believe our approach is differentiated from Microsoft's and delivers significant flexibility and superior economic value to customers.

We also compete with small companies whose products are based on emerging open-source technologies for system virtualization. In addition, we compete with companies that take different approaches to virtualization. However, we believe these solutions offer limited support for heterogeneous operating system deployments. Furthermore, our VMware Infrastructure suite competes with products that provide high availability clustering, workload management and resource management.

We also expect to compete with new entrants to the virtualization market, which may include parties currently selling our products or our current technology partners. Many of our current and future competitors have longer operating histories, greater name recognition and greater financial, sales and marketing and other resources than do we. We believe our market leadership, large customer base, strong partner network, broad and innovative solutions suite and platform-agnostic approach position us favorably to compete effectively for the foreseeable future.

Intellectual Property

To date, the United States Patent and Trademark Office has issued us 22 patents covering various aspects of our server virtualization and other technologies. The granted United States patents will expire beginning in 2018, with the latest granted patent expiring in 2024. We also have numerous United States provisional and non-provisional patent applications pending that cover other aspects of our virtualization and other technologies.

We have been issued trademark registrations in the United States, the European Community and Japan covering the trademarks VMWARE for use in connection with computer software, clothing and reference materials, and VMWORLD for use in connection with educational seminars. VMWARE also is our registered trademark in Australia, Canada, the Republic of Korea, Mexico, Singapore and Taiwan. We also have trademark applications pending to register the VMWARE mark in China, India and Israel. In addition, we have registered trademarks for GSX SERVER and P2V in the United States and for MULTIPLEWORLDS in Japan.

We also rely on intellectual property protections, such as copyrights and trade secrets.

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. United States patent filings are intended to provide the holder with a right to exclude others from making, using, selling or importing in the United States the inventions covered by the claims of granted patents. Our granted United States patents, and to the extent any future patents are issued, any such future patents 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 we may not be able to prevent third parties from infringing these patents. Therefore, the exact effect of our patents and the other steps we have taken to protect our intellectual property cannot be predicted with certainty.

Employees

As of March 31, 2007, we had approximately 3,000 employees in offices worldwide. Of these employees, approximately 1,100 are engaged in sales and marketing, 1,100 in research and development, 500 in support and services and 300 in finance, administration and operations. None of our employees are represented by labor unions, and we consider current employee relations to be good.

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Included in the VMware employees as of March 31, 2007 are approximately 375 EMC employees. We contract with EMC to utilize personnel who are dedicated to work for VMware on a full-time basis. These individuals are located in countries in which we do not currently have a subsidiary and are predominantly dedicated to our marketing efforts. Additionally, we utilize EMC employees in India for our R&D. We use contractors from time to time for temporary assignments and in locations in which we do not currently have subsidiaries. In the event that these contractor resources were not available, we do not believe that this would have a material adverse effect our operations.

Facilities

Our corporate headquarters is located in Palo Alto, California. We have nine office leases and subleases in Palo Alto totaling 387,000 square feet of office space. Globally, we have a total of 39 leases and subleases totaling 610,000 square feet at this time, of which 17 are leases through EMC. Currently, we have no owned properties.

In addition, we are presently constructing our new corporate headquarters in Palo Alto, California. Upon the consummation of the offering, we will purchase from EMC our new headquarter facilities for an amount equal to the cost expended by EMC to date in constructing the facilities, which we estimate will be approximately \$ as of , 2007. This 462,000 square foot office complex will be comprised of six buildings, which are expected to be completed in 2007 and 2008. We expect to relocate to our new corporate headquarters site from our several existing Palo Alto offices as the leases on those properties expire.

We believe that our current facilities, including our new headquarter facilities, are suitable and adequate to meet our current needs, and we intend to add new facilities or expand existing facilities as we add employees. We believe that suitable additional or substitute space will be available as needed to accommodate expansion of our operations.

Legal Proceedings

We are a party to legal proceedings which we consider routine and incidental to our business. Our management does not expect the results of any of these actions to have a material adverse effect on our business, results of operations or financial condition.

MANAGEMENT

Executive Officers and Directors

The names of our executive officers and directors and their ages as of June 1, 2007 are as follows:

Name	Age	Position(s)
Diane B. Greene	51	President, Chief Executive Officer and Director
Carl M. Eschenbach	40	Executive Vice President of Worldwide Field Operations
Mark S. Peek	49	Chief Financial Officer
Rashmi Garde	42	Vice President and General Counsel
Thomas J. Jurewicz	42	Vice President of Finance
Joseph M. Tucci	59	Chairman of the Board of Directors
Michael W. Brown	61	Director
John R. Egan	49	Director
David I. Goulden	48	Director
David N. Stroh	59	Director

Diane B. Greene has been a director of VMware since April 2007 and is a member of our Mergers and Acquisitions Committee. Ms. Greene is a founder of VMware and has served as its President and CEO from its inception in 1998. Ms. Greene has also served as an Executive Vice President of EMC since January 2005. Ms. Greene is also a director of Intuit Inc., a provider of business, financial management and tax solutions for small businesses, consumers and accountants.

Carl M. Eschenbach has been the Executive Vice President of Worldwide Field Operations at VMware since May 2005. Prior to joining VMware in 2002, he was Vice President of North America Sales at Inktomi from 2000 to 2002. He has also held various sales management positions with 3Com Corporation, Lucent Technologies and EMC.

Mark S. Peek has been the Chief Financial Officer at VMware since April 2007. Prior to joining VMware, he served as Senior Vice President and Chief Accounting Officer of Amazon.com, Inc. from July 2002. Prior to joining Amazon.com in April 2000, Mr. Peek spent nineteen years at Deloitte & Touche, the last ten years as a partner.

Rashmi Garde has been the Vice President and General Counsel at VMware since September 2005. She joined the company in 2001. Prior to joining VMware, she was Senior Corporate Counsel at Electronics for Imaging, Inc., a printing technology company, and was an associate with Graham & James LLP and Fenwick & West LLP.

Thomas J. Jurewicz has been the Vice President of Finance at VMware since June 1999 when he joined the company. He acted as our principal financial officer from July 2006 through April 2007. Prior to joining VMware, he was Vice President of Finance at CMC Industries, Inc., a contract manufacturer for technology clients.

Joseph M. Tucci has been the Chairman of the Board of Directors of VMware since April 2007 and is a member of our Mergers and Acquisitions Committee. He is the Chairman, Chief Executive Officer and President of EMC. Prior to joining EMC in January 2000, Mr. Tucci served as Deputy Chief Executive Officer of Getronics N.V., an IT services company, from June 1999 through December 1999 and as Chairman of the Board and Chief Executive Officer of Wang Global, an IT services company, from December 1993 to June 1999. Mr. Tucci is also a director of Paychex, Inc., a provider of payroll, human resources and benefits outsourcing solutions.

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Michael W. Brown has been a director of VMware since April 2007, is the chair of our Audit Committee and is a member of our Compensation and Corporate Governance Committee. Mr. Brown has been an EMC director since 2005. From August 1994 to July 1997, Mr. Brown served as Vice President and Chief Financial Officer of Microsoft Corporation. He was Vice President, Finance of Microsoft from April 1993 to August 1994. He joined Microsoft in December 1989 and served as Treasurer from January 1990 to April 1993. Prior to joining Microsoft, Mr. Brown spent 18 years with Deloitte & Touche LLP in various positions. Mr. Brown is also a director of Administaff, Inc., a professional employer organization providing services such as payroll and benefits administration, and Thomas Weisel Partners Group, Inc., a publicly traded investment bank.

John R. Egan has been a director of VMware since April 2007, is the chair of our Mergers and Acquisitions Committee and is a member of our Audit Committee. Mr. Egan has been a managing partner and general partner in Egan-Managed Capital, a venture capital firm, since October 1998. From May 1997 to September 1998, Mr. Egan served as Executive Vice President, Products and Offerings of EMC. From January 1992 to June 1996, he served as Executive Vice President, Sales and Marketing of EMC. Mr. Egan is also a director of EMC and NetScout Systems, Inc., a provider of network and application performance management solutions.

David I. Goulden has been a director of VMware since April 2007 and is a member of our Audit Committee and our Mergers and Acquisitions Committee. He is Executive Vice President and Chief Financial Officer of EMC. Mr. Goulden served as EMC's Executive Vice President, Customer Operations from April 2004 to August 2006. He served as EMC's Executive Vice President, Customer Solutions and Marketing and New Business Development from November 2003 to April 2004 and as Executive Vice President, Global Marketing and New Business Development from July 2002 to November 2003. Prior to joining EMC, Mr. Goulden served in various roles, including as a member of the Board of Management, President and Chief Operating Officer for the Americas and Asia Pacific, at Getronics N.V.

David N. Strohm has been a director of VMware since April 2007, is the chair of our Compensation and Corporate Governance Committee and is a member of our Mergers and Acquisitions Committee. He has been a Venture Partner of Greylock Partners, a venture capital firm, since January 2001 and was a General Partner of Greylock from 1980 to 2001. He is also a General Partner of several partnerships formed by Greylock. Mr. Strohm is also a director of EMC and was a director of LEGATO Systems, Inc. from its founding in 1988 until its acquisition by EMC in October 2003.

Board of Directors

Our board of directors is composed of six members. Upon the completion of this offering, the board of directors will be divided into three classes, with each class serving for a staggered three-year term. The board of directors will consist of class I directors, ; class II directors, ; and class III directors, . At each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The terms of the class I directors, class II directors and class III directors will expire upon the election and qualification of successor directors at the annual meeting of stockholders held during the calendar years 2008, 2009 and 2010, respectively.

A company of which more than 50% of the voting power is held by a single entity is considered a "controlled company" under the New York Stock Exchange standards. A controlled company need not comply with the applicable New York Stock Exchange corporate governance rules requiring its board of directors to have a majority of independent directors and independent compensation and corporate governance and nominating committees. Because more than 50% of the voting power of our company will be held by EMC immediately following this offering, we will qualify as a "controlled company" under the rules of the New York Stock Exchange. Immediately following this offering, we will avail ourselves of the controlled company exception provided under those rules. However, we plan to voluntarily comply with the requirement that we have an independent compensation and corporate governance committee. We are not required to maintain compliance with these requirements. In the event that we are no longer a controlled company, we will be required to have a

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majority of independent directors on our board of directors and to have compensation and corporate governance and nominating committees that are composed entirely of independent directors, subject to a phase-in period during the first year we cease to be a controlled company.

Committees of the Board of Directors After This Offering

Audit Committee

Our Audit Committee consists of Messrs. Brown, Goulden and Egan. Mr. Brown is the chair of the committee. Messrs. Brown and Goulden are our Audit Committee financial experts. The New York Stock Exchange corporate governance rules require that each issuer has an audit committee of at least three members, and that one independent director (as defined in those rules) be appointed to the audit committee at the time of listing, a majority within 90 days after listing and the entire committee within one year after listing. Mr. Brown is an independent director. We intend to modify the composition of the committee as needed to continue to comply with those rules.

Our Audit Committee will assist with board oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent auditor's qualifications and independence and the performance of our internal audit function and independent auditor and prepares the report required to be prepared by the Audit Committee pursuant to the rules of the SEC for inclusion in our proxy statement. Our board of directors will adopt a written charter for the Audit Committee, which we will make available on our website.

Compensation and Corporate Governance Committee

Our Compensation and Corporate Governance Committee consists of Messrs. Brown and Strohm, each an independent director. Our Compensation and Corporate Governance Committee will recommend compensation for non-employee directors, evaluate and set compensation for the Chairman of our board of directors, our executive officers and monitor all general compensation programs. Subject to the terms of our compensation plans and the consent of the holders of our Class B common stock to the aggregate size of the annual equity award pool pursuant to the terms of our certificate of incorporation, our Compensation and Corporate Governance Committee will have complete discretion to determine the amount, form and structure of compensation payable to our employees and executive officers, including, where appropriate, discretion to increase or decrease awards or to award compensation absent the attainment of performance goals.

Our Compensation and Corporate Governance Committee will also oversee and advise the board of directors with respect to corporate governance matters, assist the board of directors in identifying and recommending qualified candidates for nomination to the board of directors, make recommendations to the board of directors with respect to assignments to committees of the board of directors and oversee the evaluation of the board of directors.

Director Compensation

We have not paid any compensation to members of our board of directors for their services as directors. After completion of this offering, our independent directors will receive annual compensation of \$ and compensation of \$ for each board meeting attended in person and \$ for each board meeting attended via teleconference. In addition, the chairperson of our Audit Committee will receive additional annual compensation of \$. Each committee member other than a committee chairperson will receive \$ for each committee meeting attended in person or via teleconference, and the chairperson of our compensation and corporate governance committee will receive \$ for each committee meeting attended in person or via teleconference. We will also reimburse our directors for reasonable expenses in connection with attendance at board and committee meetings.

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Stock Ownership of Directors & Executive Officers

All of our outstanding common stock is currently owned by EMC and none of our officers or directors owns any of our common stock. The following table sets forth information as of May 15, 2007 with respect to the beneficial ownership of EMC common stock by each of our directors and executive officers, and all of our directors and executive officers as a group. To our knowledge, except as indicated in the footnotes to this table or as provided by applicable community property laws, the persons named in the table have sole investment and voting power with respect to the shares of common stock indicated.

Name	Number of Shares of EMC Common Stock Beneficially Owned(1)	Percent of Outstanding Shares
Diane B. Greene(2)	1,056,154	*
Carl M. Eschenbach(3)	134,718	*
Mark S. Peek	0	*
Rashmi Garde(4)	53,520	*
Thomas J. Jurewicz(5)	112,003	*
Joseph M. Tucci(6)	8,749,205	*
Michael W. Brown(7)	40,000	*
John R. Egan(8)	2,210,594	*
David I. Goulden(9)	1,648,941	*
David N. Strohm(10)	731,176	*
Paul Auvil**	35,783	*
All directors and executive officers as a group (11 persons)(11)	14,772,094	*

* Less than 1%.

** Our former chief financial officer.

- (1) All amounts shown in this column include shares obtainable upon exercise of stock options currently exercisable or exercisable within 60 days of the date of this table.
- (2) Ms. Greene is deemed to own 540,000 of these shares by virtue of options to purchase these shares.
- (3) Mr. Eschenbach is deemed to own 3,885 of these shares by virtue of options to purchase these shares.
- (4) Ms. Garde is deemed to own 9,000 of these shares by virtue of options to purchase these shares.
- (5) Mr. Jurewicz is deemed to own 74,194 of these shares by virtue of options to purchase these shares.
- (6) Mr. Tucci is deemed to own 6,710,000 of these shares by virtue of options to purchase these shares.
- (7) Mr. Brown is deemed to own 10,000 of these shares by virtue of options to purchase these shares.
- (8) Mr. Egan is deemed to own 90,000 of these shares by virtue of options to purchase these shares.
- (9) Mr. Goulden is deemed to own 1,100,000 of these shares by virtue of options to purchase these shares.
- (10) Mr. Strohm is deemed to own 85,200 of these shares by virtue of options to purchase these shares.
- (11) Includes 8,632,279 shares of EMC common stock beneficially owned by all executive officers and directors as a group by virtue of options to purchase these shares. Excludes shares as to which such individuals have disclaimed beneficial ownership.

Compensation Committee Interlocks and Insider Participation

None of our executive officers has served as a director or member of a compensation committee of any other entity that has an executive officer serving as a member of our board of directors.

COMPENSATION DISCUSSION AND ANALYSIS

Named Executive Officers

Our named executive officers are Diane B. Greene, President and Chief Executive Officer; Thomas J. Jurewicz, Vice President of Finance; Carl M. Eschenbach, Executive Vice President of Worldwide Field Operations; Rashmi Garde, Vice President and General Counsel; and Paul Auvil, former Chief Financial Officer. These individuals are referred to as the “Named Executive Officers.” Mr. Auvil voluntarily terminated employment on July 13, 2006.

Background

Prior to June 2007, the elements of the compensation of the Named Executive Officers were determined or approved by EMC. Accordingly, certain elements of the compensation payable to VMware employees, including the Named Executive Officers, relate to compensation arrangements designed by EMC prior to June 2007. These compensation arrangements, as well the compensation arrangements we have adopted since June 2007 and expect to adopt and maintain in the future, are discussed below. Our Compensation Committee may adopt new arrangements or alternative arrangements following this offering in addition to those discussed below.

Objectives of our Executive Compensation Program

It is expected that the objectives of our executive compensation program will be:

- to motivate our executives to achieve our strategic, operational and financial goals;
- to reward superior performance;
- to attract and retain exceptional executives; and
- to align the interests of our executives and our stockholders.

To achieve these objectives, our Compensation and Corporate Governance Committee is expected to implement and maintain compensation plans that tie a substantial portion of our executive compensation to the achievement of pre-determined performance goals and the price of our Class A common stock. Our Compensation Committee may adopt other arrangements as it may determine from time to time to best meet our compensation objectives.

Elements of our Executive Compensation Program

Overview of Compensation Setting Process

Prior to June 2007, compensation for Ms. Greene, who is also an executive officer of EMC, was determined by EMC’s Compensation Committee. Except as noted below, compensation for Ms. Greene was determined by evaluating her role and responsibility and the competitive marketplace. EMC’s Compensation Committee did not “benchmark” Ms. Greene’s compensation to any particular level against the compensation paid by peer groups, but it did compare the elements of her compensation to the competitive marketplace since it reviewed the compensation paid to similarly situated executives at peer group companies. For more information on the peer group that was considered in setting Ms. Greene’s compensation, see “Peer Group” below.

In setting Ms. Greene’s compensation, the EMC Compensation Committee also compared the relative weightings of her base salary, cash incentive bonus opportunities and long-term equity grants and typically placed a strong emphasis on the cash bonus and equity components of the program. In 2006, base salary and cash bonus each represented 50% of her annual compensation opportunity. In a typical year, her long-term equity incentives would represent 80% to 90% of her annual compensation opportunity. In 2006, EMC did not grant any long-term equity incentives to the Named Executive Officers, other than Messrs. Jurewicz and Eschenbach, in light of the long-term equity incentives granted in 2005.

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With respect to the Named Executive Officers other than Ms. Greene, EMC's Compensation Committee was not directly involved in setting their compensation, but did approve the equity awards granted to them by EMC. Prior to the constitution of our Compensation and Corporate Governance Committee in June 2007, Ms. Greene, together with EMC's and VMware's human resources departments, determined the compensation levels of these Named Executive Officers by evaluating each Named Executive Officer's role and responsibility and the competitive marketplace. The competitive marketplace for these individuals was determined by comparing the compensation of these individuals to the compensation payable to similarly situated employees with reference to general survey data. Although survey data was reviewed, compensation was not "benchmarked" to any particular level. In 2006, as in prior years, a strong emphasis was placed on the cash bonus and equity components of the compensation payable to these executives, but salary generally represents a larger portion of their overall compensation than in the case of Ms. Greene.

Peer Group

EMC's Compensation Committee, with the assistance of its independent compensation consultant, Watson Wyatt Worldwide ("Watson Wyatt"), reviewed compensation from published technology industry surveys and from EMC's peer group companies for purposes of comparing EMC's executive compensation program with market practices. For 2006, EMC's compensation peer group companies consisted of 20 companies: Accenture Ltd., Adobe Systems Incorporated, Analog Devices, Inc., Cisco Systems, Inc., CA, Inc., Computer Sciences Corporation, Dell Inc., Electronic Data Systems Corporation, Google Inc., Hewlett-Packard Company, Intel Corporation, International Business Machines Corporation, Microsoft Corporation, Network Appliance, Inc., Oracle Corporation, Perot Systems Corporation, Seagate Technology, Sun Microsystems, Inc., Symantec Corporation, and Yahoo! Inc.

To select the peer group companies, EMC, in consultation with Watson Wyatt, chose companies which compete for talent within EMC's labor markets and which are primarily high technology companies with one or more of computer hardware, computer software or technology professional services businesses. The peer group companies are reviewed and approved by EMC's Compensation Committee. The majority of the peers ranged in size from one-half to three times EMC's size with respect to revenues, market capitalization and/or employee population. With respect to decisions pertaining to compensation paid to Ms. Greene, particular attention was paid by the EMC Compensation Committee to the software companies in the peer group.

EMC reviewed the executive compensation practices of the peer group companies in order to inform the EMC Compensation Committee's decisions with respect to EMC's executive compensation program. The EMC Compensation Committee did not base its compensation decisions with respect to compensation payable to Ms. Greene on any particular "benchmark" of compensation against that paid by its peer group or any other companies. Our Compensation and Corporate Governance Committee, which is in the process of selecting an independent compensation consultant, may select different peer group companies from those selected by EMC and may or may not choose to "benchmark" compensation at any particular level relative to peer companies.

Base Salary

In general, base salaries for the Named Executive Officers are determined by evaluating the responsibilities of the executive's position, the executive's experience and the competitive marketplace. Any future base salary adjustments are expected to take into account changes in the executive's responsibilities, the executive's performance and changes in the competitive marketplace.

Cash Bonus Plans

The Named Executive Officers, as well as many of our employees, participate in our Company Bonus Program, or the Bonus Program. The annual target bonus opportunity under the Bonus Program has two components, the Revenue and Profit Contribution Plan and the Management by Objectives Plan, or MBO.

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Bonus opportunities under the Revenue and Profit Contribution Plan are directly linked to our revenue and profit contribution; bonuses are payable based upon our achievement of revenue and profit contribution targets for the first and second halves of each year. Revenue and profit contribution were chosen as the metrics under this plan because these are key metrics that drive our business. The Revenue and Profit Contribution Plan requires achievement of at least 80% of each of the revenue and profit contribution targets in order for any bonuses to be payable. When the first and second half goals were established for 2006 and 2007, they were set at levels that the EMC Compensation Committee believed to represent significant performance that would involve some difficulty at the 80% threshold, increased difficulty at the target levels, and significant difficulty at the maximum levels, in each case relative to expectations at the time the goals were set. As a result of our strong performance in 2006, payments under the Revenue and Profit Contribution Plan exceeded the targets. The first half goals are set shortly prior to the commencement of the year and the second half goals are set shortly prior to the commencement of the second half. Mr. Auvil was not eligible for a second-half bonus under the Revenue and Profit Contribution Plan as a result of his voluntary termination of employment in July 2006. Mr. Eschenbach does not participate in the Revenue and Profit Contribution Plan portion of the Bonus Program since he participates in a revenue bookings compensation arrangement as described below.

The MBO provides many of our employees, including our Named Executive Officers, with the opportunity to earn first- and second-half cash bonuses contingent upon corporate achievement of revenue and profit contribution targets and individual achievement of performance goals over the same period. The primary purpose of the MBO is to focus our employees on the completion of goals that will help us achieve our long-term strategic objectives. The funding of the MBO for 2006 and 2007 is tied to the achievement of the revenue and profit contribution targets under the Revenue and Profit Contribution Plan.

The MBO is funded at 100% if the revenue and profit targets are met or exceeded; funding decreases if revenue or profit contribution achievement is below target. Performance of at least 80% of each of the revenue and profit contribution targets under the Revenue and Profit Contribution Plan is required in order for the MBO to be funded. The number of goals that may be assigned under the MBO for each six-month period can vary, as well as the relative weighting assigned to the goals. The number of individual performance goals assigned to the Named Executive Officers in the first and second halves of 2006 varied, but typically between four and eight individual performance goals were assigned in each six-month period.

Our Named Executive Officers, except as noted below, each received their target bonuses for the first and second halves of 2006 under the MBO because they achieved all of their individual performance goals and because the MBO was fully funded as the revenue and profit contribution targets under the Revenue and Profit Contribution Plan were exceeded. Mr. Auvil received a payment equal to 80% of his first-half target since not all of his individual performance goals were achieved. Mr. Auvil was not eligible for a second-half bonus given his termination of employment in July of 2006. Although achievement of the MBO goals requires significant and sustained effort, it is expected that individual performance goals under the MBO will be achieved by the Named Executive Officers and, historically, these goals have been achieved by the Named Executive Officers.

Mr. Eschenbach also participates in a revenue bookings compensation arrangement under which he is eligible to receive commissions based on bookings in the first and second halves of each year. For the first half of 2006, if a target level of bookings was achieved, Mr. Eschenbach could earn a commission of \$61,250 and could earn increased commissions as bookings exceeded the target amount. For the second half of 2006, Mr. Eschenbach could earn a commission of \$61,250 if a target level of bookings was achieved and could earn increased commissions for bookings above the target amount. The established bookings targets for the first half and second half of 2007 reflect increases over prior period targets. For 2006, Mr. Eschenbach earned \$197,281 under his revenue bookings compensation arrangement. When the goals were established for Mr. Eschenbach under this arrangement, they were set at levels that Ms. Greene believed to represent significant performance that would involve some difficulty at the threshold revenue bookings level, increased difficulty at the target levels, and significant difficulty at above target levels, in each case relative to expectations at the time the goals were set. Mr. Eschenbach also received a discretionary bonus from EMC's Chief Executive Officer in recognition of his strong performance in 2006.

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Long-Term Equity Incentives

We believe strongly that equity awards will align the interests of our employees with those of our stockholders. To facilitate this alignment, our board of directors adopted the 2007 Equity and Incentive Plan on June 5, 2007 and intends to authorize the exchange offer, which will allow our eligible employees to tender restricted EMC stock or vested and unvested EMC options for restricted VMware stock or unvested VMware options, respectively.

In June 2007, we made broad-based equity awards to our employees to help us achieve our strategic objectives by:

- motivating our employees, including the Named Executive Officers, to achieve our financial goals;
- promoting retention through the use of multi-year vesting schedules; and
- aligning the interests of our employees, including the Named Executive Officers, with our stockholders because the value of our equity awards will be tied to increases in the value of our Class A stock.

Our employees, including the Named Executive Officers, have also been granted EMC stock options, EMC restricted stock and EMC performance-accelerated restricted stock, or PARs. In 2006, the only Named Executive Officers to receive equity awards from EMC were Messrs. Jurewicz and Eschenbach. EMC has not granted any equity awards in 2007 to the Named Executive Officers in light of the adoption of our 2007 Equity and Incentive Plan.

The stock options granted by EMC to our Named Executive Officers vest at the rate of 20% per year on each of the first five anniversaries of the grant date, subject to the recipient's continued employment. The stock options were granted with an exercise price equal to the underlying value of EMC stock on the date of grant. In 2006, Mr. Jurewicz was granted an option to purchase 20,000 shares because of his increased responsibilities in light of Mr. Auvil's departure. In 2006, Mr. Eschenbach was granted a stock option to purchase 125,000 shares and a restricted stock award covering a total of 125,000 shares. Subject to continued service, one-third of the restricted shares will vest on each of the first three anniversaries of the date of grant. Mr. Eschenbach was granted these equity awards in light of retention concerns and in recognition of his responsibilities and performance.

In 2004, the only Named Executive Officer to be granted PARs was Ms. Greene. EMC granted PARs to all of the Named Executive Officers in 2005. The PARs granted by EMC to the Named Executive Officers and to our other employees vest on the fifth anniversary of their grant date, subject to the continued employment of the award recipient. A portion of the PARs may vest at an accelerated rate, generally with respect to one-third or one-quarter of the underlying shares in each of the first three or four years following grant, if annual performance goals are met. In 2004, Ms. Greene was granted 137,500 PARs. The EMC Compensation Committee approved the accelerated vesting of one-third of these PARs in respect of 2006 performance since we achieved the combined first- and second-half targets under the Revenue and Profit Contribution Plan.

The PARs granted in 2005 to the Named Executive Officers required VMware to achieve profit contribution, defined as net income before taxes, interest expense and amortization of intangible assets, of \$143 million and revenue of \$500 million in 2006 in order for the 2006 tranche of the award to vest on an accelerated basis. These goals were established in 2005. Since these targets were achieved, the 2006 tranche of these awards vested on an accelerated basis. In the case of Mr. Eschenbach, the accelerated vesting of 30,000 of the PARs granted to him in 2005 were subject to EMC's achievement of earnings per share targets. Since EMC achieved its 2006 earnings per share target of 63 cents, the 2006 tranche of this award vested on an accelerated basis.

As described below under "Exchange Offer," VMware employees may tender their EMC equity awards for VMware equity awards. Through May 2007, the terms and conditions and the size of the equity awards granted to the Named Executive Officers were approved or determined by EMC. Since June 2007, the terms and conditions and the size of VMware equity awards have been, and in the future will be, determined or approved by

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our Compensation and Corporate Governance Committee, subject to the consent of the holders of our Class B common stock to the aggregate size of the annual equity award pool pursuant to our certificate of incorporation.

2007 Equity and Incentive Plan

Our board of directors adopted the 2007 Equity and Incentive Plan on June 5, 2007. The plan is a comprehensive incentive compensation plan which permits us to grant both equity-based and non-equity based compensation awards to employees and independent contractors of VMware and its subsidiaries, to certain employees of EMC who are assigned to perform services exclusively for VMware and to our non-employee directors. The purpose of the plan is to attract, motivate and retain such persons and to encourage stock ownership by such persons, thereby aligning their interest with those of our stockholders.

Awards under the 2007 Equity and Incentive Plan may be in the form of stock options (either incentive stock options or non-qualified stock options), or other stock-based awards, including awards of restricted stock, restricted stock units and stock appreciation rights. The plan also provides for the grant of cash-based awards. The following is a summary of the principal types of awards available under the plan:

- ***Stock Options.*** Stock options represent the right to purchase shares of our Class A common stock within a specified period of time at a specified price. The exercise price for a stock option will be not less than 100% of the fair market value of the common stock on the date of grant. Stock options will have a maximum term of ten years from the date of grant. Stock options granted may include those intended to be “incentive stock options” within the meaning of Section 422 of the Code.
- ***Restricted Stock and Restricted Stock Units.*** Restricted stock is a share of our Class A common stock that is subject to a risk of forfeiture or other restrictions that will lapse subject to the recipient’s continued employment or the attainment of performance goals. Restricted stock units represent the right to receive shares of our Class A common stock in the future (or cash determined by reference to the value of our Class A common stock), with the right to cash or future delivery of the shares also subject to the recipient’s continued employment or the attainment of performance goals.
- ***Stock Appreciation Rights.*** Stock appreciation rights entitle the holder upon exercise to receive cash or shares of our Class A common stock having a value equal to the excess of (i) the value of the number of shares with respect to which the right is being exercised (which value is based on fair market value at the time of such exercise) over (ii) the exercise price applicable to such shares. The exercise price for a stock appreciation right will be not less than 100% of the fair market value of our Class A common stock on the date of grant.
- ***Other Stock-Based or Cash-Based Awards.*** Our Compensation and Corporate Governance Committee will be authorized to grant awards in the form of other stock-based awards or other cash-based awards, as deemed to be consistent with the purposes of the 2007 Equity and Incentive Plan. The maximum value of the aggregate payment with respect to cash-based awards under the 2007 Equity and Incentive Plan in respect of an annual performance period is \$5 million.

The maximum number of shares reserved for the grant or settlement of awards under the 2007 Equity and Incentive Plan is 80 million, and not more than 3 million shares may be granted to any plan participant under the plan in any twelve-month period, subject in each case to adjustment in the event of a dividend or other distribution, recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase or share exchange or other similar corporate transaction. In addition to the shares referenced in the preceding sentence, the shares subject to awards granted pursuant to the exchange offer (described below) will be issued under the plan. Any shares subject to awards which are cancelled, forfeited or otherwise terminated or satisfied without the issuance of shares will again be available for grants under the plan.

Our Compensation and Corporate Governance Committee administers the 2007 Equity and Incentive Plan. The Compensation and Corporate Governance Committee has the ability to: select individuals to receive

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awards; select the types of awards to be granted; determine the terms and conditions of the awards, including the number of shares, the purchase price of the awards, and restrictions and performance goals relating to any award; establish the time when the awards and/or restrictions become exercisable, vest or lapse; determine whether options will be incentive stock options; and make all other determinations deemed necessary or advisable for the administration of the plan. The Compensation and Corporate Governance Committee may grant awards which, in the event of a “change in control” of VMware, become fully vested and exercisable.

Under the 2007 Equity and Incentive Plan, awards are generally non-transferable other than by will or by the laws of descent and distribution. However, our Compensation and Corporate Governance Committee in its sole discretion may grant transferable nonqualified stock options that upon becoming fully vested and exercisable may be transferred to a third-party pursuant to an auction process approved or established by VMware.

Our board of directors may amend, alter or discontinue the 2007 Equity and Incentive Plan, but no amendment, alteration or discontinuation will be made that would impair the rights of a participant under any award granted without such participant’s consent. In addition, stockholder approval may be required with respect to certain amendments, due to stock exchange rules or requirements of applicable law. The 2007 Equity and Incentive Plan, unless sooner terminated by our board of directors, will remain in effect through the tenth anniversary of its adoption.

In anticipation of becoming a public company, in June 2007, our Compensation and Corporate Governance Committee made broad-based grants of options to purchase approximately 29 million shares of Class A common stock at an exercise price of \$23 per share and issued approximately 450 thousand restricted stock units under the 2007 Equity and Incentive Plan. Subject to continued employment, 25% of the stock options will vest on the first anniversary of the grant date and the remaining 75% of the stock options will vest in equal monthly installments thereafter over three years. Our active Named Executive Officers, as well as Mr. Peek, our Chief Financial Officer, received the following stock option grants:

Name	Shares Subject to Stock Options
Diane B. Greene	1,000,000
Carl M. Eschenbach	350,000
Mark S. Peek	250,000
Rashmi Garde	200,000
Thomas J. Jurewicz	50,000

Exchange Offer

Prior to the consummation of this offering, EMC and VMware will commence an exchange offer pursuant to which eligible VMware employees will be able to substitute restricted EMC stock awards for restricted VMware stock awards and vested or unvested EMC options for unvested VMware options. The exchange offer is expected to commence prior to this offering and expire concurrently with the pricing of shares for this offering. Eligible VMware employees who tender vested or unvested EMC options or restricted EMC stock in the exchange offer and do not withdraw the securities prior to the expiration of the exchange offer will be entitled, upon consummation of the exchange offer, to receive unvested VMware options or VMware restricted stock, as applicable, which will preserve the intrinsic value of the tendered EMC award, and the EMC award will be cancelled. The VMware awards will be governed by the terms of the 2007 Equity and Incentive Plan. VMware employees who elect not to tender securities in the exchange offer will continue to hold their EMC options and EMC restricted stock, which will remain subject to the terms of the applicable grant.

Employee Stock Purchase Plan

On June 5, 2007, our board of directors adopted an employee stock purchase plan that is intended to be qualified under Section 423 of the Code. A total of 6,400,000 shares of our Class A shares was reserved for

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issuance under the plan. Under the plan, our employees will be able to purchase shares at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares will first be granted under our employee stock purchase plan on the date this offering is consummated and will be exercisable on December 31, 2007. Thereafter, options to purchase shares will be granted twice yearly, on or about January 1 and July 1, and will be exercisable on or about the succeeding June 30 or December 31.

Retirement Benefits

Our employees, including our Named Executive Officers, are not provided with a defined benefit pension plan or any supplemental executive retirement plans, nor do we or EMC provide the Named Executive Officers with retiree health benefits. Our employees, including our Named Executive Officers, currently may participate in EMC's 401(k) plan. This plan provides for a matching contribution of 6% of the employee's contribution, up to a maximum of \$3,000 per year. The 401(k) plan is provided as a standard element of compensation in the marketplace, designed to assist employees with retirement savings in a tax-advantaged manner. A matching contribution is made to attract and retain employees and because it provides an additional incentive for employees to save for retirement. It is expected that shortly after the consummation of the offering we will adopt a 401(k) plan for our employees and this plan will be similar in design to EMC's 401(k) plan.

Perquisites

Except for reimbursing moving expenses and providing for temporary relocation expenses, we do not provide any perquisites to our Named Executive Officers. These limited perquisites are provided to attract executives to Palo Alto given the high cost of relocating to the Palo Alto area.

Post-Termination Compensation

Except for Mr. Jurewicz, who is entitled to a severance payment equal to three months of his annual salary if his employment is terminated without cause, we do not have "change in control" agreements or any severance agreements with our Named Executive Officers that provide for benefits upon termination of employment or upon a change in control. However, death benefits are provided to our employees by EMC, and EMC equity awards granted to our employees will vest in event of death, disability or retirement. In addition, EMC equity awards held by our employees will vest in accordance with EMC's 2003 Stock Plan in limited circumstances, such as where EMC is liquidated or dissolved, or if EMC is not the surviving corporation to a merger and the surviving corporation does not issue replacement awards.

Tax Deductibility

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public corporations for compensation greater than \$1 million paid for any fiscal year to the corporation's chief executive officer and four other most highly compensated executive officers as of the end of any fiscal year. However, performance-based compensation is not subject to the \$1 million deduction limit if certain requirements are met. Our Compensation and Corporate Governance Committee may consider the impact of Section 162(m) when designing our cash and equity bonus programs, but may elect to provide compensation that is not fully deductible as a result of Section 162(m) if it determines this is in our best interests.

Hedging Policy

We have adopted a policy prohibiting any of our directors or employees, including the Named Executive Officers, from "hedging" their ownership in shares of our common stock or other equity-based interests in us, including by engaging in short sales or trading in derivative securities relating to our common stock.

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Allocation Between Forms of Compensation

In setting compensation for the Named Executive Officers, EMC does not have a formal policy for allocating a certain percentage of compensation between long-term and currently paid out compensation. However, EMC has emphasized long-term equity incentives for its key employees. These incentives represent a large portion of the compensation opportunity provided to the Named Executive Officers. We expect that our Compensation and Corporate Governance Committee will place a similar emphasis on long-term equity incentives, and like EMC, will not adopt a formal policy for allocating between cash and non-cash compensation. The Named Executive Officers did not receive any non-cash compensation from EMC in 2006 other than shares of EMC's common stock. Except for non-cash compensation payable in shares of our Class A common stock, we do not expect that non-cash compensation will make up more than a de minimis portion of the compensation payable to the Named Executive Officers.

Material New Hire

In April of 2007, we hired Mark Peek as our Chief Financial Officer at an annual base salary of \$400,000 and with an annual bonus target of \$225,000 under the Bonus Program. Mr. Peek received a sign-on bonus of \$67,000 net of taxes and will receive relocation assistance of \$7,000 per month for the first 24 months of his employment. We also agreed to grant Mr. Peek options to purchase 250,000 shares of our Class A common stock on the date of the consummation of this offering; however, since our Compensation and Corporate Governance Committee decided to grant stock options in advance of the offering, these options were granted to Mr. Peek on June 7, 2007.

In respect of equity that Mr. Peek forfeited when he left his prior employer, EMC had agreed to grant Mr. Peek EMC restricted stock awards with a value equal to the value of the stock options and restricted stock that Mr. Peek forfeited. Mr. Peek subsequently agreed that in lieu of these EMC equity awards he would instead be granted 433,216 VMware restricted stock units under the 2007 Equity and Incentive Plan. Mr. Peek's restricted stock units have terms that provide for 3-year cliff vesting, with performance acceleration in each of the first three years following achievement of certain performance goals. These restricted stock unit awards were granted to Mr. Peek to recruit him from his prior employer. Going forward, it is not expected that the structure or amount of his compensation will be materially different from that provided to our Named Executive Officers.

COMPENSATION OF EXECUTIVE OFFICERS

Summary Compensation Table

The table below summarizes the compensation information in respect of the Named Executive Officers for the fiscal year ended December 31, 2006. The amounts shown in the Stock Awards and Option Awards columns show the cost recognized under FAS 123R in respect of awards from prior years, not the actual amounts paid to or realized by the Named Executive Officers in 2006. For more information on FAS 123R, see footnote 1 below.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards ⁽¹⁾ (\$)	Option Awards ⁽¹⁾ (\$)	Non-Equity Incentive Plan Compensation ⁽²⁾ (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation ⁽³⁾ (\$)	Total (\$)
Diane B. Greene President and Chief Executive Officer	2006	350,000	—	4,222,824	1,394,567	449,708	—	—	6,417,099
Thomas J. Jurewicz Vice President of Finance	2006	207,500	—	203,595	20,963	68,959	—	3,000	504,017
Carl M. Eschenbach Executive Vice President of Worldwide Field Operations	2006	355,000	112,500 ⁽⁴⁾	921,534	134,593	319,781	—	3,000	1,846,408
Rashmi Garde Vice President and General Counsel	2006	250,000	—	326,027	17,150	89,194	—	3,000	685,371
Paul Auvil ⁽⁵⁾ Former Chief Financial Officer	2006	151,875	—	58,333	37,275	49,500	—	2,250	299,233

- (1) The amounts shown represent the compensation costs for financial reporting purposes of previously granted EMC stock awards and EMC stock options recognized for the year ended December 31, 2006 under FAS 123R, rather than an amount paid to or realized by the Named Executive Officer. The FAS 123R value as of the grant date for stock awards and stock options is spread over the number of months of service required for the grant to become non-forfeitable. The amount disclosed disregards estimates of forfeitures of awards that are otherwise included in the financial statement reporting for such awards. Ratable amounts expensed for stock awards and stock options that were granted in years prior to 2006 are also reflected in this column. There can be no assurance that the FAS 123R amount will ever be realized. Given his termination of employment, Mr. Auvil forfeited 150,000 shares of restricted stock and stock options for 100,000 shares.
- (2) Represents incentive compensation earned for the fiscal year ended December 31, 2006 under the Bonus Program. \$87,500, \$22,000, \$28,750, \$122,500 and \$37,500 was earned under the MBO component of the Bonus Program by Ms. Greene, Mr. Auvil, Mr. Jurewicz, Mr. Eschenbach and Ms. Garde, respectively. \$362,208, \$27,500, \$40,209, and \$51,694 was earned under the Revenue and Profit Contribution Plan component of the Bonus Program by Ms. Greene, Mr. Auvil, Mr. Jurewicz and Ms. Garde, respectively. Mr. Eschenbach earned \$197,281 under his revenue bookings compensation arrangement. For more details on the Bonus Program, see “Compensation Discussion and Analysis—Cash Bonus Plans.”
- (3) Represents a matching contribution to the EMC 401(k) plan.
- (4) Represents a discretionary bonus paid to Mr. Eschenbach at the discretion of EMC’s Chief Executive Officer.
- (5) Mr. Auvil voluntarily terminated employment on July 13, 2006.

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Grants of Plan-Based Awards

The following table sets forth information concerning non-equity incentive plan grants to the Named Executive Officers during the fiscal year ended December 31, 2006. The non-equity incentive plans consist of the bonus plans that are described in “Compensation Discussion and Analysis—Cash Bonus Plans.” The actual amounts realized in respect of the non-equity plan incentive awards are reported in the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column. The table also sets forth information with respect to stock awards and option awards granted by EMC during the fiscal year ended December 31, 2006.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards ⁽¹⁾
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	of Stock or Units (#)			
Diane B. Greene	N/A	—	87,500	87,500 ⁽²⁾	—	—	—	—	—	—	—
	N/A	210,000	262,500	393,750 ⁽³⁾							
Thomas J. Jurewicz	5/3/2006				—	—	—	—	20,000 ⁽⁴⁾	13.37	93,295
	N/A	—	31,125	31,125 ⁽²⁾							
	N/A	24,900	31,125	46,688 ⁽³⁾							
Carl M. Eschenbach	5/3/2006				—	—	—	125,000	125,000 ⁽⁵⁾	13.37	2,254,344
	N/A	—	122,500	122,500 ⁽²⁾							
	N/A	122,500	N/A	N/A ⁽⁶⁾							
Rashmi Garde	N/A	—	37,500	37,500 ⁽²⁾	—	—	—	—	—	—	—
	N/A	30,000	37,500	56,250 ⁽³⁾							
Paul Auvil	N/A	—	55,000	55,000 ⁽²⁾	—	—	—	—	—	—	—
	N/A	44,000	55,000	82,500 ⁽³⁾							

- (1) This column reflects the grant date fair value computed in accordance with FAS 123(R) of the stock option and restricted stock grants in this table.
- (2) The amounts shown in the target and maximum columns reflect the amount that will be paid if the individual and corporate goals are achieved in the first and second halves of 2006 under the MBO pursuant to the Bonus Program. These amounts are the same because the MBO does not provide for any additional payments for overachievement of goals or for overachievement of the MBO funding goals. For more information on the MBO, see “Compensation Discussion and Analysis—Cash Bonus Plans.”
- (3) The amounts shown in the threshold, target and maximum columns reflect the minimum, target and maximum bonuses payable under the Revenue and Profit Contribution Plan pursuant to the Bonus Program for the first and second halves of 2006. The threshold payment is 80% of the target bonus payment and the maximum bonus payment is 150% of the target bonus payment. For more information on the Revenue and Profit Contribution Plan, see “Compensation Discussion and Analysis—Cash Bonus Plans.”
- (4) Mr. Jurewicz was granted stock options for 20,000 shares. One-fifth of these stock options will vest on the first five anniversaries of the date of grant subject to continued employment.
- (5) Mr. Eschenbach was granted stock options for 125,000 shares and was granted 125,000 shares of restricted stock. One-fifth of these stock options will vest on the first five anniversaries of the date of grant subject to continued employment. One-third of the restricted shares will vest on the first three anniversaries of the date of grant, subject to continued employment.
- (6) The amount shown in the threshold column reflects the amount that will be paid under Mr. Eschenbach’s revenue bookings compensation arrangement if the target is met. No payments are made unless the target is achieved. There is no maximum payment payout under the arrangement because the bonus is tied to revenue bookings which are not capped.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information concerning EMC stock options and EMC stock awards held by the Named Executive Officers as of December 31, 2006. The market and payout values for unvested stock awards are calculated based on a market value of \$13.20 per share (the closing market price of EMC's common stock on December 29, 2006) multiplied by the number of shares subject to the award. All stock options shown in this table vest at the rate of 20% per year over the first five years of the ten-year option term, subject to the Named Executive Officer's continued employment. For more information on equity awards made to the Named Executive Officers see "Compensation Discussion and Analysis—Long-Term Equity Incentives."

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Equity Incentive Plan Awards Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date ⁽¹⁾	Number of Shares or Units of Stock Held That Have Not Vested (#)	Market Value of Shares or Units of Stock Held That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Diane B. Greene	80,000	320,000 ⁽²⁾	—	14.49	7/22/2015	541,666 ⁽³⁾	7,149,991	—	—
	160,000	240,000 ⁽⁴⁾	—	12.85	10/28/2014				
	200,000	300,000 ⁽⁵⁾	—	11.19	4/29/2014				
Thomas J. Jurewicz	—	20,000 ⁽⁶⁾	—	13.37	5/3/2016	30,000 ⁽⁷⁾	396,000	—	—
	3,000	4,500 ⁽⁵⁾	—	11.19	4/29/2014				
	26,633	—	—	1.27	4/14/2013				
	12,428	—	—	1.27	5/16/2012				
	26,633	—	—	1.27	1/17/2012				
Carl M. Eschenbach	—	125,000 ⁽⁶⁾	—	13.37	5/3/2016	201,250 ⁽⁸⁾	2,656,500	—	—
	—	30,000 ⁽⁵⁾	—	11.19	4/29/2014				
	7,214	—	—	2.26	12/10/2013				
	3,700	—	—	1.27	4/14/2013				
Rashmi Garde	6,000	9,000 ⁽⁵⁾	—	11.19	4/29/2014	62,500 ⁽⁹⁾	825,000	—	—
	6,214	—	—	1.27	4/14/2013				
	12,947	—	—	1.27	3/13/2012				
	2,775	—	—	1.13	1/19/2011				
Paul Auvil	—	—	—	—	—	—	—	—	—

(1) The grant date of each stock option is ten years prior to its expiration date.

(2) One-quarter of these options will vest on each of July 22 of 2007, 2008, 2009 and 2010, subject to continued employment.

(3) Ms. Greene was granted 137,500 PARs on October 28, 2004 and 600,000 PARs on July 22, 2005. Subject to continued employment, the PARs will fully vest on the fifth anniversary of grant; provided, however, that the PARs granted in 2004 may vest at an accelerated rate with respect to one-third of the underlying shares in each of the first three years following grant if annual performance goals are met and the PARs granted in 2005 may vest at an accelerated rate with respect to one-quarter of the underlying shares in each of the first four years following grant if annual performance goals are met. On January 30, 2007, one-third of the PARs granted in 2004 vested as a result of the achievement of the underlying performance goal for 2006. On January 30, 2007, one-quarter of the PARs granted in 2005 vested due to the achievement of the performance goal for 2006. One-quarter of the PARs granted in 2005 vested prior to the end of 2006 in light of strong VMware performance in 2005 and the beta development of a new product and its availability in 2006.

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- (4) One-third of these options will vest on each of October 28 of 2007, 2008 and 2009, subject to continued employment.
- (5) One-third of these options will vest on each of April 29 of 2007, 2008 and 2009, subject to continued employment.
- (6) One-fifth of these options will vest on each of May 3 of 2007, 2008, 2009, 2010 and 2011, subject to continued employment.
- (7) Mr. Jurewicz was granted 40,000 PARs on May 17, 2005. Subject to continued employment, the PARs will fully vest on the fifth anniversary of the date of grant; provided, however, that the PARs may vest at an accelerated rate with respect to one-quarter of the underlying shares in each of the first four years following grant if annual performance goals are met. On January 30, 2007, one-quarter of the PARs granted in 2005 vested due to the achievement of the performance goal for 2006. The vesting of one-quarter of the PARs granted in 2005 vested prior to the end of 2006 in light of strong VMware performance in 2005 and the beta development of a new product and its availability in 2006.
- (8) Mr. Eschenbach was granted 125,000 shares of restricted stock on May 3, 2006. One-third of these shares will vest subject to continued employment on each of May 3, 2007, 2008 and 2009. Mr. Eschenbach was granted 105,000 PARs on May 17, 2005. Subject to continued employment, these PARs will fully vest on the fifth anniversary of grant; provided, however, that the 30,000 of these PARs may vest at an accelerated rate with respect to one-third of the underlying shares in each of the first three years following grant if annual performance goals are met and 75,000 of these PARs may vest at an accelerated rate with respect to one-quarter of the underlying shares in each of the first four years following grant if annual performance goals are met. One-third of the 30,000 PARs granted in 2005 vested in 2006 as a result of the achievement of the underlying performance goal for 2005 and one-quarter of the 75,000 PARs granted in 2006 vested prior to the end of 2006 in light of strong VMware performance in 2005 and the beta development of a new product and its availability in 2006.
- (9) Ms. Garde was granted 50,000 PARs on May 17, 2005 and 25,000 PARs on October 17, 2005. Subject to continued employment, these PARs will fully vest on the fifth anniversary of the date of grant; provided, however, that the PARs may vest at an accelerated rate with respect to one-quarter of the underlying shares in each of the first four years following grant if annual performance goals are met. On January 30, 2007, one-quarter of the PARs granted in May and October vested due to the achievement of the performance goal for 2006. One-quarter of the PARs granted in May vested in prior to the end of 2006 in light of strong VMware performance in 2005 and the beta development of a new product and its availability in 2006.

Option Exercises and Stock Vested

The following table provides information regarding options and stock awards exercised and vested, respectively, for the Named Executive Officers during the fiscal year ended December 31, 2006.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized Upon Exercise (\$) ⁽¹⁾	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) ⁽²⁾
Diane B. Greene	—	—	195,834	2,452,876
Thomas J. Jurewicz	—	—	8,000	95,780
Carl M. Eschenbach	47,189	360,438	25,000	313,588
Rashmi Garde	—	—	10,000	119,725
Paul Auvil	354,821	3,623,789	40,000	478,900

(1) Represents the difference between the exercise price and the fair market value of EMC common stock on the date of exercise for each option.

(2) Represents the fair market value of the EMC common stock on the applicable vesting date, multiplied by the number of shares of restricted stock that vested on that date.

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Pension Benefits

Our employees are not provided with pension benefits.

Nonqualified Deferred Compensation

Our employees are not provided with a nonqualified deferred compensation plan.

Potential Payments Upon Termination or Change of Control

The tables below reflect the compensation and benefits due to each of the Named Executive Officers in the event of termination of employment. The compensation and benefits payable to each Named Executive Officer upon a voluntary termination, an involuntary for cause termination, an involuntary termination other than for cause, upon a change in control, a termination due to death or disability and upon the Named Executive Officer's retirement is shown below. Except for Mr. Auvil, the amounts shown assume that each termination of employment was effective as of December 29, 2006, and the fair market value of EMC's common stock was \$13.20, the closing price of its common stock on the New York Stock Exchange, on that date. The amounts shown in the table are estimates of the amounts which would be paid upon termination of employment. The actual amounts to be paid can only be determined at the time of the termination of employment.

Payments and Benefits upon any Termination

Employees, including the Named Executive Officers, are entitled to receive earned and unpaid compensation upon any termination of employment. Accordingly, subject to the exceptions noted below, upon any termination of employment the Named Executive Officers will only receive accrued but unused vacation pay. In addition, except as noted below, all unvested stock awards will terminate upon any termination of employment and all stock options granted to the Named Executive Officers after January 2004, whether vested or unvested, will also terminate under EMC's 2003 Stock Incentive Plan. Stock options granted prior to January 2004, which are all vested, will remain exercisable upon a termination of employment for not less than 90 days.

Voluntary Termination

A Named Executive Officer who voluntarily terminates employment is not entitled to any benefits other than those that are paid to all employees upon any termination of employment as described above.

Involuntary Termination For Cause

A Named Executive Officer whose employment is terminated for cause is not entitled to any benefits other than those that are paid to all employees upon any termination of employment as described above.

Involuntary Termination Without Cause

Except for Mr. Jurewicz, who is entitled to a severance payment equal to three months of his annual salary if his employment is terminated without cause, the Named Executive Officers are not contractually entitled to any compensation or benefits other than those that are paid to all employees upon any termination of employment as described above. The provision of any compensation and benefits would be made at the discretion of the Compensation and Corporate Governance Committee. However, if one of our employee's employment is terminated in connection with a reduction in force, a pro rata portion of the PARs granted to the employee will vest if the performance goals are subsequently achieved. Since it is unlikely the Named Executive Officers would be terminated in connection with a reduction in force, the tables below do not include an estimate of the value of PARs that would potentially vest if the performance goals were subsequently achieved.

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Change in Control

Our Named Executive Officers do not have change in control agreements. However, EMC equity awards granted to VMware employees under EMC's 2003 Stock Incentive Plan will vest if EMC is not the surviving corporation to a merger and the surviving corporation does not issue replacement awards.

Death

In addition to providing the benefits that are provided to all employees generally upon any termination of employment, upon an employee's death, the employee's survivors will continue to receive the employee's base salary for six months and we will make a \$10,000 contribution to a tax-qualified education fund in respect of each of the deceased employee's minor children. In addition, for those employees who hold equity awards granted under EMC's 2003 Stock Incentive Plan, unvested stock options and stock awards will immediately vest and all options held by the employee prior to his or her death will remain exercisable for three years.

Disability

We do not have guidelines for providing compensation or benefits upon an employee's disability other than providing the benefits that are provided to all employees generally upon any termination of employment. However, for those employees who hold equity awards granted under EMC's 2003 Stock Incentive Plan, unvested stock options and stock awards will immediately vest, and all options held by any EMC employee prior to his or her termination for disability will remain exercisable for three years.

Retirement

We do not provide any retirement benefits to the Named Executive Officers, other than the matching 401(k) plan contributions of up to \$3,000 per year that are provided to all employees who participate in EMC's 401(k) plan.

However, employees are generally entitled to continued vesting and exercisability with respect to their EMC equity awards if they are retirement eligible under EMC's equity plans. For this purpose, employees are eligible to retire if they voluntarily terminate employment after 20 years of service or after they have attained age 55 with five years of service and provided they give six months' advance notice. None of the Named Executive Officers are retirement eligible.

Diane B. Greene

The following table shows the potential payments and benefits that will be provided under each of the scenarios discussed above.

Element	Voluntary Termination (\$)	Involuntary Termination For Cause (\$)	Involuntary Termination Without Cause (\$)	Change in Control (\$)	Death (\$)	Disability (\$)	Retirement (\$)
Incremental Benefits Pursuant to Termination Event							N/A
Cash Severance	—	—	—	—	175,000	—	
Tax Qualified Education Fund Contribution	—	—	—	—	20,000	—	
In-the-Money Value of Accelerated Stock Options	—	—	—	687,000	687,000	687,000	
Value of Accelerated Restricted Stock	—	—	—	<u>7,149,991</u>	<u>7,149,991</u>	<u>7,149,991</u>	
Total Value: Incremental Benefits	—	—	—	<u>7,836,991</u>	<u>8,031,991</u>	<u>7,836,991</u>	

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In addition, Ms. Greene will also be entitled to exercise her vested in-the-money stock options upon any termination of employment (other than a termination for cause with respect to stock options granted after January 2004). As of December 29, 2006, these stock options had a cash value of \$458,000.

Thomas J. Jurewicz

The following table shows the potential payments and benefits that will be provided under each of the scenarios discussed above.

Element	Voluntary Termination (\$)	Involuntary Termination For Cause (\$)	Involuntary Termination Without Cause (\$)	Change in Control (\$)	Death (\$)	Disability (\$)	Retirement (\$)
Incremental Benefits Pursuant to Termination Event							N/A
Cash Severance	—	—	51,875	—	103,750	—	
Tax Qualified Education Fund Contribution	—	—	—	—	40,000	—	
In-the-Money Value of Accelerated Stock Options	—	—	—	9,045	9,045	9,045	
Value of Accelerated Restricted Stock	—	—	—	<u>396,000</u>	<u>396,000</u>	<u>396,000</u>	
Total Value: Incremental Benefits	—	—	51,875	<u>405,045</u>	<u>548,795</u>	<u>405,045</u>	

In addition, Mr. Jurewicz will also be entitled to exercise his vested in-the-money stock options upon any termination of employment (other than a termination for cause with respect to stock options granted after January 2004). As of December 29, 2006, these stock options had a cash value of \$789,759.

Carl M. Eschenbach

The following table shows the potential payments and benefits that will be provided under each of the scenarios discussed above.

Element	Voluntary Termination (\$)	Involuntary Termination For Cause (\$)	Involuntary Termination Without Cause (\$)	Change in Control (\$)	Death (\$)	Disability (\$)	Retirement (\$)
Incremental Benefits Pursuant to Termination Event							N/A
Cash Severance	—	—	—	—	177,500	—	
Tax Qualified Education Fund Contribution	—	—	—	—	30,000	—	
In-the-Money Value of Accelerated Stock Options	—	—	—	60,300	60,300	60,300	
Value of Accelerated Restricted Stock	—	—	—	<u>2,656,500</u>	<u>2,656,500</u>	<u>2,656,500</u>	
Total Value: Incremental Benefits	—	—	—	<u>2,716,800</u>	<u>2,924,300</u>	<u>2,716,800</u>	

In addition, Mr. Eschenbach will also be entitled to exercise his vested in-the-money stock options upon any termination of employment (other than a termination for cause with respect to stock options granted after January 2004). As of December 29, 2006, these stock options had a cash value of \$123,062.

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Rashmi Garde

The following table shows the potential payments and benefits that will be provided under each of the scenarios discussed above.

Element	Voluntary Termination (\$)	Involuntary Termination For Cause (\$)	Involuntary Termination Without Cause (\$)	Change in Control (\$)	Death (\$)	Disability (\$)	Retirement (\$)
Incremental Benefits Pursuant to Termination							
Event							N/A
Cash Severance	—	—	—	—	125,000	—	
Tax Qualified Education Fund Contribution	—	—	—	—	20,000	—	
In-the-Money Value of Accelerated Stock							
Options	—	—	—	18,090	18,090	18,090	
Value of Accelerated Restricted Stock	—	—	—	<u>825,000</u>	<u>825,000</u>	<u>825,000</u>	
Total Value: Incremental Benefits	—	—	—	<u>843,090</u>	<u>988,090</u>	<u>843,090</u>	

In addition, Ms. Garde will also be entitled to exercise her vested in-the-money stock options upon any termination of employment (other than a termination for cause with respect to stock options granted after January 2004). As of December 29, 2006, these stock options had a cash value of \$274,145.

Paul Auvil

Mr. Auvil voluntarily terminated employment with us on July 13, 2006. Mr. Auvil did not receive any benefits other than those described above under “Payments and Benefits upon any Termination.”

Indemnification Agreements and Director and Officer Insurance

We have entered into agreements to indemnify our directors and executive officers. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers. Our directors and officers are insured against certain losses from potential third-party claims for which we are legally or financially unable to indemnify them. We self-insure with respect to potential third-party claims that create a direct liability to such third party or an indemnification duty on our part. Our certificate of incorporation and our bylaws contain provisions that limit the liability of our directors. A description of these provisions is contained under the heading “Description of Capital Stock—Limitation of Liability and Indemnification Matters.”

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

We intend to adopt a policy to address the review, approval or ratification of related person transactions. An investor may obtain a written copy of this policy, once adopted, by sending a written request to VMware, Inc., 3401 Hillview Avenue, Palo Alto, CA 94304, attention: Legal Department.

Prior to this offering, we were a wholly owned subsidiary of EMC. Immediately following this offering, EMC will continue to own approximately % of our common stock (% of our Class A common stock and 100% of our Class B common stock) and will control % of the combined voting power of our common stock. If the underwriters' over-allotment option is exercised in full, immediately following this offering, EMC will own % of our common stock % of our Class A common stock and 100% of our Class B common stock and will control % of the combined voting power of our common stock. EMC will continue to have the power acting alone to approve any action requiring a vote of the majority of our voting shares and to elect all our directors. In addition, until the first date on which EMC or its successor-in-interest ceases to beneficially own 20% or more of the outstanding shares of our common stock, the prior affirmative vote or written consent of EMC as the holder of our Class B common stock or its successor-in-interest will be required for us to authorize a number of significant actions, as set forth below under "Description of Capital Stock—Approval Rights of Holders of Class B Common Stock."

Since our acquisition by EMC in 2004, we have entered into a number of agreements with EMC in the ordinary course of business relating to our business and our relationship with EMC. We also will enter into certain agreements with EMC relating to this offering and our relationship with EMC after this offering. The material terms of such agreements with EMC relating to our historical relationship, this offering and our relationship with EMC after this offering are described below. We do not currently expect to enter into any additional agreements or other transactions with EMC, outside the ordinary course, or any of our directors, officers or other affiliates other than those specified below. However, in the future, in accordance with Delaware law, any contract or transaction between us and one of our directors or officers or between us and any corporation, partnership, association or any other organization in which one or more of our directors or officers is a director or officer or has a financial interest, will either be approved by the stockholders, a majority of the disinterested members of our board or a committee of our board that authorizes such contracts or transactions or must be fair to us as of the time our directors, a committee of our directors or our stockholders approve the contract or transaction. In addition, any transactions with directors, officers or other affiliates will be subject to requirements of the Sarbanes-Oxley Act and SEC rules and regulations.

Relationship with EMC Corporation

Historical Relationship With EMC

We have been a wholly owned subsidiary of EMC since January 2004. 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. Historically, EMC has not sold our products. Our historical financial statements include allocations to us by EMC of its costs related to these services. These cost allocations have been determined on a basis that EMC considers to be a reasonable reflection of the use of services provided or the benefit received by us. These allocations totaled \$4.5 million in fiscal 2004, \$5.3 million in fiscal 2005 and \$5.1 million in fiscal 2006.

In April 2007, we declared an \$800 million dividend to EMC in the form of a note. The note matures in April 2012 and bears an interest rate of the 90-day LIBOR plus 55 basis points (% as of , 2007), with interest payable quarterly in arrears, commencing June 30, 2007. We may repay the note, without penalty, at any time commencing July 2007.

In view of the potential overlap between our business and that of EMC, we and EMC conduct our businesses pursuant to our Rules of Engagement with Storage, Server and Infrastructure Software Vendors,

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copies of which are made available to our partners, which outline product development, qualification and sales guidelines that we and EMC follow with partners who also have products that directly compete with EMC products. These Rules of Engagement may be amended from time to time by our board of directors.

We have previously entered into several agreements with EMC with respect to international marketing, product services resale, call center support, project specific consulting, research and development and professional services. EMC will continue to provide these services to us following the offering pursuant to these agreements or similar subsequent arrangements. In certain circumstances where we do not have an established legal entity, EMC employees managed by our personnel have provided services on our behalf.

We have entered into various geographically-specific marketing services agreements with certain of EMC's subsidiaries. Together, these agreements involve the following countries: Austria, Australia, Belgium, Brazil, Canada, Czech Republic, Denmark, France, Germany, Hong Kong, India, Italy, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. The terms of these agreements are substantially similar and under such agreements, the signing EMC subsidiaries have agreed to provide us, upon our request, with services that include promoting our products, developing our customer base, and acting as a liaison to certain customers. Under the provisions of the agreements, we are charged by such EMC subsidiaries in performing services under these agreements. The agreements are effective until terminated by either party upon 30 days' written notice. EMC subsidiaries provided these services to us on similar terms before such time as we entered into written agreements. From January 1, 2006 through March 31, 2007, the aggregate value that we paid such EMC subsidiaries (other than in Canada and India, which payments are included together with payments for services under the call center agreements, described below) for the provision of these services was approximately \$54.4 million.

We have entered into call center service agreements with EMC Corporation of Canada and EMC Data Storage Systems (India) Private Limited, each of which is a subsidiary of EMC. Under the terms of such agreements, each of the EMC subsidiaries has agreed to provide us, upon our request, with certain telephonic call center and customer support. Under the provisions of the agreements, we are charged by such EMC subsidiaries in performing services under these agreements. The agreements are effective until terminated by either party upon 30 days' notice. EMC provided these services to us on similar terms before such time as we entered into written agreements. From January 1, 2006, through March 31, 2007, the aggregate value that we paid such EMC subsidiaries for the provision of these services and under the marketing services arrangements in Canada and India with these subsidiaries was approximately \$13.1 million.

We have entered into various consulting services agreements with EMC whereby we provide certain of EMC's customers with project-specific support, including implementing our products within such clients' environments, as well as helping clients optimize their VMware products. The provisions of such agreements are substantially similar, and terminate either upon mutual agreement between EMC and ourselves, or upon the completion of the specific project for which a consulting service agreement was executed. From January 1, 2006 through March 31, 2007, the aggregate value of the services we performed and charged EMC for under such agreements was approximately \$6.0 million.

We have entered into a Professional Services Reseller and Subcontractor Agreement with EMC whereby we appointed EMC as a non-exclusive reseller of our professional services. Under the agreement, we have performed and will continue to perform various professional consulting services for EMC customers. Under the terms of the agreement, the agreement may only be terminated upon a material breach, non-payment, a breach of confidentiality or by either party upon 10 business days' notice. From January 1, 2006 through March 31, 2007, we charged EMC approximately \$4.8 million for services we rendered under the agreement.

We have entered into a Development Services Agreement with EMC Data Storage Systems (India) Private Limited. Under the terms of the agreement, EMC's Indian subsidiary provides us with research and development services with respect to certain of our software products. The agreement automatically renews annually, but may

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be terminated by either party upon 30 days' prior written notice. Under the provisions of the agreement, we are charged by EMC's subsidiary. EMC provided these services to us on similar terms before such time as we entered into written agreements. From January 1, 2006 through March 31, 2007, we paid EMC's subsidiary an aggregate value of approximately \$5.5 million for the provision of these services.

For additional information about our relationship with EMC, see Note J to our consolidated financial statements included elsewhere in this prospectus.

EMC as our Controlling Stockholder

Until consummation of this offering, EMC will be our sole stockholder. EMC will hold approximately % of the combined voting power of our outstanding common stock upon completion of this offering (or approximately % if the underwriters exercise their over-allotment option in full). For as long as EMC or its successor-in-interest continues to control more than 50% of the combined voting power of our common stock, EMC or its successor-in-interest will be able to direct the election of all the members of our board of directors and exercise control over our business and affairs, including any determinations with respect to mergers or other business combinations involving us, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional common stock or other equity securities, and the payment of dividends with respect to our common stock. Similarly, EMC or its successor-in-interest will have the power to determine matters submitted to a vote of our stockholders without the consent of our other stockholders, will have the power to prevent a change in control of us and will have the power to take other actions that might be favorable to EMC or its successor-in-interest.

EMC has agreed not to sell or otherwise dispose of any of our common stock for a period of 180 days from the date of this prospectus without the prior written consent of Citi, JPMorgan and Lehman Brothers, subject to certain exceptions. See "Underwriting." However, there can be no assurance concerning the period of time during which EMC will maintain its ownership of our common stock following this offering.

Beneficial ownership of at least 80% of the total voting power and value of our outstanding common stock is required in order for EMC to continue to include us in its consolidated group for federal income tax purposes, and beneficial ownership of at least 80% of the total voting power and 80% of each class of non-voting capital stock is required in order for EMC to effect a tax-free spin-off of us or certain other tax-free transactions. As of the date of this prospectus, EMC does not intend or plan to undertake a spin-off of us or another tax-free transaction involving us. It is expected that we will be included in EMC's consolidated group for U.S. federal income tax purposes following the offering.

Agreements Between EMC and Us

In connection with this offering, EMC and we will enter into certain agreements governing various interim and ongoing relationships between us. These agreements will include:

- a master transaction agreement;
- an administrative services agreement;
- a tax sharing agreement;
- an insurance matters agreement;
- an employee benefits agreement;
- an intellectual property agreement; and
- a real estate agreement.

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The agreements summarized below will be filed as exhibits to the registration statement of which this prospectus is a part. We encourage you to read the full text of these material agreements. We will enter into these agreements with EMC in the context of our relationship as a wholly owned subsidiary of EMC. The prices and other terms of these agreements will be designed to be consistent with the requirements of Section 482 of the Code and related U.S. Treasury Regulations with respect to transactions between related parties.

Master Transaction Agreement

The master transaction agreement contains key provisions relating to our ongoing relationship with EMC. The master transaction agreement also contains agreements relating to the conduct of this offering and future transactions, and will govern the relationship between EMC and us subsequent to this offering.

This Offering. The master transaction agreement requires us to use our reasonable best efforts to satisfy certain conditions to the completion of this offering. EMC may, in its sole and absolute discretion, choose to proceed with or abandon this offering. All costs and expenses of VMware and EMC relating to this offering will be paid by us. Unless otherwise required by the specific provisions of the agreement, the master transaction agreement will terminate on a date that is seven years after the first date on which EMC ceases to own at least 20% of our common stock.

Registration Rights. Pursuant to the master transaction agreement, we will provide EMC with certain registration rights because the shares of our common stock held by EMC after this offering will be deemed “restricted securities” as defined in Rule 144 under the Securities Act. Accordingly, EMC may only sell a limited number of shares of our common stock into the public markets without registration under the Securities Act. At the request of EMC, we will use our reasonable best efforts to register shares of our common stock that are held by EMC after the closing of this offering, or subsequently acquired, for public sale under the Securities Act. EMC may request up to two registrations in any calendar year. We will also provide EMC with “piggy-back” rights to include its shares in future registrations by us of our securities under the Securities Act. There is no limit on the number of these “piggy-back” registrations in which EMC may request its shares be included.

EMC may not transfer its registration rights other than to an affiliate. EMC’s registration rights will terminate on the earlier of the date on which EMC has sold or transferred all of its shares of our common stock deemed “restricted securities” or our common stock held by EMC may be sold without restriction pursuant to Rule 144(k) of the Securities Act.

We have agreed to cooperate in these registrations and related offerings. All expenses payable in connection with such registrations will be paid by us, including the fees and expenses of one firm of legal counsel chosen by EMC, except that EMC will pay all its own internal administrative costs and underwriting discounts and commissions applicable to the sale of its shares of our common stock.

Future Distributions. Additionally, we have agreed to cooperate, at our expense, with EMC to accomplish a distribution by EMC of our common stock, and we have agreed to promptly take any and all actions necessary or desirable to effect any such distribution. EMC will determine, in its sole discretion, whether such distribution shall occur, the date of the distribution and the form, structure and all other terms of any transaction to effect the distribution. A distribution may not occur at all. At any time prior to completion of the distribution, EMC may decide to abandon the distribution, or may modify or change the terms of the distribution, which could have the effect of accelerating or delaying the timing of the distribution.

Anti-Dilution Option. Pursuant to the master transaction agreement, we have granted EMC a continuing right to purchase from us shares of Class A common stock and Class B common stock in order to maintain EMC’s respective percentage ownership interests in our Class A common stock and Class B common stock following the completion of this offering. This option may be exercised by EMC in connection with any issuance by us of common stock other than pursuant to this offering (including the exercise of the underwriters’ over-allotment

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option) or any stock option or executive or employee compensation plan, except where the issuance pursuant to a stock option or executive or employee compensation plan would cause EMC's percentage ownership of common stock to fall below 80.1%. If we issue our common stock for cash consideration as permitted in the foregoing sentence other than pursuant to a stock option or executive compensation plan that causes EMC's percentage ownership of common stock to fall below 80.1%, upon the exercise of the option, EMC will pay a price per share of Class A common stock equal to the offering price paid by us in the related issuance of common stock and a price per share of Class B common stock equal to the fair market value thereof as determined by our board of directors. If we issue our common stock for non-cash consideration or pursuant to a stock option or executive compensation plan that causes EMC's percentage ownership of common stock to fall below 80.1%, upon exercise of the option, EMC will pay a price per share of Class A common stock equal to the average closing price of our common stock on the day prior to the applicable issuance date and a price per share of Class B common stock equal to the fair market value thereof as determined by our board of directors.

If EMC chooses not to exercise its option, or exercises its option for a number of shares less than the total number permissible, in connection with any particular future common stock issuance by us, EMC's right to exercise the option in connection with any subsequent issuance by us will not be affected. However, in such case EMC's ownership percentage will be recalculated to account for any prior decision not to exercise the option in full or at all, as appropriate. EMC's option to maintain its ownership percentage in us will terminate on the earlier of the date of a tax-free distribution, the date upon which we beneficially own shares of common stock representing less than 80% of the aggregate voting power of shares of common stock then outstanding and the date on which, if the option has been transferred to a subsidiary of EMC, that subsidiary ceases to be a subsidiary of EMC.

Restrictive Covenants. Under the master transaction agreement, we have agreed to obtain the consent of the holders of our Class B common stock prior to taking certain actions, including:

- consolidating or merging with any other entity;
- acquiring the stock or assets of another entity in excess of \$100 million;
- issuing any stock or securities except to our subsidiaries or pursuant to this offering or our employee benefit plans;
- taking any actions to dissolve, liquidate or wind-up our company;
- declaring dividends on our stock;
- entering 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
- amending, terminating or adopting any provision inconsistent with certain provisions of our certificate of incorporation or bylaws.

Indemnification. The master transaction agreement provides for cross-indemnities that generally will place the financial responsibility on us and our subsidiaries for all liabilities associated with the current and historical VMware business and operations, and generally will place on EMC the financial responsibility for liabilities associated with all of EMC's other current and historical businesses and operations, in each case regardless of the time those liabilities arise. The master transaction agreement also contains indemnification provisions under which we and EMC each indemnify the other with respect to breaches of the master transaction agreement or any ancillary agreement.

In addition to our general indemnification obligations described above relating to the current and historical VMware business and operations, we will agree to indemnify EMC against liabilities arising from misstatements or omissions in this prospectus or the registration statement of which it is a part, except for misstatements or omissions relating to information that EMC provided to us specifically for inclusion in this prospectus or the registration statement of which it forms a part. We will also agree to indemnify EMC for any misstatements or

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omissions in our subsequent SEC filings and for information we provide to EMC specifically for inclusion in EMC's annual or quarterly reports following the completion of this offering.

In addition to EMC's general indemnification obligations described above relating to the current and historical EMC business and operations, EMC will indemnify us for liabilities under litigation matters related to EMC's business and for liabilities arising from misstatements or omissions with respect to information that EMC provided to us specifically for inclusion in this prospectus or the registration statement of which it forms a part.

For liabilities arising from events occurring on or before the time of this offering, the master transaction agreement contains a general release. Under this provision, we will release EMC and its subsidiaries, successors and assigns, and EMC will release us and our subsidiaries, successors and assigns, from any liabilities arising from events between us on the one hand, and EMC on the other hand, occurring on or before the time of this offering, including in connection with the activities to implement this offering. The general release does not apply to liabilities allocated between the parties under the master transaction agreement or other intercompany agreements or to specified ongoing contractual arrangements.

Accounting Matters; Legal Policies. Under the master transaction agreement, we will agree to use our reasonable best efforts to use the same independent certified public accounts selected by EMC and to maintain the same fiscal year as EMC until such time as EMC is no longer required to consolidate our results of operations and financial position (determined in accordance with generally accepted accounting principles consistently applied). We also agree to use our reasonable best efforts to complete our audit and provide EMC with all financial and other information on a timely basis such that EMC may meet its deadlines for its filing annual and quarterly financial statements.

Additionally, for as long as EMC is providing us with legal services under the administrative services agreement, the master transaction agreement will require us to comply with all EMC policies and directives identified by EMC as critical to legal and regulatory compliance and to not adopt legal or regulatory policies or directives inconsistent with the policies identified by EMC.

Administrative Services Agreement

Under the administrative services agreement, which when signed will become effective as of the closing date of this offering, EMC will provide us with services, including tax, accounting, treasury, legal and human resources services. For such time as the administrative services agreement is in effect, EMC and VMware may agree on additional services to be included in the administrative services agreement. EMC will provide services to us with substantially the same degree of care as such services are performed within EMC. We will pay fees to EMC for the services rendered based on the number and total cost of the EMC employees required to provide services, or as otherwise may be agreed.

We anticipate that the initial term of the administrative services agreement will expire at the end of fiscal 2007 and will be extended automatically for additional six-month terms unless terminated by one of the parties. We have the right to terminate any of the services provided by EMC under the administrative services agreement at any time, effective as of the last day of a month, provided that written notice of termination has been given on or prior to the first day of that month. As of the date of this prospectus, we expect that EMC will provide us with these services for a period longer than the initial term.

Furthermore, we have agreed in the administrative services agreement that we will be responsible for, and will indemnify EMC with respect to, our own losses for property damage or personal injury in connection with the services provided, except to the extent that such losses are caused by the gross negligence, breach, bad faith or willful misconduct of EMC.

Tax Sharing Agreement

We have been included in EMC's consolidated group (the "Consolidated Group") for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups that include EMC and/or certain of

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its subsidiaries (a “Combined Group”) for state and local income tax purposes. We intend to enter into a new tax sharing agreement that will become effective upon consummation of this offering. Pursuant to the tax sharing agreement, 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 the Consolidated Group or any Combined Group, 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 the Consolidated Group or Combined Group filed our own consolidated, combined or unitary tax return. EMC will prepare pro forma tax returns for us with respect to any tax return filed with respect to the Consolidated Group or any Combined Group in order to determine the amount of tax sharing payments under the Tax Sharing Agreement. We will be responsible for any taxes with respect to tax returns that include only us and our subsidiaries.

EMC will be primarily responsible for controlling and contesting any audit or other tax proceeding with respect to the Consolidated Group or any Combined Group. Disputes arising between the parties relating to matters covered by the tax sharing agreement are subject to resolution through specific dispute resolution provisions.

We have been included in the Consolidated Group for periods in which EMC owned at least 80% of the total voting power and value of our outstanding stock. It is expected that we will be included in the Consolidated Group following this offering. EMC, during any part of a consolidated return year is liable for the tax on the consolidated return of such year, except for such taxes related to (i) our separate tax liability and (ii) our business and operations, 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, although the tax sharing agreement allocates tax liabilities between us and EMC, for any period in which we were included in the Consolidated Group or a Combined Group, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of the Consolidated Group or a Combined Group.

As of the date of this prospectus, EMC does not intend or plan to undertake a spin-off of our stock to EMC stockholders. Nevertheless, we and EMC have agreed to set forth our respective rights, responsibilities and obligations with respect to any possible spin-off in the tax sharing agreement. If EMC were to decide to pursue a possible spin-off, we have agreed to cooperate with EMC and to take any and all actions reasonably requested by EMC in connection with such a transaction. We have also agreed not to knowingly take or fail to take any actions that could reasonably be expected to preclude EMC’s ability to undertake a tax-free spin-off. In the event EMC completes a spin-off, we have agreed not to take certain actions, such as asset sales or contributions, mergers, stock issuances or stock sales within the two years following the spin-off without first obtaining the opinion of tax counsel or an IRS ruling to the effect that such actions will not result in the spin-off failing to qualify as a tax-free spin-off. In addition, we generally would be responsible for, among other things, any taxes resulting from the failure of a spin-off to qualify as a tax-free transaction to the extent such taxes are attributable to, or result from, any action or failure to act by us or certain transactions involving us following a spin-off and a percentage of such taxes to the extent such taxes are not attributable to, or do not result from, any action or failure to act by either us or EMC.

In addition, we will pay monthly fees to EMC in respect of certain tax services, such as the preparation of tax returns, to be provided by EMC pursuant to the tax sharing agreement.

Insurance Matters Agreement

Prior to the consummation of this offering, we will also enter into an insurance matters agreement with EMC. Pursuant to the insurance matters agreement, EMC will maintain insurance policies covering, and for the benefit of, us and our directors, officers and employees. The insurance policies maintained by EMC under the insurance matters agreement will be comparable to those maintained by EMC and covering us prior to the offering. Except to the extent that EMC allocates a portion of its insurance costs to VMware and its subsidiaries, we will pay or reimburse EMC, as the case may be, for premium expenses, deductibles or retention amounts, and

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all other costs and expenses that EMC may incur in connection with the insurance coverage EMC maintains for us. We will be responsible for any action against VMware in connection with EMC's maintenance of insurance coverage for us, including as a result of the level or scope of any insurance, the creditworthiness of any insurance carrier, the terms and conditions of any policy, or the adequacy or timeliness of any notice to an insurance carrier in connection with a claim or potential claim or otherwise, during the term of the insurance matters agreement, except to the extent that such action arises out of or is related to the breach, gross negligence, bad faith or willful misconduct of EMC in connection with the insurance matters agreement.

We anticipate that the initial term of the insurance matters agreement will expire at the end of 2007 and will be extended automatically for additional six-month terms unless terminated by one of the parties. As of the date of this prospectus, we expect that EMC will maintain insurance policies for us for a period of longer than the initial term.

Employee Benefits Agreement

Prior to the consummation of this offering, we will also enter into an employee benefits agreement with EMC. The employee benefits agreement will allocate liabilities and responsibilities relating to employee compensation and benefit plans and programs and other related matters, including the treatment of outstanding EMC equity awards which may be held by our employees following this offering and the allocation of certain retirement plan assets and liabilities and the ownership of work product developed for our benefit. The employee benefits agreement will also generally provide that we are assuming employment-related liabilities with respect to employees employed by us for periods of time prior to the offering.

Intellectual Property Agreement

The terms of the intellectual property agreement will formalize the relationship between us and EMC with respect to our use of certain EMC source code and associated intellectual property rights, as well as EMC's use of certain VMware source code and associated intellectual property rights.

Under the terms of the intellectual property agreement, we and EMC fully will release one another from claims resulting from any acts of infringement that might have occurred prior to the date this offering is completed. Going forward, EMC will provide to us license rights under certain source code and associated intellectual property rights to design, develop, distribute, service and support our existing products, as well as any updates, upgrades and future versions of those products, and the implementation of interoperability between future VMware products and EMC products. These rights exclude our ability to use EMC's intellectual property to create certain types of products.

We, in turn, will provide to EMC license rights under certain source code and associated intellectual property rights to design, develop, distribute, service and support EMC's existing products, any updates, upgrades and future versions of those products, as well as EMC's future products. These rights exclude the ability of EMC to use our intellectual property to create certain types of products. The scope of the patent rights we provide to EMC and the scope of products with which EMC may use our intellectual property rights will be initially narrowed at such time as EMC no longer owns 50% of our common stock, and further narrowed at such time as EMC no longer owns 20% of our common stock. The scope of products with which EMC may use our intellectual property rights will also be narrowed if there is a change of control of EMC at such time as EMC no longer owns 50% of our common stock. EMC will indemnify us for any losses arising out of any use by EMC of the intellectual property rights we provide to EMC under the intellectual property agreement, and we will indemnify EMC for any losses arising out of any use by us of the intellectual property rights EMC provides to us under the intellectual property agreement.

Real Estate Agreement

Prior to the consummation of this offering, we will also enter into a real estate agreement with EMC. The real estate agreement will govern the terms under which we may use the space we share, and will continue to

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share, with EMC at certain properties that EMC currently leases abroad. We do not currently expect that the lease and purchase agreement will materially change the current arrangements we have with EMC related to shared space or the amounts we are charged for use of such space. The real estate agreement will also provide for our purchase from EMC of the equity interests in the EMC entity which holds the ground leasehold interest in the land on which our global headquarters is being built and the interest in our global headquarters itself for an amount equal to the cost expended by EMC to date in constructing the facilities, which we estimate will be approximately \$.

Other Related Person Transactions

Other than transactions with EMC, we have not entered into any other transactions with related persons. Concurrently with this offering, our board of directors will adopt policies and procedures for the review, approval and ratification of any future related party transactions. For example, we and EMC may enter into agreements pursuant to which we and EMC would continue to be customers for each other's products and services.

PRINCIPAL STOCKHOLDERS

As of the date of this prospectus, all of our common stock outstanding is beneficially owned by EMC. Upon completion of this offering, EMC will beneficially own % of our issued and outstanding Class A common stock and 100% of our issued and outstanding Class B common stock. These shares will represent approximately % of the total voting power of our common stock (or approximately % if the underwriters exercise in full their over-allotment option). After completion of this offering, EMC will be able, acting alone, to elect our entire board of directors and to approve any action requiring stockholder approval.

As of the date of this prospectus, none of our executive officers, directors or director nominees owns any shares of our common stock. However, in June 2007, our Compensation and Corporate Governance Committee made broad-based equity awards including grants of options to purchase 1,850,000 shares of our Class A common stock to our Named Executive Officers at an exercise price of \$23 per share. Additionally, some of our executive officers and employee directors may acquire VMware stock options and restricted stock units by participating in the exchange offer.

Except for EMC, we are not aware of any person or group that will beneficially own more than 5% of our outstanding shares of common stock following this offering.

Following this offering, we will have two classes of authorized common stock: Class A common stock and Class B common stock. Only EMC or its successor-in-interest may hold shares of Class B common stock unless EMC distributes its shares of Class B common stock in a distribution under section 355 of the Code. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting, 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. Each share of Class B common stock is convertible into one share of Class A common stock at any time unless EMC distributes its shares of Class B common stock in a distribution under section 355 of the Code.

DESCRIPTION OF CAPITAL STOCK

The following description of our capital stock and provisions of our certificate of incorporation and bylaws, each of which will be in effect as of the date of this prospectus, are summaries thereof and are qualified by reference to our certificate of incorporation and bylaws, copies of which have been filed with the SEC as exhibits to our registration statement of which this prospectus forms a part.

General

Upon completion of this offering, our authorized capital stock will consist of:

- 2,500,000,000 shares of Class A common stock, par value \$0.01 per share,
- 1,000,000,000 shares of Class B common stock, par value \$0.01 per share, and
- 100,000,000 shares of undesignated preferred stock, par value \$0.01 per share.

As of the date of this prospectus, 32,500,000 shares of Class A common stock are outstanding, and 300,000,000 shares of Class B common stock are outstanding. Upon completion of this offering, there will be outstanding shares of Class A common stock and 300,000,000 shares of Class B common stock. As of the date of this prospectus, no preferred stock has been designated or is outstanding.

Common Stock

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our Class A common stock and Class B common stock are entitled to receive dividends, out of assets legally available, sharing equally in all such dividends on a per share basis, at the times and in the amounts that our board of directors may determine from time to time.

Conversion Rights

Each share of Class B common stock is convertible while held by EMC or its successor-in-interest at the option of EMC or its successor-in-interest into one share of Class A common stock. If our Class B common stock is distributed to security holders of EMC in a transaction (including any distribution in exchange for shares of EMC's or its successor-in-interest's common stock or other securities) intended to qualify as a distribution under Section 355 of the Code, or any corresponding provision of any successor statute, shares of our Class B common stock will no longer be convertible into shares of Class A common stock. Prior to any such distribution, all shares of Class B common stock will automatically be converted into shares of Class A common stock upon the transfer of such shares of Class B common stock by EMC other than to any of EMC's successors or any of its subsidiaries (excluding us). If such a distribution has not occurred, each share of Class B common stock will also automatically convert at such time as the number of shares of common stock owned by EMC or its successor-in-interest falls below 20% of the outstanding shares of our common stock. All conversions will be effected on a share-for-share basis.

Voting Rights

Except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to 10 votes per share on all matters to be voted on by our stockholders and except with respect to 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 A common stock and Class B common stock have identical rights. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast at a meeting by all shares of Class A common stock and Class B common stock

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present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock.

No Preemptive or Redemption Rights

Our Class A common stock and Class B common stock are not entitled to preemptive rights and are not subject to redemption or sinking fund provisions.

Right to Receive Liquidation Distributions

Upon our liquidation, dissolution or winding-up, the holders of our Class A common stock and Class B common stock are entitled to share equally in all of our assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock.

Preferred Stock

No shares of our preferred stock are outstanding as of the date of this prospectus. However, our board of directors is empowered, subject to the approval of our Class B stockholders, and subject to any requirements of the New York Stock Exchange, or any applicable national securities exchange, to cause 100,000,000 shares of our preferred stock to be issued from time to time in one or more series, with the numbers of shares of each series and the designations, preferences and relative, participating, optional, dividend and other special rights of the shares of each such series and the qualifications, limitations, restrictions, conditions and other characteristics thereof as fixed by our board of directors. Among the specific matters that may be determined by our board of directors are:

- the designation of each series;
- the number of shares of each series;
- the rate of dividends, if any;
- whether dividends, if any, shall be cumulative or noncumulative;
- the terms of redemption, if any;
- the rights of the series in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of our company;
- rights and terms of conversion or exchange, if any;
- restrictions on the issuance of shares of the same series or any other series, if any; and
- voting rights, if any.

We have no present plans to issue any shares of preferred stock. The ability of our board of directors to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change in control of us or the removal of our existing management.

Warrants

As of the date of this prospectus, there were no outstanding warrants to purchase shares of our capital stock.

Registration Rights

We will enter into a master transaction agreement with EMC which, among other things, provides for specified registration and other rights relating to the shares of our common stock owned by EMC. See “Certain Relationships and Related Person Transactions—Relationship with EMC Corporation.”

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Approval Rights of Holders of Class B Common Stock

In addition to any other vote required by law or by our certificate of incorporation, until the first date on which EMC ceases to beneficially own 20% or more of the outstanding shares of our common stock, the prior affirmative vote or written consent of EMC 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 this offering or our employee benefit plans;
- 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.

Anti-Takeover Effects of Our Certificate of Incorporation and Bylaws

The provisions of our certificate of incorporation and our bylaws described below may have the effect of delaying, deferring or discouraging another party from acquiring control of us.

Board of Directors

Our certificate of incorporation provides that our board of directors will be classified into three classes with staggered three-year terms. Accordingly, only one-third of our board of directors will be elected at each annual meeting. Each class will consist, as nearly possible, of one-third of the total number of directors. The initial division of the board of directors into classes will be made by a vote of a majority of the entire board of directors.

A director of our company may be removed from office at any time, with or without cause, by the affirmative vote of the holders of at least 80% of the votes entitled to be cast in the election of directors, voting together as a single class.

Any vacancy on the board of directors that results from an increase in the number of directors may be filled only by a majority of the board of directors then in office, provided that a quorum is present, and any other vacancy occurring in the board of directors may be filled only by a majority of directors then in office, even if less than a quorum, or by a sole remaining director.

Stockholder Action by Written Consent; Special Meetings

Our certificate of incorporation provides that until such time as EMC or its successor-in-interest ceases to hold shares representing at least a majority of votes entitled to be cast in the election of directors, any action required or permitted to be taken by stockholders at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, so long as written consent is obtained from the holders of the minimum number of votes that would have been required to authorize or take action if such a meeting were held. From and after such time as EMC or its successor-in-interest ceases to hold shares representing at least a majority of the votes entitled to be cast in the election of directors, any action required or permitted to be taken by stockholders may be effected only at a duly called annual or special meeting of stockholders and may not be effected by a written consent or consents by stockholders in lieu of such a meeting.

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Except as otherwise required by law, special meetings of our stockholders for any purpose or purposes may only be called by (1) EMC or its successor-in-interest, so long as EMC or its successor-in-interest is the beneficial owner of at least a majority of the votes entitled to be cast in the election of directors, (2) our chairman or (3) our board of directors or our secretary pursuant to a resolution approved by a majority of directors then in office. No business other than that stated in the notice of a special meeting may be transacted at such special meetings.

Cumulative Voting

Our stockholders do not have cumulative voting rights.

Amendment

Subject to the rights of holders of our Class B common stock to withhold their consent to the amendment of the provisions of our certificate of incorporation relating to corporate opportunities and conflicts of interest between our company and EMC, certain provisions of our certificate of incorporation, including those relating to corporate opportunities and conflicts of interest between us and EMC, the consent of EMC or its successor-in-interest as the holder of our Class B common stock, our bylaws, our board of directors and the indemnification of our directors and officers, may be amended by the affirmative vote of at least 80% of the votes entitled to be cast thereon. All other provisions of our certificate of incorporation may be amended by the affirmative vote of a majority of the votes entitled to be cast thereon.

The board of directors may from time to time make, amend, supplement or repeal our bylaws upon the vote of a majority of the board of directors. Once EMC or its successor-in-interest ceases to own shares representing at least a majority of the votes entitled to be cast in the election of directors, our certificate of incorporation provides that the sections of our bylaws related to our classified board structure, the removal of directors and the required advance notice related to shareholder proposals and nomination of directors by shareholders may only be amended by the affirmative vote of shares representing at least 80% of the votes entitled to be cast by the outstanding common stock, voting as a single class, subject to any voting rights granted to any holders of any preferred stock.

Delaware Law Regulating Corporate Takeovers

We will be subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, those provisions prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

- the transaction is approved by the board before the date the interested stockholder attained that status;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- on or after the date the business combination is approved by the board and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines “business combination” to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation or its subsidiaries of any stock of the corporation to the interested stockholder;

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- any transaction involving the corporation or its subsidiaries that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

A Delaware corporation may opt out of this provision either with an express provision in its original certificate of incorporation or in an amendment to its certificate of incorporation or bylaws approved by its stockholders. However, we have not opted out, and do not currently intend to opt out, of this provision. The statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

Provisions of Our Certificate of Incorporation Relating to Related Person Transactions and Corporate Opportunities

In order to address potential conflicts of interest between us and EMC with respect to corporate opportunities that are otherwise permitted to be undertaken by us, our certificate of incorporation contains provisions regulating and defining the conduct of our affairs as they may involve EMC and its officers and directors, and our powers, rights, duties and liabilities and those of our officers, directors and stockholders in connection with our relationship with EMC. In general, these provisions recognize that, subject to the limitations related to our technology and product development and marketing activities, we and EMC may engage in the same or similar business activities and lines of business, may have an interest in the same areas of corporate opportunities and will continue to have contractual and business relations with each other, including officers and directors of EMC serving as our directors.

Our certificate of incorporation provides that, subject to the limitations related to our technology and product development and marketing activities, EMC will have no duty to refrain from:

- engaging in the same or similar business activities or lines of business as us;
- doing business with any of our clients or customers; or
- employing or otherwise engaging any of our officers or employees.

Our certificate of incorporation provides that if EMC acquires knowledge of a potential transaction or matter which may be a corporate opportunity for both us and EMC, EMC will have no duty to communicate or present such corporate opportunity to us and we will, to the fullest extent permitted by law, renounce any interest or expectancy in any such opportunity and waive any claim that such corporate opportunity be presented to us. EMC will have satisfied its fiduciary duty with respect to such a corporate opportunity and will not be liable to us or our stockholders for breach of any fiduciary duty as our stockholder by reason of the fact that EMC acquires or seeks the corporate opportunity for itself, directs that corporate opportunity to another person or does not present that corporate opportunity to us.

If one of our directors or officers who is also a director or officer of EMC learns of a potential transaction or matter that may be a corporate opportunity for both us and EMC and which may be properly pursued by us pursuant to the limitations related to our technology and product development and marketing activities, our certificate of incorporation provides that the director or officer will have satisfied his or her fiduciary duties to us and our stockholders, will not be liable for breach of fiduciary duties to us and our stockholders with respect to such corporate opportunity, and will be deemed not to have derived an improper personal economic gain from

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such corporate opportunity if the director or officer acts in good faith in a manner consistent with the following policy:

- where an opportunity is offered to a VMware director (but not an officer) who is also a director or officer of EMC, VMware will be entitled to pursue such opportunity only when expressly offered to such individual solely in his or her capacity as a VMware director;
- where an opportunity is offered to a VMware officer who is also an EMC officer, VMware will be entitled to pursue such opportunity only when expressly offered to such individual solely in his or her capacity as a VMware officer;
- where an opportunity is offered to a VMware officer who is also a director (but not an officer) of EMC, VMware will be entitled to pursue such opportunity unless expressly offered to the individual solely in his or her capacity as an EMC director; and
- where one of our officers or directors, who also serves as a director or officer of EMC, learns of a potential transaction or matter that may be a corporate opportunity for both us and EMC in any manner not addressed in the foregoing descriptions, such director or officer will have no duty to communicate or present that corporate opportunity to us and will not be liable to us or our stockholders for breach of fiduciary duty by reason of the fact that EMC pursues or acquires that corporate opportunity for itself.

The foregoing limitation of liability provisions are not intended to be an allocation of corporate opportunities between us and EMC.

For purposes of our certificate of incorporation, “corporate opportunities” are limited to business opportunities permitted by the provisions related to our technology and product development and marketing activities and, subject to this limitation, include business opportunities which we are financially able to undertake, which are, from their nature, in our line of business, are of practical advantage to us and are ones in which we have an interest or a reasonable expectancy, and in which, by embracing the opportunities, the self-interest of EMC or its officers or directors will be brought into conflict with our self-interest.

The corporate opportunity provisions in our certificate of incorporation will continue in effect until the later of (1) EMC or its successor-in-interest ceasing to beneficially own 20% or more of the outstanding shares of our common stock and (2) the date upon which no VMware officer or director is also an officer or director of EMC or its successor-in-interest. The vote of at least 80% of the votes entitled to be cast will be required to amend, alter, change or repeal the corporate opportunity provisions.

By becoming a stockholder in our company, you will be deemed to have notice of and have consented to the provisions of our certificate of incorporation related to corporate opportunities that are described above.

Limitation of Liability and Indemnification Matters

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers, as well as other employees and individuals, against expenses, including attorneys’ fees, judgments, fines and amounts paid in settlement, that are incurred in connection with various actions, suits or proceedings, whether civil, criminal, administrative or investigative other than an action by or in the right of the corporation, known as a derivative action, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses, including attorneys’ fees, incurred in connection with the defense or settlement of such actions, and the statute requires court approval before there can be any indemnification if the person seeking indemnification has been found liable to the corporation. The statute provides that it is not excluding other indemnification that may be granted by a corporation’s bylaws, disinterested director vote, stockholder vote, agreement or otherwise.

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Our certificate of incorporation provides that each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of us, or has or had agreed to become a director of us, or, while a director or officer of us, is or was serving at our request as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, whether the basis of such proceeding is the alleged action of such person in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, will be indemnified and held harmless by us to the fullest extent authorized by the Delaware General Corporation Law against all expense, liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such person in connection therewith. Our certificate of incorporation also provides that we will pay the expenses incurred in defending any such proceeding in advance of its final disposition, subject to the provisions of the Delaware General Corporation Law. These rights are not exclusive of any other right that any person may have or acquire under any statute, provision of our certificate of incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise. No repeal or modification of these provisions will in any way diminish or adversely affect the rights of any director, officer, employee or agent of us under our certificate of incorporation in respect of any occurrence or matter arising prior to any such repeal or modification. Our certificate of incorporation also specifically authorizes us to maintain insurance and to grant similar indemnification rights to our employees or agents.

Our certificate of incorporation provides that none of our directors will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except, to the extent required by the Delaware General Corporation Law, for liability:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- for payments of unlawful dividends or unlawful stock purchases or redemptions under Section 174 of the Delaware General Corporation Law; or
- for any transaction from which the director derived an improper personal benefit.

Neither the amendment nor repeal of this provision will eliminate or reduce the effect of the provision in respect to any matter occurring, or any cause of action, suit or claim that, but for the provision, would accrue or arise, prior to the amendment or repeal of this provision.

The master transaction agreement also provides for indemnification by us of EMC and its directors, officers and employees for specified liabilities, including liabilities under the Securities Act and the Exchange Act.

In addition, EMC maintains liability insurance for its directors and officers and for the directors and officers of its majority-owned subsidiaries, including us. This insurance provides for coverage, subject to certain exceptions, against loss from claims made against directors and officers in their capacity as such, including claims under the federal securities laws. We have also obtained additional liability insurance for our directors and officers to reduce the deductible payable under the policy maintained by EMC.

Stock Exchange Listing Symbol

We expect that our Class A common stock will be listed on the New York Stock Exchange under the symbol "VMW."

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock is _____.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for shares of our common stock. Future sales of substantial amounts of shares of our common stock in the public market could adversely affect prevailing market prices. Furthermore, since only a limited number of shares will be available for sale shortly after this offering because of contractual and legal restrictions on resale, sales of substantial amounts of our shares of our common stock in the public market after the restrictions lapse, could adversely affect prevailing market prices and our ability to raise equity capital in the future.

Upon completion of this offering, EMC will own _____ shares of our common stock, which will represent approximately _____ % of the total outstanding shares of our common stock (_____ % if the underwriters' over-allotment option is exercised in full). In addition, we have reserved approximately 29 million shares of our Class A common stock issuable upon the exercise of stock option awards, subject to vesting, and approximately 450 thousand shares of our Class A common stock issuable upon the vesting of restricted stock units, which were granted in June 2007 with an exercise price of \$23 per share. Also, based on the assumptions set forth in the "The Offering," we will have reserved shares of our Class A common stock issuable either upon the exercise of stock option awards, subject to vesting, or as restricted stock awards, subject to the lapsing of restrictions, in each case for issuance to employees in connection with the exchange offer.

Subject to certain exceptions set forth in "Underwriting," we, our directors and executive officers and EMC also have agreed not to offer, sell, contract to sell, pledge or otherwise dispose (including by effective economic disposition) of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act in respect of, any shares of our common stock or any securities convertible into, or exercisable or exchangeable for, shares of our common stock, or publicly announce an intention to effect any such transaction, for a period of 180 days from the date of this prospectus without the prior written consent of Citi, JPMorgan and Lehman Brothers. Citi, JPMorgan and Lehman Brothers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice. In addition, we have agreed with the underwriters that we will require, as a condition to participating in the exchange offer, participating employees who receive options to purchase our Class A common stock and restricted stock awards of our Class A common stock in the exchange to agree to the foregoing lock-up restrictions, subject to certain exceptions, for a period of 180 days from the date of this prospectus. We may release the securities subject to these lock-up agreements only with the prior written consent of Citi, JPMorgan and Lehman Brothers in their sole discretion. Such release may occur at any time and without notice. See "Underwriting."

As a result, in addition to the shares being sold in this offering, which may be sold immediately (except to the extent held by our affiliates, as described below), after this lock-up period, approximately _____ shares will be eligible for sale, subject to the volume, manner of sale and other limitations of Rule 144 and subject to any vesting requirements in respect of stock options and the lapsing of any restrictions on restricted shares.

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year is entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- one percent of our then outstanding shares of common stock (approximately _____ shares immediately after this offering); or
- the average weekly trading volume of shares of our common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of the sale is filed with the Securities and Exchange Commission.

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Sales under Rule 144 also are subject to manner of sale provisions, notice requirements and the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell such shares without complying with the manner of sale, public information, volume limitation, or notice provisions of Rule 144. To the extent that shares were acquired from one of our affiliates, such person's holding period for purposes of effecting a sale under Rule 144 commences on the date of transfer from the affiliate.

**UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS
FOR NON-UNITED STATES STOCKHOLDERS**

The following is a general discussion of the anticipated material U.S. federal income and estate tax consequences relating to the ownership and disposition of our Class A common stock by non-United States holders, as defined below, who purchase our Class A common stock in this offering and hold such Class A common stock as capital assets. This discussion is based on currently existing provisions of the Code, existing and proposed Treasury regulations promulgated thereunder, and administrative and judicial interpretation thereof, all as in effect or proposed on the date hereof and all of which are subject to change, possibly with retroactive effect or different interpretations. This discussion does not address all the tax consequences that may be relevant to specific holders in light of their particular circumstances or to holders subject to special treatment under U.S. federal income or estate tax laws (such as financial institutions, insurance companies, tax-exempt organizations, retirement plans, partnerships and their partners, other pass-through entities and their members, dealers in securities, brokers, U.S. expatriates, holders whose “functional” currency is not the U.S. dollar or persons who have acquired our Class A common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment). This discussion does not address the U.S. state and local or non-U.S. tax consequences relating to the ownership and disposition of our Class A common stock.

YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISOR REGARDING THE U.S. FEDERAL TAX CONSEQUENCES OF OWNING AND DISPOSING OF OUR CLASS A COMMON STOCK, AS WELL AS THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL OR FOREIGN TAX LAWS.

As used in this discussion, the term “non-United States holder” refers to a beneficial owner of our Class A common stock that for U.S. federal income tax purposes is not:

- (i) an individual who is a citizen or resident of the United States;
- (ii) a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States or any state or political subdivision thereof or therein, including the District of Columbia;
- (iii) an estate the income of which is subject to U.S. federal income tax regardless of source thereof; or
- (iv) a trust (a) with respect to which a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all its substantial decisions, or (b) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a United States person.

An individual may, in many cases, be treated as a resident of the United States in any calendar year for U.S. federal income tax purposes, rather than a nonresident, by, among other ways, being present in the United States on at least 31 days in that calendar year and for an aggregate of at least 183 days during the three-year period ending in that calendar year (counting for such purposes all the days present in the current year, one-third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year). Residents are subject to U.S. federal income tax as if they were U.S. citizens.

If a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes holds Class A common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Class A common stock, we urge you to consult your own tax advisor.

Dividends

We or a withholding agent will have to withhold U.S. federal withholding tax from the gross amount of any dividends paid to a non-United States holder at a rate of 30%, unless (i) an applicable income tax treaty reduces or eliminates such tax, and a non-United States holder claiming the benefit of such treaty provides to us or such

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agent proper Internal Revenue Service, or IRS, documentation or (ii) the dividends are effectively connected with a non-United States holder's conduct of a trade or business in the United States, or where a treaty provides the dividends are attributable to a U.S. permanent establishment of such non-United States holder, and the non-United States holder provides to us or such agent proper IRS documentation. In the latter case, such non-United States holder generally will be subject to U.S. federal income tax with respect to such dividends in the same manner as a U.S. citizen or corporation, as applicable, unless otherwise provided in an applicable income tax treaty. Additionally, a non-United States holder that is a corporation could be subject to a branch profits tax on effectively connected dividend income at a rate of 30% (or at a reduced rate under an applicable income tax treaty). If a non-United States holder is eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty, such non-United States holder may obtain a refund of any excess amount withheld by timely filing an appropriate claim for refund with the IRS.

Sale, Exchange or Other Disposition

Generally, a non-United States holder will not be subject to U.S. federal income tax on gain realized upon the sale, exchange or other disposition of our Class A common stock unless (i) such non-United States holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange or other disposition and certain other conditions are met, (ii) the gain is effectively connected with such non-United States holder's conduct of a trade or business in the United States, or where a tax treaty provides, the gain is attributable to a U.S. permanent establishment of such non-United States holder, or (iii) we are or have been a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time during the shorter of the five-year period preceding such sale, exchange or other disposition or the period that such non-United States holder held our Class A common stock.

We do not believe that we have been, are currently or are likely to be a U.S. real property holding corporation for U.S. federal income tax purposes. If we were to become a U.S. real property holding corporation, so long as our common stock is regularly traded on an established securities market and continue to be traded, a non-United States holder would be subject to U.S. federal income tax on any gain from the sale, exchange or other disposition of Class A common stock only if such non-United States holder actually or constructively owned more than 5% of our Class A common stock during the shorter of the five-year period preceding such sale, exchange or other disposition or the period that such non-United States holder held our Class A common stock.

Special rules may apply to non-United States holders, such as controlled foreign corporations, passive foreign investment companies and corporations that accumulate earnings to avoid federal income tax, that are subject to special treatment under the Code. These entities should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

Federal Estate Tax

Common stock owned or treated as owned by an individual who is a non-United States holder at the time of his or her death generally will be included in the individual's gross estate for U.S. federal estate tax purposes and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding Tax

Information reporting may apply to payments made to a non-United States holder on or with respect to our Class A common stock. Backup withholding tax (at the then applicable rate) may also apply to payments made to a non-United States holder on or with respect to our Class A common stock, unless the non-United States holder certifies as to its status as a non-United States holder under penalties of perjury or otherwise establishes an exemption, and certain other conditions are satisfied. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-United States holder will be allowed as a refund or a credit against such non-United States holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

UNDERWRITING

Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Lehman Brothers Inc. are acting as the representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares of Class A common stock set forth opposite the underwriter's name.

Underwriter	Number of shares
Citigroup Global Markets Inc.	
J.P. Morgan Securities Inc.	
Lehman Brothers Inc.	
Credit Suisse Securities (USA) LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Deutsche Bank Securities Inc.	
Banc of America Securities LLC	
Bear, Stearns & Co. Inc.	
UBS Securities LLC	
Wachovia Capital Markets, LLC	
A.G. Edwards & Sons, Inc.	
HSBC Securities (USA) Inc.	
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all of the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to dealers at the public offering price less a concession not to exceed \$ per share. The underwriters may allow, and dealers may reallow, a concession not to exceed \$ per share on sales to other dealers. If all of the shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms. The representatives have advised us that the underwriters do not intend sales to discretionary accounts to exceed five percent of the total number of shares of our Class A common stock offered by them.

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of Class A common stock at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment.

We, our directors and executive officers and EMC have agreed that, for a period of 180 days from the date of this prospectus, we and they will not, without the prior written consent of Citi, JPMorgan and Lehman Brothers, offer, sell, contract to sell, pledge or otherwise dispose (including by effective economic disposition) of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Exchange Act in respect of, any shares of our common stock or any securities convertible into, or exercisable or exchangeable for, shares of our common stock, or publicly announce an intention to effect any such transaction. The foregoing agreement does not apply to (a) the shares of Class A

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common stock to be sold in this offering; (b) the filing of any registration statement on Form S-8 by us in respect of the Class A common stock or securities convertible into, or exercisable or exchangeable for, the Class A common stock; (c) offers, sales, contracts to sell, the issuance of or the registration of Class A common stock or securities convertible into, or exercisable or exchangeable for, the Class A common stock pursuant to an equity-based compensation plan of ours in effect at the time of the offering; (d) offers, sales, contracts to sell, the issuance of or the registration of Class A common stock by us as consideration for one or more acquisitions, provided that (i) the acquirer of such Class A common stock agrees to be subject to a lock-up agreement in the same form as agreed to by us, and (ii) the aggregate number of shares of Class A common stock issued or agreed to be issued by us in all such acquisitions (measured as of the date of the applicable acquisition agreement) does not exceed _____ shares of Class A common stock; or (e) transfers of Class A common stock or securities convertible into, or exercisable or exchangeable for, Class A common stock by any person other than EMC or us by gift, donation to a charitable organization or transfer to a trust for the benefit of the transferring person or his immediate family, provided the recipient in each case agrees to be bound by the terms of the lock-up in the same form as agreed to by the transferring person, or transfers by will or the laws of descent and distribution. Citi, JPMorgan and Lehman Brothers, in their sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice. In addition, we have agreed with the underwriters that we will require, as a condition to participating in the exchange offer, participating employees who receive options to purchase our Class A common stock and restricted stock awards of our Class A common stock in the exchange to agree to the foregoing lock-up restrictions, subject to the foregoing exceptions, for a period of 180 days from the date of this prospectus. We may release the securities subject to these lock-up agreements only with the prior written consent of Citi, JPMorgan and Lehman Brothers in their sole discretion. Such release may occur at any time and without notice.

The 180-day lock-up period described in the preceding paragraph will be automatically extended if: (1) during the last 17 days of the 180-day period we issue an earnings release or announce material news or a material event relating to us occurs; or (2) prior to the expiration of the 180-day period, we announce that we will release earnings results during the 16-day period following the last day of the 180-day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or event, unless Citi, JPMorgan and Lehman Brothers waive this extension in their sole discretion.

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of the shares described in this prospectus may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the shares that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; or
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of shares described in this prospectus located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

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For purposes of this provision, the expression an “offer to the public” in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state. This EEA selling restriction is in addition to any other selling restrictions set out below.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the shares as contemplated in this prospectus. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of the shares on behalf of the underwriters.

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Neither this prospectus nor any other offering material relating to the shares described in this prospectus has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or by the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus nor any other offering material relating to the shares has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, Article L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier* ;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers* , does not constitute a public offer (*appel public à l'épargne*).

The shares may be resold directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier* .

The offering of the shares has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa* , the “CONSOB”) pursuant to Italian securities legislation and, accordingly, the shares may not and will not be offered, sold or delivered, nor may or will copies of this prospectus or any other documents relating to the shares be distributed in Italy, except (i) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522

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of July 1, 1998, as amended, (the “Regulation No. 11522”) or (ii) in other circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of February 24, 1998 (the “Financial Service Act”) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended.

Any offer, sale or delivery of the shares or distribution of copies of this prospectus or any other document relating to the shares in Italy may and will be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations, and, in particular, will be: (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of September 1, 1993, as amended (the “Italian Banking Law”), Regulation No. 11522, and any other applicable laws and regulations; (ii) in compliance with Article 129 of the Italian Banking Law and the implementing guidelines of the Bank of Italy; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Any investor purchasing the shares in the offering is solely responsible for ensuring that any offer or resale of the shares it purchased in the offering occurs in compliance with applicable laws and regulations.

This prospectus and the information contained herein are intended only for the use of its recipient and, unless in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of the “Financial Service Act” and Article 33, first paragraph, of CONSOB Regulation No. 11971 of May 14, 1999, as amended, is not to be distributed, for any reason, to any third party resident or located in Italy. No person resident or located in Italy other than the original recipients of this document may rely on it or its content.

Italy has only partially implemented the Prospectus Directive, the provisions under the heading “European Economic Area” above shall apply with respect to Italy only to the extent that the relevant provisions of the Prospectus Directive have already been implemented in Italy.

Insofar as the requirements above are based on laws that are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the relevant implementing measure of the Prospectus Directive.

Prior to this offering, there has been no public market for our Class A common stock. Consequently, the initial public offering price for the shares was determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price were our record of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. We cannot assure you, however, that the prices at which the shares will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our common stock will develop and continue after this offering.

We expect to apply to list our Class A common stock on either the New York Stock Exchange under the symbol “VMW.”

The following table shows the underwriting discounts that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters’ over-allotment option.

	Paid by VMware	
	No Exercise	Full Exercise
Per share	\$	\$
Total	\$	\$

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In connection with the offering, the underwriters may purchase and sell shares of Class A common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of shares of our Class A common stock in excess of the number of shares to be purchased by the underwriters in this offering, which creates a syndicate short position. “Covered” short sales are sales of shares made in an amount up to the number of shares represented by the underwriters’ over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short positions involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make “naked” short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of Class A common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the underwriters repurchase shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the exchange on which we are listed or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our portion of the total expenses of this offering will be approximately \$ million.

The underwriters have performed investment banking and advisory services for EMC from time to time for which they have received customary fees and expenses. The underwriters may, from time to time in the future, engage in transactions with and perform services for us and EMC in the ordinary course of their business.

A prospectus in electronic format may be made available by one or more of the underwriters on a website maintained by a third-party vendor or by one or more of the underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representatives will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders. Other than the prospectus in electronic format, the information on such website is not part of the prospectus.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

LEGAL MATTERS

Selected legal matters with respect to the validity of the Class A common stock offered by this prospectus will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, Boston, Massachusetts. The underwriters are represented by Cleary Gottlieb Steen & Hamilton LLP.

EXPERTS

The financial statements as of December 31, 2006 and 2005, for each of the two years in the period ended December 31, 2006 and for the period from January 9, 2004 to December 31, 2004, included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement under the Securities Act with respect to the Class A common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Please refer to the registration statement, exhibits and schedules for further information with respect to the Class A common stock offered by this prospectus. Statements contained in this prospectus regarding the contents of any contract or other document are summaries of the terms of such contracts and documents. We encourage you to read the contracts or documents filed as exhibits to the registration statement. A copy of the registration statement and its exhibits and schedules may be inspected without charge at the SEC's public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's website at www.sec.gov.

Upon completion of this offering, we will be subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and we intend to file reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference room and the website of the SEC referred to above.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of VMware, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholder's equity (deficit) and cash flows present fairly, in all material respects, the financial position of VMware, Inc. and its subsidiaries at December 31, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, and for the period from January 9, 2004 to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed on page F-35 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

/s/ PricewaterhouseCoopers LLP
San Jose, California
April 17, 2007

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

	March 31, 2007 (unaudited)	December 31, 2006	2005
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 258,468	\$ 176,134	\$ 38,653
Accounts receivable, less allowance for doubtful accounts of \$2,527 (unaudited), \$2,139 and \$1,589, respectively	146,892	193,710	96,481
Due from EMC, net	58,423	2,245	—
Deferred income taxes	34,424	27,656	20,867
Other current assets	21,396	22,686	5,973
Total current assets	519,603	422,431	161,974
Furniture, fixtures and equipment, net	58,478	48,675	19,341
Other assets, net	50,731	49,912	26,092
Deferred tax asset	17,797	20,935	6,407
Intangible assets, net	37,230	43,515	59,737
Goodwill	560,478	560,482	526,252
Total assets	<u>\$1,244,317</u>	<u>\$1,145,950</u>	<u>\$ 799,803</u>
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)			
Current liabilities:			
Accounts payable	\$ 42,259	\$ 44,227	\$ 12,465
Accrued expenses	104,281	103,321	42,417
Due to EMC, net	—	—	46,403
Income taxes payable to EMC, current portion	107,495	87,598	63,273
Deferred revenue, current portion	262,120	242,603	131,614
Total current liabilities	516,155	477,749	296,172
Note payable to EMC (see Note M)	800,000	800,000	—
Income taxes payable to EMC, net of current portion	5,903	4,522	1,810
Deferred revenue, net of current portion	78,134	63,912	16,842
Deferred tax liability	27,618	30,579	31,150
Commitments (see Note H)			
Stockholder's equity (accumulated deficit):			
Series preferred stock, par value \$.01; authorized 100,000 share; no shares outstanding	—	—	—
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 32,500 shares at March 31, 2007 (unaudited), December 31, 2006 and 2005	325	325	325
Class B convertible common stock, par value \$.01; authorized 1,000,000 shares; issued and outstanding 300,000 shares at March 31, 2007 (unaudited), December 31, 2006 and 2005	3,000	3,000	3,000
Additional paid-in capital	6,239	—	560,649
Deferred compensation	—	—	(110,145)
(Accumulated deficit)	(193,057)	(234,137)	—
Total stockholder's equity (deficit)	<u>(183,493)</u>	<u>(230,812)</u>	<u>453,829</u>
Total liabilities and stockholder's equity (deficit)	<u>\$1,244,317</u>	<u>\$1,145,950</u>	<u>\$ 799,803</u>

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

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

	For the Three Months Ended March 31,		For the Year Ended December 31,		For the Period from January 9, 2004 to December 31, 2004
	2007	2006	2006	2005	
	(unaudited)				
Revenues:					
License	\$169,557	\$ 90,300	\$491,902	\$287,006	\$ 178,873
Services	89,138	38,777	212,002	100,068	39,883
	258,695	129,077	703,904	387,074	218,756
Costs of revenues:					
Cost of license revenues	20,556	12,405	59,202	40,340	32,811
Cost of services revenues	23,468	9,599	64,180	24,852	12,625
	44,024	22,004	123,382	65,192	45,436
Gross profit	214,671	107,073	580,522	321,882	173,320
Operating expenses:					
Research and development	54,958	22,335	148,254	72,561	43,900
Sales and marketing	86,707	42,566	238,327	124,964	59,976
General and administrative	26,624	11,847	69,602	30,762	19,037
In-process research and development	—	—	3,700	—	15,200
Operating income	46,382	30,325	120,639	93,595	35,207
Investment income	2,977	340	3,271	3,077	53
Other income (expense), net	59	(348)	(1,363)	(1,332)	(110)
Income before taxes	49,418	30,317	122,547	95,340	35,150
Income tax provision	8,338	9,981	36,832	28,565	18,369
Income before cumulative effect of a change in accounting principle	41,080	20,336	85,715	66,775	16,781
Cumulative effect of a change in accounting principle, net of tax of \$0, \$757, \$757, \$0 and \$0	—	1,235	1,235	—	—
Net income	\$ 41,080	\$ 21,571	\$ 86,950	\$ 66,775	\$ 16,781
Net income per weighted average share, basic for Class A and Class B:					
Income per share before cumulative effect of a change in accounting principle	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.20	\$ 0.05
Cumulative effect of a change in accounting principle	—	—	—	—	—
Net income per share	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.20	\$ 0.05
Net income per weighted average share, diluted for Class A and Class B:					
Income per share before cumulative effect of a change in accounting principle	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.20	\$ 0.05
Cumulative effect of a change in accounting principle	—	—	—	—	—
Net income per share	\$ 0.12	\$ 0.06	\$ 0.26	\$ 0.20	\$ 0.05
Weighted average shares, basic and diluted for Class A and Class B	332,500	332,500	332,500	332,500	332,500
Unaudited pro forma net income per weighted average share, basic for Class A and Class B:					
Income per share before cumulative effect of a change in accounting principle	—	—	—	—	—
Cumulative effect of a change in accounting principle	—	—	—	—	—
Unaudited pro forma net income per share	—	—	—	—	—
Unaudited pro forma net income per weighted average share, diluted for Class A and Class B:					
Income per share before cumulative effect of a change in accounting principle	—	—	—	—	—
Cumulative effect of a change in accounting principle	—	—	—	—	—
Unaudited pro forma net income per share	—	—	—	—	—
Unaudited pro forma weighted average shares, basic and diluted for Class A and Class B	—	—	—	—	—

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

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

	For the Three Months Ended March 31,		For the Year Ended December 31,		For the Period from
	2007	2006	2006	2005	January 9, 2004 to December 31, 2004
	(unaudited)				
Operating activities:					
Net income	\$ 41,080	\$ 21,571	\$ 86,950	\$ 66,775	\$ 16,781
Adjustments to reconcile net income to net cash provided by operating activities:					
Cumulative effect of a change in accounting principle	—	(1,235)	(1,235)	—	—
Depreciation and amortization	21,197	12,568	66,573	39,461	30,188
In-process research and development	—	—	3,700	—	15,200
Stock-based compensation	11,644	6,469	51,226	27,071	19,543
Provision for doubtful accounts	457	316	763	202	1,224
Loss on disposal of fixed assets	106	123	4,488	—	—
Changes in assets and liabilities, net of acquisitions:					
Accounts receivable	46,361	13,878	(97,992)	(51,967)	(28,106)
Other assets	(606)	(1,019)	(9,076)	(2,120)	(718)
Due to (from) EMC	(56,178)	5,806	(48,365)	29,252	17,151
Accounts payable	(1,968)	3,516	31,762	7,751	(2,550)
Accrued expenses	960	(1,469)	60,904	20,909	6,237
Income taxes payable to EMC	14,696	5,527	(6,006)	44,062	10,943
Deferred income taxes, net	(6,591)	3,721	(21,888)	(22,683)	7,015
Deferred revenue	33,740	29,854	158,059	79,534	4,756
Other liabilities	—	—	—	—	(3,670)
Net cash provided by operating activities	<u>104,898</u>	<u>99,626</u>	<u>279,863</u>	<u>238,247</u>	<u>93,994</u>
Investing activities:					
Additions to furniture, fixtures and equipment	(16,584)	(10,440)	(52,574)	(20,652)	(5,987)
Capitalized software development costs	(6,672)	(12,342)	(32,523)	(21,558)	(8,155)
Business acquisitions, net of cash acquired	4	27	(46,541)	(2,163)	—
Decrease (increase) in restricted cash	688	172	(10,744)	(1,280)	179
Net cash used in investing activities	<u>(22,564)</u>	<u>(22,583)</u>	<u>(142,382)</u>	<u>(45,653)</u>	<u>(13,963)</u>
Financing activities:					
Dividends paid to EMC	—	—	—	(190,000)	(92,920)
Net cash used in financing activities	<u>—</u>	<u>—</u>	<u>—</u>	<u>(190,000)</u>	<u>(92,920)</u>
Net increase in cash and cash equivalents	82,334	77,043	137,481	2,594	(12,889)
Cash and cash equivalents at beginning of the period	176,134	38,653	38,653	36,059	48,948
Cash and cash equivalents at end of the period	<u>\$258,468</u>	<u>\$115,696</u>	<u>\$ 176,134</u>	<u>\$ 38,653</u>	<u>\$ 36,059</u>
Supplemental disclosures of cash flow information					
Cash paid for interest	\$ —	\$ —	\$ 481	\$ 512	\$ —
Cash paid for taxes	\$ 254	\$ 6	\$ 64,074	\$ 7,121	\$ 412
Non-cash items:					
Dividend declared in the form of a note payable to EMC (see Note M)	\$ —	\$ —	\$ 800,000	\$ —	\$ —
Fair value of EMC stock options issued in acquisition	\$ —	\$ —	\$ 689	\$ —	\$ —

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

VMware, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
(in thousands)

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Deferred Compensation	(Accumulated Deficit)	Stockholder's Equity (Deficit)
	Shares	Par Value	Shares	Par Value				
Acquisition and capitalization of VMware, Inc.	32,500	\$ 325	300,000	\$ 3,000	\$ 657,087	\$ (47,300)	\$ —	\$ 613,112
Grants of EMC restricted stock, net of cancellations and withholdings	—	—	—	—	9,119	(9,119)	—	—
Amortization of deferred compensation	—	—	—	—	—	19,543	—	19,543
Benefit from tax sharing arrangement (see Note A)	—	—	—	—	3,766	—	—	3,766
Dividends declared	—	—	—	—	(76,139)	—	(16,781)	(92,920)
Net income	—	—	—	—	—	—	16,781	16,781
Balance, December 31, 2004	<u>32,500</u>	<u>325</u>	<u>300,000</u>	<u>3,000</u>	<u>593,833</u>	<u>(36,876)</u>	<u>—</u>	<u>560,282</u>
Grants of EMC restricted stock, net of cancellations and withholdings	—	—	—	—	103,885	(103,885)	—	—
Amortization of deferred compensation	—	—	—	—	—	30,616	—	30,616
Charge from tax sharing arrangement (see Note A)	—	—	—	—	(13,844)	—	—	(13,844)
Dividends declared	—	—	—	—	(123,225)	—	(66,775)	(190,000)
Net income	—	—	—	—	—	—	66,775	66,775
Balance, December 31, 2005	<u>32,500</u>	<u>325</u>	<u>300,000</u>	<u>3,000</u>	<u>560,649</u>	<u>(110,145)</u>	<u>—</u>	<u>453,829</u>
EMC stock options issued in acquisitions	—	—	—	—	689	—	—	689
Charge from tax sharing arrangement (see Note A)	—	—	—	—	(32,286)	—	—	(32,286)
Stock-based compensation expense	—	—	—	—	60,006	—	—	60,006
Reclassification of deferred compensation	—	—	—	—	(110,145)	110,145	—	—
Dividends declared (see Note M)	—	—	—	—	(478,913)	—	(321,087)	(800,000)
Net income	—	—	—	—	—	—	86,950	86,950
Balance, December 31, 2006	<u>32,500</u>	<u>325</u>	<u>300,000</u>	<u>3,000</u>	<u>—</u>	<u>—</u>	<u>(234,137)</u>	<u>(230,812)</u>
Charge from tax sharing arrangement (see Note A) (unaudited)	—	—	—	—	(6,583)	—	—	(6,583)
Stock-based compensation expense (unaudited)	—	—	—	—	12,822	—	—	12,822
Net income (unaudited)	—	—	—	—	—	—	41,080	41,080
Balance, March 31, 2007 (unaudited)	<u>32,500</u>	<u>\$ 325</u>	<u>300,000</u>	<u>\$ 3,000</u>	<u>\$ 6,239</u>	<u>\$ —</u>	<u>\$ (193,057)</u>	<u>\$ (183,493)</u>

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

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. The Company and Summary of Significant Accounting Policies

Background

VMware, Inc. (“VMware” or the “Company”) is the leading provider of virtualization solutions. VMware’s 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. VMware’s 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.

On January 9, 2004, EMC Corporation (“EMC”) acquired all the outstanding capital stock of VMware. The acquisition was accounted for as a purchase. Accordingly, all assets and liabilities were adjusted to their fair market value. For financial statement purposes, the allocation of the purchase price paid by EMC for VMware has been reflected in VMware’s stand-alone financial statements.

The purchase price paid by EMC, net of cash received, was \$613.1 million, which consisted of \$539.4 million of cash, \$72.0 million in fair value of EMC’s stock options and \$1.7 million of transaction costs, which primarily consisted of fees paid for financial advisory, legal and accounting services. The fair value of EMC’s stock options issued to VMware employees was estimated using a Black-Scholes option-pricing model. The fair value of the stock options was estimated assuming no expected dividends and the following EMC weighted-average assumptions:

Expected life (in years)	4.0
Expected volatility	60.0%
Risk-free interest rate	2.0%

The intrinsic value allocated to the unvested options issued in the acquisition that had yet to be earned as of the acquisition date was \$47.3 million and was initially recorded as deferred compensation in the purchase price allocation. Deferred compensation which related to those earlier awards has been eliminated against additional paid-in capital in conjunction with the adoption of Financial Accounting Standards No. 123 R, “Shared-Based Payments” (“FAS No. 123R”).

The following represents the allocation of the initial purchase price (table in thousands):

Current assets	\$ 18,659
Furniture, fixtures and equipment	2,472
Other long-term assets	1,520
Intangible assets:	
Goodwill	527,272
Developed technology (weighted-average useful life of 4.6 years)	93,610
Support and subscription contracts (weighted-average useful life of 9.0 years)	3,950
x86 system vendor contracts (weighted-average useful life of 5.0 years)	5,570
Trademarks and tradenames (weighted-average useful life of 5.0 years)	7,580
Non-solicitation agreements (weighted-average useful life of 3.0 years)	40
Acquired in-process research and development (“IPR&D”)	15,200
Total intangible assets	653,222
Deferred compensation	47,300
Current liabilities	(85,054)
Deferred income taxes	(21,337)
Long-term liabilities	(3,670)
Total purchase price	<u>\$613,112</u>

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In determining the purchase price allocation, EMC considered, among other factors, its intention to use the acquired assets, historical demand and estimates of future demand of VMware's products and services. The fair value of intangible assets was primarily based upon the income approach. The rate used to discount the net cash flows to their present values was based upon a weighted average cost of capital of 14%. The discount rate was determined after consideration of market rates of return on debt and equity capital, the weighted average return on invested capital and the risk associated with achieving forecast sales related to the technology and assets acquired from VMware.

The total weighted-average amortization period for the intangible assets subject to amortization is 4.8 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized, which in general reflects the cash flows generated from such assets. None of the goodwill is deductible for income tax purposes.

IPR&D of \$15.2 million was written off at the date of acquisition because the IPR&D had no alternative uses and had not reached technological feasibility. The value assigned to IPR&D was determined utilizing the income approach by determining cash flow projections relating to the IPR&D projects. The stage of completion of each in-process project was estimated to determine the discount rate to be applied to the valuation of the in-process technology. Based upon the level of completion and the risk associated with in-process technology, a discount rate of 50% was deemed appropriate for valuing the IPR&D.

Prior to the acquisition by EMC, VMware's fiscal year ended on January 31. In connection with the acquisition, VMware's fiscal year end was changed to December 31 to conform to EMC's year end. The results of operations of the predecessor for the first eight days of the new fiscal year ended December 31, 2004 have been excluded from the consolidated financial statements.

VMware is currently a wholly owned subsidiary of EMC. VMware's certificate of incorporation was amended to authorize shares of Class A and Class B common stock. After a conversion of existing common stock into Class A and Class B common stock, EMC holds 32.5 million shares of Class A common stock and 300.0 million shares of Class B common stock. The ownership rights of Class A and Class B common stockholders are the same except with respect to voting, conversion, certain actions that require the consent of holders of Class B and other protective provisions. Each share of Class B common stock has ten votes while each share of Class A common stock has one vote for all matters to be voted on by stockholders. The capitalization of the Company, including all share and per share data has been retroactively adjusted to reflect the recapitalization.

As discussed in Note M, in April 2007, the Company declared an \$800.0 million dividend to EMC payable in the form of a note. The dividend has been given retroactive treatment in the December 31, 2006 consolidated balance sheet.

Basis of Presentation

The financial statements have been derived from the consolidated financial statements and accounting records of EMC using the historical results of operations and historical basis of assets and liabilities for VMware and its wholly owned subsidiaries. The financial statements include expense allocations for certain corporate functions provided to VMware by EMC, including general corporate expenses. These allocations were based on estimates of the level of effort or resources incurred on behalf of VMware. Additionally, certain other costs incurred by EMC for the direct benefit of VMware, such as rent, salaries and benefits have been included in VMware's financial statements.

Management believes the assumptions underlying the financial statements and the above allocations are reasonable. However, the financial statements included herein may not necessarily reflect results of operations,

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

financial position and cash flows as if VMware had operated as a stand-alone company during all periods presented. Accordingly, historical results of VMware should not be relied upon as an indicator of the future performance of VMware.

Accounting Principles

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America.

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.

Unaudited Financial Information

The accompanying consolidated balance sheet as of March 31, 2007, the consolidated statements of income and cash flows for the three months ended March 31, 2007 and 2006 and the consolidated statements of stockholder's equity for the three months ended March 31, 2007 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position and results of operations and cash flows for the three months ended March 31, 2007 and 2006. The financial data and other information disclosed in the notes to the financial statements related to the three-month periods are also unaudited. The results of the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the year ended December 31, 2007 or for any other interim period or for any other future year.

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. Actual results could differ from those estimates.

Revenue Recognition

VMware derives revenue from the licensing of software and related services. VMware recognizes revenue for software products and related services in accordance with the American Institute of Certified Public Accountants' Statement of Position (SOP) 97-2, "*Software Revenue Recognition*," as amended. VMware recognizes revenue 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 revenue .

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

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

VMware licenses its software under perpetual licenses through its direct sales force and through its indirect channel of distributors, resellers, x86 system vendors and systems integrators. VMware defers revenue relating to products that have shipped to its indirect channel until its products are sold through the channel. VMware obtains sell-through information from distributors and resellers on a monthly basis. For VMware's indirect channel partners who do not report sell-through data, VMware determines sell-through based on such distributors' and resellers' accounts receivable balances and other relevant factors. For x86 system vendors, revenue is recognized in arrears upon the receipt of binding royalty reports.

For all sales, VMware uses either a purchase order or a signed license agreement as evidence of an arrangement. Sales through distributors and resellers are evidenced by a master license agreement, together with purchase orders on a transaction-by-transaction basis.

The Company'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.

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

VMware also offers marketing development funds to its channel partners. VMware records the cost of the marketing development funds, based on the maximum potential liability, as a reduction of revenue.

Services revenue .

Services revenue consists of software maintenance and professional services.

VMware recognizes 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 that have durations of 90 days or less are recognized in revenue upon completion of the engagement. Professional services engagements of more than 90 days for which VMware is able to make reasonably dependable estimates of progress toward completion are recognized on a proportional performance basis based upon the hours incurred. Revenue on all other engagements is recognized upon completion.

Multiple element arrangements .

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

Customers under maintenance agreements are entitled to receive updates and upgrades on a when-and-if-available basis. In the event upgrades have been announced but not delivered, product revenue is deferred after

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the announcement date until delivery occurs unless the company has established VSOE of fair value for the upgrade. VSOE of fair value of upgrades is established based upon the price set by management. VMware has a history of selling upgrades on a stand-alone basis.

Deferred revenue includes unearned maintenance fees, professional services fees and license fees.

Foreign Currency Translation

The U.S. dollar is the functional currency of VMware’s foreign subsidiaries. Gains and losses from foreign currency transactions are included in other expense, net, and consist of losses of \$0.6 million in both 2006 and 2005.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity of 90 days or less at the time of purchase. Cash equivalents consist of money market funds.

Under the terms of various agreements, VMware had restricted cash of \$13.3 million and \$2.5 million at December 31, 2006 and 2005, respectively. Of these amounts, \$10.2 million and \$2.5 million were included in other current assets at December 31, 2006 and 2005, respectively, and \$3.1 million was included in other assets, net at December 31, 2006.

Allowance for Doubtful Accounts

VMware maintains an allowance for doubtful accounts for estimated probable losses on uncollectible accounts receivable. The allowance is based upon the creditworthiness of VMware’s customers, historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account.

Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are recorded at cost. Depreciation commences upon placing the asset in service and is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

Furniture and fixtures	5 years
Equipment	2 to 5 years
Leasehold improvements	Shorter of lease term or useful life

Upon retirement or disposition, the asset cost and related accumulated depreciation are removed with any gain or loss recognized in the income statement. Repair and maintenance costs, including planned maintenance, are expensed as incurred.

VMWARE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*****Research and Development and Capitalized Software Development Costs***

Costs incurred in the research and development of new software products are expensed as incurred until technological feasibility is established. Technological feasibility is defined as the earlier of the completion of a detail program design or a working model. Such costs include salaries and benefits, including stock-based compensation, consultants, facilities-related costs, equipment costs, and depreciation. Software development costs incurred subsequent to establishing technological feasibility through the general release of the software products are capitalized. Capitalized costs are amortized over periods ranging from 18 to 24 months, which represent the products' estimated useful lives. Unamortized software development costs were \$46.1 million (unaudited), \$46.5 million and \$25.8 million at March 31, 2007 and December 31, 2006 and 2005, respectively, and are included in other assets, net. Amortization expense was \$8.0 million (unaudited), \$2.8 million (unaudited), \$22.3 million, \$6.2 million and \$1.3 million for the three months ended March 31, 2007 and 2006, and for the years ended December 31, 2006, 2005 and 2004, respectively. Amounts capitalized were \$7.6 million (unaudited), \$17.7 million (unaudited), \$43.0 million, \$25.1 million and \$8.2 million for the three months ended March 31, 2007 and 2006, and for the years ended December 31, 2006, 2005 and 2004, respectively.

Long-lived Assets

Purchased intangible assets, other than goodwill, are amortized over their estimated useful lives which range from three to nine years. Goodwill is carried at its historical cost.

VMware periodically reviews long-lived assets for impairment in accordance with SFAS No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets". VMware initiates reviews for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If impairment is indicated, the asset is written down to its estimated fair value.

VMware tests goodwill for impairment in accordance with SFAS 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.

Advertising

Advertising production costs are expensed as incurred. Advertising expense was \$1.6 million, \$0.9 million and \$0.3 million in 2006, 2005 and 2004, respectively.

Income Taxes

Income taxes as presented herein are calculated on a separate tax return basis, although VMware is included in the consolidated tax return of EMC. Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax credits are generally recognized as reductions of income tax provisions in the year in which the credits arise. The measurement of deferred tax assets is reduced by a valuation allowance if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

VMware does not provide for a U.S. income tax liability on undistributed earnings of VMware's foreign subsidiaries. The earnings of non-U.S. subsidiaries, which reflect full provision for non-U.S. income taxes, are currently indefinitely reinvested in non-U.S. operations or will be remitted substantially free of additional tax.

The difference between the income taxes payable that is calculated on a separate return basis and the amount actually paid to EMC pursuant to VMware's tax sharing agreement is presented as a component of additional paid-in capital.

Sales Taxes

Sales and other taxes collected from customers and subsequently remitted to government authorities are recorded as accounts receivable with a corresponding offset to sales tax payable. The balances are removed from the consolidated balance sheet as cash is collected from the customer and as remitted to the tax authority.

Earnings Per Share

Prior to the completion of the IPO, VMware had 32.5 million shares of Class A common stock and 300.0 million shares of Class B common stock outstanding. There is no difference between basic and diluted earnings per share because there were no outstanding options to purchase shares of VMware common stock or other potentially dilutive securities outstanding prior to the offering. For purposes of calculating earnings per share, the Company uses the two-class method. Because both classes share the same rights in dividends, basic and diluted earnings per share was the same for both classes. In connection with the IPO, eligible employees will be offered the right to exchange equity instruments held in EMC's common stock for equity instruments of VMware's common stock, and certain employees will be awarded stock option grants to purchase shares of VMware's common stock.

Unaudited pro forma per share data gives effect, in the weighted average shares used in the calculation, to the additional shares, which, when multiplied by the assumed offering price of \$ 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 \$800.0 million dividend declared in April 2007 (see Note M) that exceeded the most recent year's net earnings.

Comprehensive Income

Comprehensive income is equal to net income.

Concentrations of Risks

Financial instruments which potentially subject VMware to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions of reputable credit and therefore bear minimal credit risk. VMware places cash and cash equivalents in money market funds and limit the amount of investment with any one issuer.

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 industry reputation or a credit evaluation. Credit is extended to existing customers based on ongoing credit evaluations, prior payment history and demonstrated financial stability.

VMWARE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Two distributors accounted for 28% and 11%, respectively, of VMware's accounts receivable balance as of December 31, 2006. Two distributors accounted for 30% and 11%, respectively, of VMware's accounts receivable balance as of December 31, 2005. One of these distributors accounted for 29%, 30% and 27% of revenues in 2006, 2005 and 2004, respectively.

Accounting for Stock-Based Compensation

VMware employees have been granted stock options for and restricted stock awards of EMC's common stock. On January 1, 2006, FAS No. 123R became effective. The standard requires recognizing compensation costs for all share-based payment awards made to employees based upon the awards' estimated grant date fair value. The standard covers employee stock options, restricted stock and employee stock purchases related to employee stock purchase plans. Additionally, VMware applied the provisions of the SEC's Staff Accounting Bulletin No. 107 on Share-Based Payment to VMware's adoption of FAS No. 123R. Previously, VMware elected to account for these share-based payment awards under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"). Although the equity awards have been made for grants in EMC's common stock, for purposes of presentation within these financial statements, the compensation related to these equity grants has been included as a component of stockholder's equity.

FAS No. 123R was adopted using the modified prospective transition method which does not result in the restatement of results from prior periods, and, accordingly, the results of operations for the year ended December 31, 2006 and future periods will not be comparable to the historical results of operations of VMware.

Under the modified prospective transition method, FAS No. 123R applies to new equity awards and to equity awards modified, repurchased or canceled after the adoption date. Additionally, compensation cost for the portion of awards granted prior to the adoption date for which the requisite service has not been rendered as of the adoption date is recognized as the requisite service is rendered. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated in the prior period pro forma disclosures under FAS No. 123, "Accounting for Stock-Based Compensation" ("FAS No. 123") as reported by EMC. The compensation cost for those earlier awards is attributed to periods beginning on or after the adoption date using the attribution method that was used under FAS No. 123, which was the straight-line method. Instead of recognizing forfeitures only as they occur, VMware now estimates an expected forfeiture rate which is utilized to determine VMware's expense. Deferred compensation which related to those earlier awards has been eliminated against additional paid-in capital in conjunction with the adoption of FAS No. 123R.

For stock options, VMware has utilized the Black-Scholes option-pricing model to determine the fair value of VMware's stock option awards. For stock options and restricted stock, VMware recognizes compensation cost on a straight-line basis over the awards' vesting periods for those awards which contain only a service vesting feature.

In connection with the IPO, EMC will conduct an exchange offer enabling eligible VMware employees to exchange their options to acquire EMC common stock for options to acquire VMware common stock and to exchange restricted stock awards of EMC's common stock for restricted stock awards of VMware's common stock based on a formulaic exchange ratio which will be determined by dividing the two-day volume-weighted average price of EMC's common stock for the last two full days of the exchange offer by the initial public offering price of VMware's Class A common stock. The Company expects the exchange offer will expire on the date of the pricing of the offering. The exchange offer is being structured to generally retain the intrinsic value of the tendered EMC securities. The number of VMware options received in exchange for EMC options will be determined by multiplying the number of tendered EMC options by the exchange ratio. The exercise price of the

VMWARE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

VMware options received in exchange will be the exercise price of the tendered EMC options divided by the exchange ratio. The number of shares of VMware restricted stock received in exchange for EMC restricted stock will be determined by multiplying the number of tendered EMC restricted shares by the exchange ratio. The exchange offer will likely result in a reduction in diluted earnings per share due to the future inclusion of the potential VMware common shares.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109” (“FIN No. 48”). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS No. 109, “Accounting for Income Taxes.” FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed “more-likely-than-not” to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. VMware adopted FIN No. 48 on January 1, 2007, and it did not have a material impact on our financial statements.

In September 2006, the FASB issued FAS No. 157, “Fair Value Measurements” (“FAS No. 157”), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting principles. FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and should be applied prospectively, except in the case of a limited number of financial instruments that require retrospective application. VMware is currently evaluating the potential impact of FAS No. 157 on VMware’s financial position and results of operations.

In February 2007, the FASB issued FAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FAS 115” (“FAS No. 159”). The new statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item’s fair value in subsequent reporting periods must be recognized in current earnings. FAS No. 159 is effective for fiscal years beginning after November 15, 2007. VMware is currently evaluating the potential impact of FAS No. 159 on VMware’s financial position and results of operations.

B. Business Acquisitions, Goodwill and Intangible Assets

In June 2006, VMware acquired all of the outstanding capital stock of Akimbi Systems, Inc. (“Akimbi”), a developer of software that builds upon and leverages virtualization technology to improve the efficiency and effectiveness of enterprise application development operations and the IT organizations that support them. Through the acquisition of Akimbi, VMware’s capabilities for virtualizing information by providing virtualization solutions to the development and test environments have been enhanced.

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The purchase price, net of cash received, was \$47.3 million, which consisted of \$45.9 million of cash, \$0.7 million in fair value of EMC's stock options and \$0.7 million of transaction costs, which primarily consisted of fees incurred by VMware for financial advisory, legal and accounting services. The fair value of EMC's stock options issued to employees of Akimbi was estimated using a Black-Scholes option-pricing model. The fair value of the stock options was estimated assuming no expected dividends and the following weighted-average assumptions:

Expected life (in years)	2.5
Expected volatility	35.0%
Risk-free interest rate	5.0%

The consolidated financial statements include the results of Akimbi from the date of acquisition. The purchase price has been allocated to the tangible and identifiable intangible assets acquired and the liabilities assumed based on estimated fair values as of the acquisition date.

The following represents the allocation of the purchase price (table in thousands):

Current assets	\$ 410
Furniture, fixtures and equipment	527
Other long-term assets	24
Intangible assets:	
Goodwill	34,254
Developed technology (weighted-average useful life of 5.0 years)	9,300
IPR&D	3,700
Total intangible assets	47,254
Current liabilities	(546)
Deferred income tax liability	(380)
Total purchase price	<u>\$47,289</u>

In determining the purchase price allocation, VMware considered, among other factors, VMware's intention to use the acquired assets and historical and estimated future demand of Akimbi's products. The fair value of intangible assets was primarily based upon the income approach. The rate used to discount the net cash flows to their present values was based upon a weighted average cost of capital of 25%. The discount rate was determined after consideration of market rates of return on debt and equity capital, the weighted average return on invested capital and the risk associated with achieving forecasted sales related to the technology and assets acquired from Akimbi.

The amortization period for the developed technology is 5.0 years. The developed technology is being amortized based upon the pattern in which the economic benefits of the asset is being utilized, which in general reflects the cash flows generated from the asset. None of the goodwill is deductible for income tax purposes.

The IPR&D of \$3.7 million was written off at the date of acquisition because it was determined that the IPR&D had no alternative uses and had not reached technological feasibility. The value assigned to IPR&D was determined utilizing the income approach by determining cash flow projections relating to the identified IPR&D project. The stage of completion for the in-process project was estimated to determine the discount rates to be applied to the valuation of the in-process technology. Based upon the level of completion and the risk associated with in-process technology, VMware applied a discount rate of 35% to value the project.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Intangible Assets

Intangible assets, excluding goodwill as of December 31, 2006 and 2005, consist of (tables in thousands):

	Gross Carrying	Accumulated	Net Book
<u>2006 Category</u>	<u>Amount</u>	<u>Amortization</u>	<u>Value</u>
Purchased technology	\$ 102,910	\$ (70,684)	\$32,226
Trademarks and tradenames	7,580	(3,200)	4,380
Customer relationships and customer lists	5,290	(1,774)	3,516
Other	5,660	(2,267)	3,393
Total intangible assets, excluding goodwill	<u>\$ 121,440</u>	<u>\$ (77,925)</u>	<u>\$43,515</u>

	Gross Carrying	Accumulated	Net Book
<u>2005 Category</u>	<u>Amount</u>	<u>Amortization</u>	<u>Value</u>
Purchased technology	\$ 93,610	\$ (48,845)	\$44,765
Trademarks and tradenames	7,580	(1,736)	5,844
Customer relationships and customer lists	5,290	(809)	4,481
Other	5,660	(1,013)	4,647
Total intangible assets, excluding goodwill	<u>\$ 112,140</u>	<u>\$ (52,403)</u>	<u>\$59,737</u>

Amortization expense on intangibles was \$25.5 million, \$26.1 million and \$26.3 million in 2006, 2005 and 2004, respectively. As of December 31, 2006, amortization expense on intangible assets for the next five years is expected to be as follows (table in thousands):

2007	\$25,150
2008	12,344
2009	3,465
2010	1,807
2011	397
Total	<u>\$43,163</u>

Changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2005 consist of the following (table in thousands):

	2006	2005
Balance, beginning of the year	\$526,252	\$525,479
Goodwill acquired	34,258	4,644
Finalization of purchase price allocations	(28)	(3,871)
Balance, end of the year	<u>\$560,482</u>	<u>\$526,252</u>

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

C. Other Current Assets

Other current assets consists of (table in thousands):

	March 31, 2007 (unaudited)	December 31, 2006	December 31, 2005
Restricted cash	\$ 10,002	\$ 10,173	\$ 2,515
Prepaid expenses	6,975	7,337	2,522
Other receivables	4,232	4,950	492
Other	187	226	444
	<u>\$ 21,396</u>	<u>\$ 22,686</u>	<u>\$ 5,973</u>

D. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment consists of (table in thousands):

	March 31, 2007 (unaudited)	December 31, 2006	December 31, 2005
Furniture and fixtures	\$ 5,139	\$ 1,338	\$ 99
Equipment	71,256	57,321	23,677
Improvements	16,721	11,456	2,758
Construction in progress	3,602	9,942	5,660
	<u>96,718</u>	<u>80,057</u>	<u>32,194</u>
Accumulated depreciation	<u>(38,240)</u>	<u>(31,382)</u>	<u>(12,853)</u>
	<u>\$ 58,478</u>	<u>\$ 48,675</u>	<u>\$ 19,341</u>

Depreciation expense was \$6.9 million (unaudited), \$3.5 million (unaudited), \$18.7 million, \$7.2 million and \$2.6 million for the three months ended March 31, 2007 and 2006, and the years ended December 31, 2006, 2005 and 2004, respectively.

E. Accrued Expenses

Accrued expenses consist of (table in thousands):

	March 31, 2007 (unaudited)	December 31, 2006	December 31, 2005
Salaries and benefits	\$ 42,256	\$ 45,576	\$ 20,720
Accrued rebates	31,365	28,655	7,891
Other	30,660	29,090	13,806
	<u>\$104,281</u>	<u>\$ 103,321</u>	<u>\$ 42,417</u>

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

F. Income Taxes

VMware's provision for income taxes consists of (table in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Federal:			
Current	\$ 53,101	\$ 47,088	\$11,021
Deferred	(20,083)	(20,840)	5,957
	<u>33,018</u>	<u>26,248</u>	<u>16,978</u>
State:			
Current	3,096	2,942	(214)
Deferred	(2,184)	(1,653)	1,058
	<u>912</u>	<u>1,289</u>	<u>844</u>
Foreign:			
Current	2,902	1,028	547
Deferred	—	—	—
	<u>2,902</u>	<u>1,028</u>	<u>547</u>
Total provision for income taxes	<u>\$ 36,832</u>	<u>\$ 28,565</u>	<u>\$18,369</u>

A reconciliation of VMware's income tax provision to the statutory federal tax rate is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Statutory federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.7%	1.4%	2.4%
Tax rate differential for international jurisdictions	(21.0%)	(16.7%)	(12.4%)
U.S. tax credits	(4.9%)	(3.9%)	(8.0%)
Permanent items, including Subpart F Income, non-deductible stock-based compensation expenses and IPR&D charges	20.8%	16.1%	38.7%
Other	(0.5%)	(1.9%)	(3.4%)
Effective tax rate	<u>30.1%</u>	<u>30.0%</u>	<u>52.3%</u>

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The components of the current and non-current deferred tax assets are as follows (table in thousands):

	December 31, 2006		December 31, 2005	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
Current:				
Accounts receivable	\$ 630	\$ —	\$ 604	\$ —
Accrued expenses	9,402	—	3,460	—
Deferred revenue	16,778	—	16,740	—
Net operating loss carryforwards	846	—	63	—
Total current	27,656	—	20,867	—
Non-current:				
Property, plant and equipment, net	2,749	—	1,007	—
Intangible and other assets, net	—	(30,579)	—	(31,150)
Deferred revenue	15,698	—	5,400	—
Credit carryforwards	612	—	—	—
Net operating loss carryforwards	1,876	—	—	—
Total non-current	20,935	(30,579)	6,407	(31,150)
Total deferred tax assets and liabilities	\$ 48,591	\$ (30,579)	\$ 27,274	\$ (31,150)

VMware has federal net operating loss carryforwards of \$7.0 million from acquisitions in 2005 and 2006. These carryforwards expire at different periods through 2026. Portions of these carryforwards are subject to annual limitations, including Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), for U.S. tax purposes. VMware expects to be able to fully use these net operating losses against future income.

Deferred income taxes have not been provided on basis differences related to investments in foreign subsidiaries. These basis differences were approximately \$12.9 million and \$0.5 million at December 31, 2006 and 2005, respectively, and consisted of undistributed earnings permanently invested in these entities. The unrecognized deferred tax liability associated with these unremitted earnings is approximately \$4.4 million and \$0.1 million as of December 31, 2006 and 2005, respectively. Income before income taxes from foreign operations for 2006, 2005 and 2004 was \$82.0 million, \$48.5 million and \$14.0 million, respectively.

The difference between the income taxes payable that is calculated on a separate return basis and the amount actually paid to EMC pursuant to VMware’s tax sharing agreement is presented as a component of additional paid-in capital. These differences resulted in an increase of additional paid-in capital of \$3.8 million in 2004 and a decrease in additional paid-in capital of \$13.8 million and \$32.3 million in 2005 and 2006, respectively.

VMware adopted FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes” (“FIN No. 48”), at the beginning of fiscal year 2007. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FAS No. 109, “Accounting for Income Taxes.” FIN No. 48 prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed “more-likely-than-not” to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. VMware had no changes to the amount of its income tax payable as a result of implementing FIN No. 48. Prior to

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the adoption of FIN No. 48, VMware's policy was to classify accruals for uncertain positions as a current liability unless it was highly probable that there would not be a payment or settlement for such identified risks for a period of at least a year. VMware reclassified \$4.5 million of income tax liabilities from current to non-current liabilities because a cash settlement of these liabilities is not anticipated within one year of the balance sheet date.

As of January 1, 2007, we had \$4.4 million of unrecognized tax benefits; if recognized, all of this amount would be recognized as a reduction of income tax expense impacting the effective income tax rate. This amount did not change significantly during the three months ended March 31, 2007. We are subject to U.S. federal income tax and various state, local and international income taxes in numerous 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.

We have substantially concluded all U.S. federal income tax matters for years through 2004. The U.S. federal income tax audit for 2005 and 2006 is scheduled to commence in June 2007, and we have income tax audits in progress in numerous state, local and international jurisdictions in which we operate. In our international jurisdictions that comprise a significant portion of our operations, the years that may be examined vary, with the earliest year being 2003. Based on the outcome of examinations of VMware, the result of the expiration of statutes of limitations for specific jurisdictions or the result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our statement of financial position. It is possible that one or more of these audits may be finalized within the next 12 months. However, based on the status of examinations, and the protocol of finalizing audits, it is not possible to estimate the impact of such changes, if any, to our previously recorded uncertain tax positions.

We recognize interest expense and penalties related to income tax matters in income tax expense. In addition to the unrecognized tax benefits noted above, we had accrued \$0.1 million of interest as of January 1, 2007. The amount did not change significantly during the three months ended March 31, 2007.

G. 401(k) Plan

VMware employees participate in EMC's 401(k) plan. VMware matches pre-tax employee contributions up to 6% of eligible compensation during each pay period (subject to the \$750 maximum match each quarter). Matching contributions are immediately 100% vested. VMware contributions for employees were \$3.1 million in 2006, \$2.0 million in 2005 and \$0.9 million in 2004.

Employees may elect to invest their contributions in a variety of funds, including an EMC stock fund. The 401(k) plan limits an employee's maximum investment allocation in the EMC stock fund to 30% of his or her total contribution. The matching contribution mirrors the investment allocation of the employee's contribution.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

H. Commitments and Contingencies

Operating Lease Commitments

VMware leases office facilities and equipment under various operating leases. Facility leases generally include renewal options. Rent expense for 2006, 2005 and 2004 was \$14.0 million, \$5.8 million and \$3.8 million, respectively.

VMware's future lease commitments are as follows (table in thousands):

2007	\$ 13,562
2008	8,966
2009	7,864
2010	7,617
2011	6,632
Thereafter	253,442
Total minimum lease payments	<u>\$298,083</u>

Outstanding Obligations

At December 31, 2006 VMware had outstanding purchase orders aggregating \$46.7 million. While the purchase orders are generally cancelable without penalty, certain vendor agreements provide for percentage-based cancellation fees or minimum restocking charges based on the nature of the product or service. In addition, VMware had outstanding construction contracts for VMware's new headquarter facilities aggregating \$77.6 million at December 31, 2006. EMC currently reimburses VMware for the costs VMware incurs under these contracts and will continue to do so through the date of VMware's initial public offering, at which time VMware will purchase the facilities from EMC. Total costs incurred through December 31, 2006 were \$63.5 million. There will be additional costs incurred through the initial public offering date.

Guarantees and Indemnification Obligations

VMware enters into agreements in the ordinary course of business with, among others, customers, distributors, resellers, x86 system vendors and systems integrators. Most of these agreements require VMware to indemnify the other party against third-party claims alleging that a VMware product infringes or misappropriates a patent, copyright, trademark, trade secret and/or other intellectual property right. Certain of these agreements require VMware to indemnify the other party against certain claims relating to property damage, personal injury or the acts or omissions of VMware, its employees, agents or representatives.

VMware has agreements with certain vendors, financial institutions, lessors and service providers pursuant to which VMware has agreed to indemnify the other party for specified matters, such as acts and omissions of VMware, its employees, agents or representatives.

VMware has procurement or license agreements with respect to technology that is used in VMware's products and agreements in which VMware obtains rights to a product from an x86 system vendor. Under some of these agreements, VMware has agreed to indemnify the supplier for certain claims that may be brought against such party with respect to VMware's acts or omissions relating to the supplied products or technologies.

VMware has agreed to indemnify the directors and officers of VMware and VMware's subsidiaries, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or officer.

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In connection with certain acquisitions, VMware has agreed to indemnify the current and former directors, officers and employees of the acquired company in accordance with the acquired company's by-laws and charter in effect immediately prior to the acquisition or in accordance with indemnification or similar agreements entered into by the acquired company and such persons. VMware has maintained the acquired company's directors' and officers' insurance, which should enable VMware to recover a portion of any future amounts paid.

Based upon VMware's historical experience and information known as of December 31, 2006, VMware believes liability on the above guarantees and indemnities at December 31, 2006 is insignificant.

Litigation

VMware is a party to various legal proceedings which VMware considers routine and incidental to VMware's business. Management does not expect the results of any of these proceedings to have a material adverse effect on VMware's business, results of operations or financial condition.

I. Stockholder's Equity

Common Stock

Following this offering, VMware will have two classes of authorized common stock: Class A common stock and Class B common stock.

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of VMware's Class A common stock and Class B common stock are entitled to receive dividends, out of assets legally available, sharing equally in all such dividends on a per share basis, at the times and in the amounts that VMware's board of directors may determine from time to time.

Conversion Rights

Each share of Class B common stock is convertible while held by EMC or its successor-in-interest at the option of EMC or its successor-in-interest into one share of Class A common stock. If VMware's Class B common stock is distributed to security holders of EMC in a transaction (including any distribution in exchange for shares of EMC's or its successor-in-interest's common stock or other securities) intended to qualify as a distribution under Section 355 of the Code, or any corresponding provision of any successor statute, shares of VMware's Class B common stock will no longer be convertible into shares of Class A common stock. Prior to any such distribution, all shares of Class B common stock will automatically be converted into shares of Class A common stock upon the transfer of such shares of Class B common stock by EMC other than to any of EMC's successors or any of its subsidiaries (excluding VMware). If such a distribution has not occurred, each share of Class B common stock will also automatically convert at such time as the number of shares of common stock owned by EMC or its successor-in-interest falls below 20% of the outstanding shares of VMware's common stock. All conversions will be effected on a share-for-share basis.

Voting Rights

Except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to 10 votes per share on all matters to be voted on by VMware's stockholders and except with respect to conversion, certain actions that require the consent of holders of Class B common stock and other

VMWARE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

protective provisions as set forth in this prospectus, the holders of Class A common stock and Class B common stock have identical rights. Generally, all matters to be voted on by stockholders must be approved by a majority of the votes entitled to be cast at a meeting by all shares of Class A common stock and Class B common stock present in person or represented by proxy, voting together as a single class, subject to any voting rights granted to holders of any preferred stock.

No Preemptive or Redemption Rights

VMware's Class A common stock and Class B common stock are not entitled to preemptive rights and are not subject to redemption or sinking fund provisions.

Right to Receive Liquidation Distributions

Upon VMware's liquidation, dissolution or winding-up, the holders of VMware's Class A common stock and Class B common stock are entitled to share equally in all of VMware's assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock.

Approval Rights of Holders of Class B Common Stock

In addition to any other vote required by law or by VMware's certificate of incorporation, until the first date on which EMC ceases to beneficially own 20% or more of the outstanding shares of VMware's common stock, the prior affirmative vote or written consent of EMC as the holder of the Class B common stock is required (subject in each case to certain exceptions) in order to authorize VMware 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 VMware's subsidiaries or pursuant to this offering or VMware's employee benefit plans;
- dissolve, liquidate or wind VMware up;
- declare dividends on VMware's 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 VMware's certificate of incorporation or bylaws.

Preferred Stock

VMware's series preferred stock may be issued from time to time in one or more series, with such terms as VMware's board of directors may determine, without further action by VMware's stockholders.

Equity Plans

VMware employees participate in the EMC Corporation 2003 Stock Plan (the "2003 Plan") which provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units. The exercise price for a stock option shall not be less than 100% of the fair market value of EMC's common stock on the date of grant. Options generally become exercisable in annual installments over a period of three to five years after

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the date of grant and expire ten years after the date of grant. Incentive stock options will expire no later than ten years after the date of grant. Restricted stock is common stock that is subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Awards of restricted stock that vest only by the passage of time will not vest fully in less than three years after the date of grant.

In addition to the 2003 Plan, VMware employees have participated in EMC's three employee stock option plans (the "1985 Plan," the "1993 Plan" and the "2001 Plan"). Under the terms of each of the three plans, the exercise price of incentive stock options issued must be equal to at least the fair market value of EMC's common stock on the date of grant. In the event that non-qualified stock options are granted under the 1985 Plan, the exercise price may be less than the fair market value at the time of grant, but in the case of employees not subject to Section 16 of the Securities Exchange Act of 1934, not less than par value (which is \$0.01 per share), and in the case of employees subject to Section 16, not less than 50% of the fair market value on the date of grant. In the event that non-qualified stock options are granted under the 1993 Plan or the 2001 Plan, the exercise price may be less than the fair market value at the time of grant but not less than par value.

Employee Stock Purchase Plan

Under EMC's 1989 Employee Stock Purchase Plan (the "1989 Plan"), eligible VMware employees may purchase shares of EMC's common stock through payroll deductions at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares are granted twice yearly, on January 1 and July 1, and are exercisable on the succeeding June 30 or December 31. In 2006, 2005 and 2004, 1.0 million shares, 0.5 million shares and 0.3 million shares, respectively, were purchased under the 1989 Plan by VMware employees at a weighted-average purchase price per share of \$9.32, \$11.61 and \$9.58, respectively. Total cash proceeds to EMC from the purchase of shares under the 1989 Plan by VMware employees in 2006, 2005 and 2004 were \$9.0 million, \$5.3 million and \$3.2 million, respectively.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Options

The following tables summarize option activity for VMware employees in EMC stock options (shares in thousands):

	Number of Shares	Wtd. Avg. Exercise Price
VMware options exchanged for EMC options at January 8, 2004 (see Note A)	6,311	\$ 1.59
Options relating to employees transferred from EMC	122	24.10
Granted	4,917	11.69
Forfeited	(469)	6.46
Expired	(39)	13.08
Exercised	(1,467)	1.22
Outstanding, December 31, 2004	9,375	6.95
Options relating to employees transferred from EMC	128	22.04
Granted	3,442	13.84
Forfeited	(1,021)	9.26
Expired	(11)	9.42
Exercised	(1,328)	3.41
Outstanding, December 31, 2005	10,585	9.59
Options relating to employees transferred from EMC	293	23.59
Options exchanged in a business acquisition	265	0.40
Granted	4,941	12.51
Forfeited	(847)	12.22
Expired	(114)	14.80
Exercised	(1,298)	2.35
Outstanding, December 31, 2006	13,825	11.23
Options relating to employees transferred from EMC (unaudited)	354	25.22
Granted (unaudited)	879	13.91
Forfeited (unaudited)	(207)	12.71
Expired (unaudited)	(14)	13.06
Exercised (unaudited)	(291)	3.79
Outstanding, March 31, 2007 (unaudited)	14,546	11.86

The total pre-tax intrinsic values of options exercised for the three months ended March 31, 2007 and 2006, and the years ended December 31, 2006, 2005 and 2004 were \$3.0 million (unaudited), \$3.6 million (unaudited), \$13.2 million, \$13.6 million and \$17.3 million, respectively. Cash proceeds from the exercise of stock options paid to EMC were \$1.1 million (unaudited), \$1.0 million (unaudited), \$3.0 million, \$4.5 million and \$1.8 million for the three months ended March 31, 2007 and 2006, and the years ended December 31, 2006, 2005 and 2004, respectively.

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Summarized information about stock options outstanding that are expected to vest and stock options exercisable at March 31, 2007 (unaudited) is as follows (shares and intrinsic values in thousands):

Range of Exercise Price	Options Outstanding and Expected to Vest				Options Exercisable			
	Number of Options	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Aggregate Intrinsic Value	Number of Options	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Aggregate Intrinsic Value
\$ 0.01 - \$ 5.00	1,887	5.90	\$ 1.29	\$23,699	1,724	5.68	\$ 1.37	\$21,514
\$ 5.01 - \$10.00	932	8.63	9.22	4,313	159	4.81	6.47	1,172
\$10.01 - \$15.00	9,112	8.33	12.98	8,852	2,197	7.35	12.55	3,104
\$15.01 - \$20.00	61	4.42	16.73	—	61	4.42	16.73	—
\$20.01 - \$30.00	25	2.38	27.49	—	25	2.38	27.49	—
\$30.01 - \$50.00	139	3.25	34.77	—	139	3.25	34.77	—
\$50.01 - \$70.00	72	3.01	60.61	—	72	3.01	60.61	—
\$70.01 - \$90.00	49	3.49	82.91	—	49	3.49	82.91	—
	<u>12,277</u>	<u>7.84</u>	<u>11.75</u>	<u>\$36,864</u>	<u>4,426</u>	<u>6.30</u>	<u>10.37</u>	<u>\$25,790</u>
Expected forfeitures	<u>2,269</u>							
Total options outstanding	<u>14,546</u>							

The aggregate intrinsic values in the preceding table represent the total pre-tax intrinsic values based on EMC's closing stock price of \$13.85 as of March 31, 2007 which would have been received by the option holders had all in-the-money options been exercised as of that date.

Summarized information about stock options outstanding that are expected to vest and stock options exercisable at December 31, 2006 is as follows (shares and intrinsic values in thousands):

Range of Exercise Price	Options Outstanding and Expected to Vest				Options Exercisable			
	Number of Options	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Aggregate Intrinsic Value	Number of Options	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Aggregate Intrinsic Value
\$ 0.01 - \$ 5.00	2,100	6.00	\$ 1.29	\$25,021	1,913	5.77	\$ 1.37	\$22,641
\$ 5.01 - \$10.00	893	9.17	9.34	3,451	136	4.87	6.56	902
\$10.01 - \$15.00	8,700	8.48	12.89	5,368	2,026	7.58	12.45	2,081
\$15.01 - \$20.00	39	5.01	16.46	—	38	4.61	16.57	—
\$20.01 - \$30.00	25	2.63	27.49	—	25	2.63	27.49	—
\$30.01 - \$50.00	68	3.58	35.52	—	68	3.58	35.52	—
\$50.01 - \$70.00	12	3.17	59.59	—	12	3.17	59.59	—
\$70.01 - \$90.00	45	3.71	83.85	—	45	3.71	83.85	—
	<u>11,882</u>	<u>8.02</u>	<u>11.06</u>	<u>\$33,840</u>	<u>4,263</u>	<u>6.51</u>	<u>8.67</u>	<u>\$25,624</u>
Expected forfeitures	<u>1,943</u>							
Total options outstanding	<u>13,825</u>							

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The aggregate intrinsic values in the preceding table represent the total pre-tax intrinsic values based on EMC's closing stock price of \$13.20 as of December 31, 2006 which would have been received by the option holders had all in-the-money options been exercised as of that date.

Restricted Stock

The following tables summarize restricted stock activity for grants to VMware employees of EMC restricted stock in 2006, 2005 and 2004 (shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock at January 8th, 2004	—	\$ —
Granted	978	12.33
Outstanding, December 31, 2004	978	12.33
Granted	7,718	14.04
Vested	(622)	12.76
Forfeited	(172)	13.40
Outstanding, December 31, 2005	7,902	13.94
Granted	3,303	12.19
Vested	(1,967)	13.70
Forfeited	(425)	13.94
Restricted stock at December 31, 2006	8,813	13.34
Granted (unaudited)	48	13.93
Vested (unaudited)	(1,901)	14.01
Forfeited (unaudited)	(59)	13.16
Restricted stock at March 31, 2007 (unaudited)	6,901	13.16

The total fair values of EMC restricted stock that vested in the three months ended March 31, 2007 and 2006, and the years ended December 31, 2006 and 2005 were \$26.6 million (unaudited), \$8.7 million (unaudited), \$26.9 million and \$7.9 million, respectively.

The EMC restricted stock awards have various vesting terms, including pro rata vesting over three years and cliff vesting at the end of five years from the date of grant with acceleration in each of the first three or four years for achieving specified performance criteria.

As of December 31, 2006, 8.8 million shares of EMC restricted stock were outstanding and unvested, with an aggregate intrinsic value of \$117.6 million and a weighted average remaining contractual life of approximately 3.7 years. These shares are scheduled to vest through 2011. As of March 31, 2007, 6.9 million (unaudited) shares of EMC restricted stock were outstanding and unvested, with an aggregate intrinsic value of \$90.8 million (unaudited) and a weighted average remaining contractual life of approximately 3.6 years (unaudited). These shares are scheduled to vest through 2011.

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Impact of Adopting FAS No. 123R

The following table summarizes the components of total stock-based compensation expense included in VMware's consolidated income statement for the three months ended March 31, 2007 (table in thousands):

	Three Months Ended March 31, 2007 (unaudited)		
	Stock Options	Restricted Stock	Total Stock-Based Compensation
Cost of license sales	\$ 25	\$ 11	\$ 36
Cost of services revenues	260	234	494
Research and development	1,274	5,118	6,392
Sales and marketing	1,259	1,685	2,944
General and administrative	435	1,343	1,778
Stock-based compensation expense before income taxes	3,253	8,391	11,644
Income tax benefit	1,062	1,862	2,924
Total stock-based compensation, net of tax	<u>\$2,191</u>	<u>\$ 6,529</u>	<u>\$ 8,720</u>

Stock option expense includes \$0.7 million (unaudited) of expense associated with the EMC employee stock purchase plan.

The following table summarizes the components of total stock-based compensation expense included in VMware's consolidated income statement in 2006 (table in thousands):

	Year Ended December 31, 2006		
	Stock Options	Restricted Stock	Total Stock-Based Compensation
Cost of license sales	\$ 80	\$ 19	\$ 99
Cost of services revenues	1,248	1,136	2,384
Research and development	4,095	22,247	26,342
Sales and marketing	4,704	7,316	12,020
General and administrative	2,500	7,881	10,381
Stock-based compensation expense before income taxes	12,627	38,599	51,226
Income tax benefit	2,327	9,902	12,229
Total stock-based compensation, net of tax	<u>\$10,300</u>	<u>\$28,697</u>	<u>\$ 38,997</u>

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock option expense includes \$2.5 million of expense associated with the EMC employee stock purchase plan.

In connection with the adoption of FAS No. 123R, VMware recorded a cumulative effect adjustment to recognize compensation costs previously recorded in VMware's pro forma equity compensation disclosures that would have been capitalized in VMware's consolidated balance sheet as of January 1, 2006. Additionally, included in the cumulative effect adjustment was the application of an estimated forfeiture rate on VMware's previously recognized expense. The components of the adjustment were as follows (table in thousands):

	Year Ended December 31,
	2006
Capitalized software development costs (included in other assets, net)	\$ 1,709
Estimated forfeitures on previously recognized equity compensation expense	283
Cumulative effect of a change in accounting principle before taxes	1,992
Income taxes	757
Cumulative effect of a change in accounting principle, net of tax	<u>\$ 1,235</u>

For the three months ended March 31, 2007 and 2006, and for the years ended December 31, 2006 and December 31, 2005 VMware capitalized \$0.9 million (unaudited), \$5.3 million (unaudited), \$8.8 million and \$3.5 million, respectively, of equity-based compensation expense associated with capitalized software development. For the three months ended March 31, 2007, VMware capitalized \$0.3 million (unaudited) of equity-based compensation expense associated with software developed for internal use.

As of December 31, 2006, the total unrecognized after-tax compensation cost for stock options, restricted stock and options under the employee stock purchase plan was \$97.6 million. This non-cash expense will be recognized through 2011 with a weighted average remaining period of 1.4 years.

As a result of adopting FAS No. 123R, VMware's income before taxes and net income in 2006 were \$4.9 million and \$1.5 million lower, respectively, than if VMware had continued to account for share-based compensation under APB No. 25. Basic and diluted earnings per share in 2006 would have been \$0.01 higher if VMware had not adopted FAS No. 123R.

For the periods prior to 2006, VMware elected to apply APB No. 25 and related interpretations in accounting for VMware's stock-based compensation plans. For the acquisition of VMware by EMC, VMware exchanged the options held by VMware employees for EMC options as of the acquisition date. In accordance with APB No. 25, VMware recognized the fair value of the exchanged options as part of the purchase price. VMware also recorded the intrinsic value of the unvested options as compensation expense over the remaining service period subsequent to the acquisition.

For purposes of determining the pro forma impact of FAS No. 123 for 2005 and 2004, the Company's policy was to record the amount by which the fair value of the vested and unvested EMC stock awards exceeded the value of the acquirees' options that were being exchanged. The difference in the fair value of the EMC options exchanged as compared to the fair value of the options held by VMware's employees was insignificant.

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following is a reconciliation of net income per weighted average share had VMware adopted the fair value recognition provisions of FAS No. 123 in 2005 and 2004 (table in thousands, except per share amounts):

	2005	2004
Net income	\$ 66,775	\$16,781
Add back: Stock compensation costs, net of tax, on stock-based awards	21,423	16,458
Less: Stock compensation costs, net of taxes, had stock compensation expense been measured at fair value	(15,133)	(3,645)
Adjusted stock compensation expense per FAS No. 123, net of taxes	6,290	12,813
Adjusted net income	\$ 73,065	\$29,594
Net income per weighted average share, basic and diluted—as reported	\$ 0.20	\$ 0.05
Adjusted net income per weighted average share, basic and diluted	\$ 0.22	\$ 0.09

The fair value of each option granted during the three months ended March 31, 2007, and for the years ended December 31, 2006, 2005 and 2004 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended March 31, 2007 (unaudited)	2006	For the Year Ended December 31, 2005	2004
<i>Stock Options</i>				
Dividend yield	None	None	None	None
Expected volatility	30.1%	34.4%	40.8%	52.8%
Risk-free interest rate	4.7%	4.8%	4.0%	3.6%
Expected life (in years)	4.2	4.0	4.0	4.8
Weighted-average fair value at grant date	\$ 4.45	\$ 4.28	\$ 5.22	\$ 5.71

	Three Months Ended March 31, 2007 (unaudited)	2006	For the Year Ended December 31, 2005	2004
<i>Employee Stock Purchase Plan</i>				
Dividend yield	None	None	None	None
Expected volatility	25.2%	27.6%	42.1%	49.5%
Risk-free interest rate	5.04%	4.9%	3.0%	1.4%
Expected life (in years)	0.5	0.5	0.5	0.5
Weighted-average fair value at grant date	\$ 3.03	\$ 2.86	\$ 3.95	\$ 3.48

Expected volatilities are based on historical and implied volatilities from traded options in EMC's stock. VMware uses EMC historical data to estimate the expected term of options granted within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

VMWARE, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****J. Related Party Transactions**

For the three months ended March 31, 2007 and the year ended December 31, 2006, VMware recognized professional service revenue of \$4.1 million (unaudited), and \$1.4 million for services provided to EMC pursuant to contractual agreements with EMC.

For the three months ended March 31, 2007 and 2006, and the years ended December 31, 2006 and 2005, VMware purchased \$0.6 million (unaudited), \$0.7 million (unaudited), \$2.9 million and \$0.6 million, respectively, of storage systems from EMC. The purchase amounts represent EMC's cost.

The financial statements include expense allocations for certain corporate functions provided by EMC, including accounting, treasury, tax, legal and human resources. These allocations were based on estimates of the level of effort or resources incurred on VMware's behalf. The total costs allocated from EMC were \$2.3 million (unaudited) and \$1.3 million (unaudited) for the three months ended March 31, 2007 and 2006, respectively and \$5.1 million in 2006, \$5.3 million in 2005 and \$4.5 million in 2004. Additionally, certain other costs incurred by EMC for VMware's direct benefit, such as rent, salaries and benefits have been included as expenses in VMware's financial statements. The total of these other costs were \$20.2 million (unaudited) and \$10.5 million (unaudited) for the three months ended March 31, 2007 and 2006, respectively and \$63.7 million in 2006, \$27.1 million in 2005 and \$7.3 million in 2004. As part of VMware's tax sharing arrangement, VMware paid EMC income taxes of \$63.1 million and \$6.6 million in 2006 and 2005, respectively, which differed from the amounts owed on a separate return basis. The difference between these amounts is presented as a component of stockholder's equity. VMware earned interest income on VMware's intercompany balance from EMC in the amount of \$1.3 million (unaudited), \$0.8 million and \$2.6 million for the three months ended March 31, 2007 and the years ended December 31, 2006 and 2005, respectively. For the three months ended March 31, 2006, VMware incurred interest expense on VMware's intercompany balance to EMC in the amount of \$0.1 million (unaudited). 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.

K. Risks and Uncertainties

VMware's future results of operations involve a number of risks and uncertainties. Factors that could affect VMware's future operating results and cause actual results to vary materially from expectations include, but are not limited to: uncertainty in the potential market for VMware's products; increasing competition; the need for cooperation of operating system and hardware vendors; restrictions imposed upon VMware by EMC; reliance on distributors, resellers, x86 system vendors and systems integrators, dependence on VMware's existing management and key personnel; and protection of VMware's intellectual property rights.

L. Segment Information

VMware operates in one reportable segment in accordance with the provisions of SFAS 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. The chief operating decision maker is the President and Chief Executive Officer. VMware operates in one segment, therefore all financial segment information required by SFAS No. 131 can be found in the condensed consolidated financial statements.

VMWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

	Three Months Ended March 31,		Year Ended December 31,		
	2007	2006	2006	2005	2004
	(unaudited)				
United States	\$136,443	\$ 66,683	\$391,614	\$209,600	\$119,304
International	122,252	62,394	312,290	177,474	99,452
Total	<u>\$258,695</u>	<u>\$129,077</u>	<u>\$703,904</u>	<u>\$387,074</u>	<u>\$218,756</u>

Long-lived assets, excluding financial instruments and deferred tax assets in the United States were \$685.5 million (unaudited) at March 31, 2007, \$694.0 million at December 31, 2006 and \$628.9 million at December 31, 2005. No country other than the United States accounted for 10% or more of these assets at March 31, 2007, December 31, 2006 or 2005. Long-lived assets, excluding financial instruments and deferred tax assets, internationally were \$18.8 million (unaudited) at March 31, 2007, \$5.5 million at December 31, 2006 and \$1.0 million at December 31, 2005.

Our revenues by similar groups of products or services were as follows:

	Three Months Ended March 31,		Year Ended December 31,		
	2007	2006	2006	2005	2004
	(unaudited)				
Software Licenses	\$ 169,557	\$ 90,300	\$ 491,902	\$ 287,006	\$ 178,873
Software Maintenance	67,871	29,218	164,454	76,337	27,207
Professional Services	21,267	9,558	47,548	23,731	12,676
Total	<u>\$ 258,695</u>	<u>\$ 129,077</u>	<u>\$ 703,904</u>	<u>\$ 387,074</u>	<u>\$ 218,756</u>

One distributor accounted for 29%, 30%, and 27% of revenues in 2006, 2005 and 2004, respectively.

M. Subsequent Events

In April 2007, VMware acquired all of the capital stock of a privately-held company for \$24.2 million. Through the acquisition VMware advanced VMware's desktop virtualization efforts. The acquired company provides software that connects users to their desktop deployed on VMware Infrastructure.

In April 2007, VMware declared an \$800.0 million dividend to EMC. The dividend was paid in the form of a note. 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 commencing June 30, 2007. The note may be repaid, without penalty, at any time commencing July 2007. This dividend has been given retroactive effect as of December 31, 2006 in the accompanying consolidated balance sheet. The dividend was first applied against retained earnings until that was reduced to zero, then applied against additional paid-in-capital until that was reduced to zero, with the remainder then allocated using a reduction of retained earnings.

In April 2007, VMware entered into an agreement to acquire all of the capital stock of a privately-held offshore software development company for aggregate cash consideration of less than \$10 million. VMware entered into the acquisition as part of its efforts to expand its software development operations.

VMWARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 2007, we adopted the 2007 Equity and Incentive Plan. Awards under the 2007 Plan may be in the form of stock options or other stock-based awards including awards of restricted stock. The maximum number of shares of the Company's Class A common stock reserved for the grant or settlement of awards under the 2007 Plan is 80 million. The exercise price for a stock option awarded under the 2007 Plan shall not be less than 100% of the fair market value of our common stock on the date of the grant. Options granted under the 2007 Plan vest 25% after the first year and then monthly thereafter over the following three years. The options expire six years from the date of grant. In June 2007, our Compensation and Corporate Governance Committee made broad-based grants of options to purchase approximately 29 million shares of Class A common stock at an exercise price of \$23 per share and issued approximately 450 thousand restricted stock units under the 2007 Plan. 433,216 of the restricted stock units have terms that provide for 3-year cliff vesting, with performance acceleration in each of the first three years following achievement of certain performance goals. The remaining restricted stock units will vest ratably over four years from the date of the grant.

VMWARE, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<u>Allowance for Bad Debts</u>	<u>Balance at Beginning of Period</u>	<u>Allowance for Bad Debts Charged to Selling, General and Administrative Expenses</u>	<u>Charged to Other Accounts</u>	<u>Bad Debts Write-Offs</u>	<u>Balance at End of Period</u>
Year ended December 31, 2006 allowance for doubtful accounts	\$ 1,589	\$ 763	\$ —	\$ (213)	\$ 2,139
Year ended December 31, 2005 allowance for doubtful accounts	1,477	202	—	(90)	1,589
Period from January 9, 2004 to December 31, 2004 allowance for doubtful accounts	355	1,224	—	(102)	1,477

Shares

VMware, Inc.

Class A Common Stock



PROSPECTUS

, 2007

Citi

JPMorgan

Lehman Brothers

Credit Suisse

Merrill Lynch & Co.

Deutsche Bank Securities

Banc of America Securities LLC

Bear, Stearns & Co. Inc.

UBS Investment Bank

Wachovia Securities

A.G. Edwards

HSBC

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

SEC registration fee	\$ 3,070
NASD fee	\$ 10,500
Exchange listing fee	*
Printing and engraving expenses	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue Sky fees and expenses	*
Transfer agent fees and expenses	*
Miscellaneous	*
Total	*

* To be provided by amendment.

Item 14. Indemnification of Directors and Officers.

Delaware law permits a corporation to adopt a provision in its certificate of incorporation eliminating or limiting the personal liability of a director, but not an officer in his or her capacity as such, to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except that such provision shall not eliminate or limit the liability of a director for (1) any breach of the director's duty of loyalty to the corporation or its stockholders, (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (3) liability under section 174 of the Delaware General Corporation Law (the "DGCL") for unlawful payment of dividends or stock purchases or redemptions or (4) any transaction from which the director derived an improper personal benefit. Our certificate of incorporation will provide that, to the fullest extent of Delaware law, none of our directors will be liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director.

Under Delaware law, a corporation may indemnify any person who was or is a party or is threatened to be made a party to any type of proceeding, other than an action by or in the right of the corporation, by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or other entity, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such proceeding if: (1) he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal proceeding, he or she had no reasonable cause to believe that his or her conduct was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that a person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal proceeding, had reasonable cause to believe that his or her conduct was unlawful. A corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit brought by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or other entity, against expenses, including attorneys' fees, actually and reasonably incurred in connection with such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification will be made if the person is found liable to the corporation unless, in such a case, the court determines the person is nonetheless entitled to indemnification for such expenses. A corporation must also indemnify a present or former director or officer who has been successful on the merits or otherwise in defense of any proceeding, or in defense of any claim, issue or matter therein, against expenses, including attorneys' fees, actually and reasonably incurred by him or her. Expenses, including attorneys' fees, incurred by a director, officer, employee or agent, in

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defending civil or criminal proceedings may be paid by the corporation in advance of the final disposition of such proceedings upon, in the case of a current director or officer, receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation. The Delaware law regarding indemnification and the advancement of expenses is not exclusive of any other rights a person may be entitled to under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Section 174 of the DGCL provides, among other things, that a director, who willfully or negligently approves of an unlawful payment of dividends or an unlawful stock purchase or redemption, may be held liable for such actions. A director who was either absent when the unlawful actions were approved or dissented at the time, may avoid liability by causing his or her dissent to such actions to be entered in the books containing the minutes of the meetings of the board of directors at the time such action occurred or immediately after such absent director receives notice of the unlawful acts.

Our certificate of incorporation and bylaws will generally provide for mandatory indemnification of directors and officers to the fullest extent permitted by law. We also intend to enter into indemnification agreements with our directors in the form filed as an exhibit to this Registration Statement that will generally provide for mandatory indemnification to the fullest extent permitted by law.

Delaware law also provides that a corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or other entity, against any liability asserted against and incurred by such person, whether or not the corporation would have the power to indemnify such person against such liability. We will maintain, at our expense, an insurance policy that insures our officers and directors, subject to customary exclusions and deductions, against specified liabilities that may be incurred in those capacities.

Item 15. Recent Sales of Unregistered Securities.

The following relates to sales of securities that have occurred since June 1, 2004 that have not been registered under the Securities Act:

In June 2007, the registrant made broad-based equity awards under its 2007 Equity and Incentive Plan to its employees, including grants of options to purchase an aggregate of approximately 29 million shares of Class A common stock with a per share exercise price of \$23 and awards of approximately 450 thousand restricted stock units. These option grants and awards of restricted stock units did not require registration, or an exemption from registration, under the Securities Act because the grants and awards did not involve a “sale” of securities as such term is used in Section 2(3) of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules.

(A) Exhibits:

<u>Exhibit Number</u>	<u>Description</u>
1.1	Form of Underwriting Agreement*
3.1	Form of Amended and Restated Certificate of Incorporation*
3.2	Form of Amended and Restated Bylaws*
4.1	Form of specimen common stock certificate*
5.1	Opinion of Skadden, Arps, Slate, Meagher & Flom LLP*
10.1	Form of Master Transaction Agreement*
10.2	Form of Administrative Services Agreement
10.3	Form of Tax Sharing Agreement
10.4	Form of Intellectual Property Agreement
10.5	Form of Employee Benefits Agreement
10.6	Form of Real Estate Agreement

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Exhibit Number	Description
10.7	Letter Agreement between the Registrant and Mark Peek+
10.8	Form of Indemnification Agreement for directors and executive officers+
10.9	2007 Equity and Incentive Plan+
10.10	Promissory Note between the Registrant and EMC Corporation**
10.11	Form of Insurance Matters Agreement
10.12	Form of Option Agreement+
10.13	Form of Restricted Stock Unit Agreement+
10.14	2007 Employee Stock Purchase Plan+
10.15	Letter Agreement between the Registrant and Thomas J. Jurewicz+
21.1	List of subsidiaries**
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1)*
24.1	Power of Attorney (included on signature page hereto)

+ Management contract or compensatory plan or arrangement.

* To be filed by amendment.

** Previously filed.

(B) Financial Statement Schedules:

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the consolidated financial statements or notes thereto.

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Palo Alto, State of California, on June 11, 2007.

VMWARE, INC.

By: / s / D IANE B. G REENE
Name: Diane B. Greene
Title: President and Chief Executive Officer and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, the undersigned hereby constitute and appoint David I. Goulden and Paul T. Dacier and each of them, his or her true and lawful attorney-in-fact and agent, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, or any related registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> / s / D IANE B. G REENE </u> Diane B. Greene	President and Chief Executive Officer (principal executive officer), and Director	June 11, 2007
<u> / s / M ARK S. P EEK </u> Mark S. Peek	Chief Financial Officer (principal financial officer, principal accounting officer)	June 11, 2007
<u> * </u> Joseph M. Tucci	Chairman of the Board of Directors	June 11, 2007
<u> * </u> Michael W. Brown	Director	June 11, 2007
<u> * </u> John R. Egan	Director	June 11, 2007
<u> * </u> David I. Goulden	Director	June 11, 2007
<u> * </u> David N. Strohm	Director	June 11, 2007
*By: <u> / s / P AUL T. D ACIER </u> Paul T. Dacier	Attorney-in-Fact	June 11, 2007

INDEX TO EXHIBITS

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21.1	List of subsidiaries**
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Skadden, Arps, Slate, Meagher & Flom LLP (included in Exhibit 5.1)*
24.1	Power of Attorney (included on signature page hereto)

+ Management contract or compensatory plan or arrangement.

* To be filed by amendment.

** Previously filed.

ADMINISTRATIVE SERVICES AGREEMENT

dated as of []

between

EMC CORPORATION

and

VMWARE, INC.

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SCHEDULES

SCHEDULE I: Services To Be Provided By EMC Corporation

ADMINISTRATIVE SERVICES AGREEMENT

This Administrative Services Agreement is dated as of [] by and between VMware, Inc., a Delaware corporation (“VMware”), and EMC Corporation, a Massachusetts corporation (“EMC”). VMware and EMC are sometimes referred to herein separately as a “Party” and together as the “Parties”. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in Article I hereof.

RECITALS

WHEREAS , EMC is the beneficial owner of all the issued and outstanding common stock of VMware;

WHEREAS , the Parties currently contemplate that VMware will make an initial public offering (the “Offering”) of its Class A common stock pursuant to a Registration Statement on Form S-1, filed on April 26, 2007, as amended (the “Registration Statement”), under the Securities Act of 1933, as amended;

WHEREAS , EMC directly or indirectly provides certain administrative, legal, financial and other services to the VMware Entities (as defined below);

WHEREAS , following consummation of the Offering, VMware desires EMC to continue to provide certain administrative, legal, financial and other services to the VMware Entities, as more fully set forth in this Agreement; and

WHEREAS , each Party desires to set forth in this Agreement the principal terms and conditions pursuant to which the EMC Entities (as defined below) will provide certain services to the VMware Entities;

NOW, THEREFORE , in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto, for themselves and their respective successors and assigns, hereby covenant and agree as follows:

ARTICLE I DEFINITIONS

Section 1.01 Definitions. (a) As used in this Agreement, the following terms shall have the following meanings, applicable both to the singular and the plural forms of the terms described:

“Agreement” means this Administrative Services Agreement, together with the schedules and exhibits hereto, as the same may be amended and supplemented from time to time in accordance with the provisions hereof.

“Contract” means any contract, agreement, lease, license, sales order, purchase order, instrument or other commitment that is binding on any Person or any part of such Person’s property under applicable law.

“EMC Entities” means EMC and its Subsidiaries (other than the VMware Entities), and “EMC Entity” means any one of the EMC Entities currently in place on the effective date of the Registration Statement and any entity which becomes a Subsidiary of EMC after the date hereof.

“Employee Benefits Agreement” means the Employee Benefits Agreement between the Parties of even date herewith.

“Full Time Equivalent Employees” means the equivalent number of full-time EMC employees to be engaged in providing each Service listed on Schedule I or otherwise provided pursuant to this Agreement. For the purposes of this Agreement, one Full Time Equivalent Employee means an individual who works hours equivalent to the work performed by one full time employee working eight (8) hours per day and forty (40) hours per week.

“Insurance Matters Agreement” means the Insurance Matters Agreement between the Parties of even date herewith.

“Intellectual Property Agreement” means the Intellectual Property Agreement between the Parties of even date herewith.

“Real Estate Agreement” means the Real Estate Agreement between the Parties of even date herewith.

“Liabilities” means all debts, liabilities, guarantees, assurances, commitments and obligations, whether fixed, contingent or absolute, asserted or unasserted, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, due or to become due, whenever or however arising (including, without limitation, whether arising out of any Contract or tort based on negligence or strict liability) and whether or not the same would be required by generally accepted principles and accounting policies to be reflected in financial statements or disclosed in the notes thereto.

“Master Transaction Agreement” means the Master Transaction Agreement between the Parties dated as of _____, 2007

“Offering Date” means the date on which the Offering is consummated.

“Person” means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization, government (including any department or agency thereof) or other entity.

“Schedule I” means the first Schedule attached hereto which lists agreed upon Services to be provided by EMC to or on behalf of the VMware Entities and sets forth the related pricing for such Services.

“Schedules” means any one or more of the schedules referred to in and attached to this Agreement.

“Services” means the various administrative, financial, legal and other services to be provided by EMC to or on behalf of the VMware Entities, as described on Schedule I and any Additional Services provided pursuant to this Agreement.

“Subsidiary” means, as to any Person, means a corporation, limited liability company, joint venture, partnership, trust, association or other entity in which such Person: (1) beneficially owns, either directly or indirectly, more than fifty percent (50%) of (A) the total combined voting power of all classes of voting securities of such entity, (B) the total combined equity interests, or (C) the capital or profits interest, in the case of a partnership; or (2) otherwise has the power to vote, either directly or indirectly, sufficient securities to elect a majority of the board of directors or similar governing body.

“Tax Sharing Agreement” means the Tax Sharing Agreement between the Parties of even date herewith.

“Transaction Agreements” means this Agreement, the Employee Benefits Agreement, the Insurance Matters Agreement, the Intellectual Property Agreement, the Real Estate Agreement, the Master Transaction Agreement and the Tax Sharing Agreement.

“VMware Business” means the business of virtual infrastructure technology presently conducted by VMware, as more completely described in the Registration Statement, or following the Offering Date, such business that is then conducted by VMware and described in its periodic filings with the U.S. Securities and Exchange Commission.

“VMware Entities” means VMware, Inc. and its Subsidiaries and any entity which becomes a Subsidiary of VMware after the date hereof, and “VMware Entity” means any one of the VMware Entities.

“VMware Liabilities” has the meaning set forth in the Master Transaction Agreement.

(b) Each of the following terms is defined in the Section set forth opposite such term:

TERM	SECTION
Actions	4.03(a)
Additional Services	2.02
EMC	Preamble
EMC Indemnified Person	4.03(a)
Force Majeure	6.06(a)
Initial Term	5.01
Offering	Preamble
Parties	Preamble
Party	Preamble
Registration Statement	Preamble
Services Managers	4.02
Subcontractor	6.04
VMware	Preamble

Section 1.02 Internal References. Unless the context indicates otherwise, references to Articles, Sections and paragraphs shall refer to the corresponding articles, sections and paragraphs in this Agreement and references to the parties shall mean the parties to this Agreement.

ARTICLE II PURCHASE AND SALE OF SERVICES

Section 2.01 Purchase and Sale of Services.

(a) Subject to the terms and conditions of this Agreement and in consideration of the costs for Services described below, EMC agrees to provide or cause to be provided to the VMware Entities, and VMware agrees to purchase from EMC, the Services, until such Services are terminated in accordance with the provisions hereof.

(b) The Parties acknowledge and agree that (i) the Services to be provided, or caused to be provided by EMC under this Agreement shall, at VMware's request, be provided directly to VMware or Subsidiaries of VMware and (ii) EMC may satisfy its obligation to provide or to procure the Services hereunder by causing one or more of its Subsidiaries to provide or to procure such services. With respect to the Services provided to, or procured on behalf of, any Subsidiary of VMware, VMware agrees to pay on behalf of such Subsidiary all amounts payable by or in respect of such Services pursuant to this Agreement.

Section 2.02 Additional Services. In addition to the Services to be provided or procured by EMC in accordance with Section 2.01 and set forth on Schedule I, if requested by VMware, and to the extent that EMC and VMware may mutually agree in writing, EMC shall provide additional services to VMware. The scope of any such services, as well as the costs and other terms and conditions applicable to such services, shall be as mutually agreed by EMC and VMware prior to the provision of such Additional Services. "Additional Services" means any services provided by EMC to or on behalf of the VMware Entities pursuant to Section 2.02, other than those described on Schedule I.

ARTICLE III SERVICE COSTS; OTHER CHARGES

Section 3.01 Service Costs.

(a) Each Service (other than Additional Services) will be provided at the price per hour, or per Full Time Equivalent Employee, as applicable, indicated in Schedule I. The aggregate price for any Service to be provided will be determined by multiplying the fully-burdened cost for a Full Time Equivalent Employee providing such Service multiplied by the number of such Full Time Equivalent Employees actually providing such Service. If the level of service indicated on Schedule I for any Service requires one or more Full Time Equivalent Employees, or changes by one or more Full Time Equivalent Employees, the price for such

Service will be calculated according to the formula in the preceding sentence. In the event that the level of Service indicated on Schedule I requires less than one Full Time Equivalent Employee, or changes by less than one Full Time Equivalent Employee, the price for such Service shall be calculated based on the hourly rate for such Service set forth in Schedule I, based on the number of hours actually worked by the Full Time Equivalent Employee providing such Service. For purposes of this Agreement, "fully-burdened cost" means the total cost of employment to EMC with respect to each Full Time Equivalent Employee, including such employee's salary, bonus and other compensation (excluding equity-based awards) and employment-related insurance, benefits and taxes, *minus* the value of any tax deductions associated with the compensation and other benefits provided to such employee that are realizable by EMC or other relevant EMC Entity.

(b) Any Additional Services shall be billed by EMC on a time and materials basis or as otherwise agreed between the parties in writing, *provided that* the labor rate associated with the provision of such Additional Services shall be the hourly rate derived from the fully-burdened cost of the Full Time Equivalent Employee performing such Services and the cost of materials shall be no higher than that actually paid by the relevant EMC entity.

(c) Notwithstanding the foregoing, Services performed by a Subcontractor on EMC's behalf shall be billed on a time and materials basis and the labor rates payable in connection therewith shall be the rate paid by EMC to such Subcontractor, which rates shall have been approved in advance, in writing, by VMware, and the cost of materials shall be no higher than that actually paid by EMC to such Subcontractor.

Section 3.02 Payment.

(a) Charges for Services shall be invoiced quarterly in arrears by EMC, within 3 days of the end of a quarter. The invoice shall set forth in reasonable detail for the period covered by such invoice (i) the Services rendered, (ii) the aggregate amount charged for each type of Service provided and (iii) such additional information as VMware may reasonably request within 15 days after the end of a quarter. Each invoice shall be directed to the Chief Executive Officer or Chief Financial Officer of VMware or such other person designated in writing from time to time by the VMware Chief Executive Officer or Chief Financial Officer. Each such invoice shall be payable within thirty-five (35) days after receipt by VMware, *provided that* if VMware, in good faith, disputes any invoiced charge, payment of such charge may be made only after mutual resolution of such dispute. VMware agrees to notify EMC promptly, and in no event later than thirty (30) days following receipt of EMC's invoice, of any disputed charges.

(b) Unless otherwise agreed in writing between the Parties, all payments made pursuant to this Agreement shall be made in U.S. dollars.

(c) During the term of this Agreement, EMC shall keep such books, records and accounts as are reasonably necessary to verify the calculation of the fees and related expense for Services provided hereunder. EMC shall provide documentation supporting any amounts invoiced pursuant to this Section 3.02 as VMware may from time to time reasonably request. VMware shall have the right to access and review such books, records and accounts year-round

upon reasonable notice, and VMware agrees to conduct any such review in a manner so as not to unreasonably interfere with EMC's normal business operations.

Section 3.03 Financial Responsibility for EMC Personnel. EMC will pay for all personnel and other related expenses, including salary or wages, of its employees performing the Services. No person providing Services to a VMware Entity pursuant to the terms of this Agreement shall be deemed to be, or shall have any rights as, an employee of any VMware Entity.

ARTICLE IV STANDARD OF PERFORMANCE AND INDEMNIFICATION

Section 4.01 General Standard of Service. Except as otherwise agreed to in writing by the Parties or as described in this Agreement, the Parties agree that the nature, quality, degree of skill and standard of care applicable to the delivery of the Services hereunder, and the qualifications and skill levels of the Full Time Equivalent Employees providing such Services, shall be substantially the same as or consistent with those which EMC exercises or employs in providing similar services provided within or to any EMC Entity.

Section 4.02 Services Management. EMC and VMware each agree to appoint one of their respective employees who will have overall responsibility for managing and coordinating the delivery of Services, including making available the services of appropriately qualified employees and resources to enable the provision of the Services (each, a "Services Manager"). The Services Managers will consult and coordinate with each other regarding the provision of Services.

Section 4.03 Limitation of Liability.

(a) VMware agrees that none of the EMC Entities and their respective directors, officers, agents, and employees (each, a "EMC Indemnified Person") shall have any liability, whether direct or indirect, in contract or tort or otherwise, to any VMware Entity or any other Person under the control of such VMware Entity for or in connection with the Services rendered or to be rendered by any EMC Indemnified Person pursuant to this Agreement, the transactions contemplated hereby or any EMC Indemnified Person's actions or inactions in connection with any Services or such transactions, except for damages which have resulted from such EMC Indemnified Person's breach, gross negligence, bad faith, or willful misconduct in connection with the Services rendered or to be rendered by any EMC Indemnified Person pursuant to this Agreement, the transactions contemplated hereby or any EMC Indemnified Person's actions or inactions in connection with any Services or such transactions.

(b) Notwithstanding the provisions of this Section 4.03, none of the EMC Entities shall be liable for any special, indirect, incidental, or consequential damages of any kind whatsoever (including, without limitation, attorneys' fees) in any way due to, resulting from or arising in connection with any of the Services or the performance of or failure to perform EMC's obligations under this Agreement. This disclaimer applies without limitation (1) to claims arising from the provision of the Services or any failure or delay in connection therewith; (2) to claims for lost profits; (3) regardless of the form of action, whether in contract, tort (including

negligence), strict liability, or otherwise; and (4) regardless of whether such damages are foreseeable or whether EMC has been advised of the possibility of such damages.

(c) In addition to the foregoing, VMware agrees that, in all circumstances, it shall use commercially reasonable efforts to mitigate and otherwise minimize damages to the VMware Entities, individually and collectively, whether direct or indirect, due to, resulting from or arising in connection with any failure by EMC to comply fully with EMC's obligations under this Agreement.

Section 4.04 Indemnification.

(a) VMware agrees to indemnify and hold harmless each EMC Indemnified Person from and against any damages related to, and to reimburse each EMC Indemnified Person for all reasonable expenses (including, without limitation, attorneys' fees) as they are incurred in connection with investigating, preparing, pursuing, or defending, any claim, action, proceeding, or investigation, whether or not in connection with pending or threatened litigation and whether or not any VMware director, officer, agent or employee or any EMC Indemnified Person is a party (collectively, "Actions"), arising out of or in connection with Services rendered or to be rendered by any EMC Indemnified Person pursuant to this Agreement, the transactions contemplated hereby or any EMC Indemnified Person's actions or inactions in connection with any such Services or transactions; provided that, VMware shall not be responsible for any damages incurred by any EMC Indemnified Person that have resulted from such EMC Indemnified Person's gross negligence or willful misconduct in connection with any of the advice, actions, inactions, or Services referred to above.

(b) EMC agrees to indemnify and hold harmless each VMware director, officer, agent and employee from and against any damages related to, and to reimburse each such individual for all reasonable expenses as they are incurred in connection with investigating, preparing, or defending, any Action arising out of or related to the gross negligence or willful misconduct of any EMC Indemnified Person in connection with the Services rendered or to be rendered pursuant to this Agreement.

ARTICLE V TERM AND TERMINATION

Section 5.01 Term. Except as otherwise provided in this Article V or as otherwise agreed in writing by the Parties, (a) this Agreement shall have an initial term from the closing date of the initial public offering through December, 31, 2007 (the "Initial Term"), and will be renewed automatically thereafter for successive six month terms unless either Party elects not to renew this Agreement by notice in writing to the other Party not less than one hundred and eighty (180) days prior to the end of any term, and (b) EMC's obligation to provide or to procure, and VMware's obligation to purchase, a Service shall cease as of the applicable date set forth in Schedule I or such earlier date determined in accordance with Section 5.02.

Section 5.02 Termination.

(a) The Parties may by mutual agreement from time to time terminate this Agreement with respect to one or more of the Services, in whole or in part.

(b) VMware may terminate any Service at any time (i) effective as of the last day of a month, *provided that* written notice of such termination has been given on or prior to the first day of such month and (ii) if EMC shall have failed to perform any of its material obligations under this Agreement relating to such Service, VMware shall have notified EMC in writing of such failure, and such failure shall have continued for a period of at least thirty (30) days after receipt by EMC of written notice of such failure from VMware, effective as of such 30th day.

Section 5.03 Effect of Termination.

(a) Other than as required by law, upon the effective date of the termination of any Service pursuant to Section 5.02, or upon termination of this Agreement in accordance with its terms, EMC shall have no further obligation to provide the terminated Service (or any Service, in the case of termination of this Agreement) and VMware shall have no obligation to pay any fees relating to such terminated Services or to make any other payments hereunder; *provided that*, notwithstanding such termination (i) VMware shall remain liable to EMC for fees owed and payable in respect of Services provided prior to the effective date of the termination; (ii) EMC shall continue to charge VMware for administrative and program costs relating to benefits paid after but incurred prior to the termination of any Service, and VMware shall be obligated to pay such expenses in accordance with the terms of this Agreement; provided that EMC is not able to obtain a refund of such costs, and (iii) the provisions of Articles IV, V, and VI shall survive any such termination indefinitely.

(b) Following termination of this Agreement with respect to any Service, the Parties agree to cooperate with each other in providing for an orderly transition of such Service to VMware or to a successor service provider as designated by VMware.

ARTICLE VI MISCELLANEOUS

Section 6.01 Ownership.

(a) This Agreement and the performance of the Services hereunder will not affect the ownership of any assets or responsibility for any liabilities allocated in the Master Transaction Agreement or any of the other Transaction Agreements. Neither Party will gain, by virtue of this Agreement or the Services provided hereunder, by implication or otherwise, any rights of ownership of any property or intellectual property rights owned by the other or their respective Subsidiaries.

(b) VMware shall own all property or intellectual property rights assigned to VMware pursuant to the Transaction Documents, as well as any changes, additions or improvements thereto made on behalf of VMware in the performance of the Services. In addition, VMware will own any data with respect to VMware, any other VMware Entity or the VMware Business to the extent such data is developed by EMC on behalf of VMware, any other VMware Entity or the VMware Business. Any data provided to EMC by VMware and processed or used by EMC shall remain the property of VMware and any additions or modifications in EMC's course of using or processing the data shall be owned by VMware. The provisions of this Section 6.01(b) do not grant VMware any rights to any data concerning EMC, any other EMC Entity or EMC's business.

Section 6.02 Other Agreements. In the event there is any inconsistency between the provisions of this Agreement and the respective provisions of the Insurance Matters Agreement, the Tax Sharing Agreement, the Employee Benefits Agreement, the Real Estate Agreement and the Intellectual Property Agreement, respectively, the respective provisions of the Insurance Matters Agreement, Tax Sharing Agreement, the Employee Benefits Agreement, the Real Estate Agreement and the Intellectual Property Agreement shall govern.

Section 6.03 No Agency. Nothing in this Agreement shall constitute or be deemed to constitute a partnership or joint venture between the Parties hereto or constitute or be deemed to constitute any Party the agent or employee of the other Party for any purpose whatsoever, and neither Party shall have authority or power to bind the other Party or to contract in the name of, or create a liability against, the other Party in any way or for any purpose.

Section 6.04 Subcontractors.

(a) EMC may hire or engage one or more third-party subcontractors (each, a “Subcontractor”) to perform all or any of its obligations under this Agreement, subject to prior written approval thereof by VMware; *provided that*, subject to Section 4.03, EMC shall in all cases remain primarily responsible for all obligations undertaken by each such Subcontractor on EMC’s behalf pursuant to the terms of this Agreement with respect to the scope, quality, degree of skill and nature of the Services provided to VMware; and, *provided further, that* EMC will cause any such Subcontractor to agree in writing to be bound by the provisions of Section 3.5 of the Master Transaction Agreement, with respect to any Confidential Information that such Subcontractor becomes aware of during or as a result of the provision of Services by such Subcontractor.

Section 6.05 Force Majeure.

(a) For purposes of this Section 6.05, “Force Majeure” means an event beyond the control of either Party, which by its nature could not have been foreseen by such Party, or, if it could have been foreseen, was unavoidable, and includes without limitation, acts of God, storms, floods, riots, fires, sabotage, civil commotion or civil unrest, interference by civil or military authorities, acts of war (declared or undeclared) and failure of energy sources.

(b) Continued performance of a Service may be suspended immediately to the extent caused by Force Majeure. The Party claiming suspension of a Service due to Force Majeure will give prompt notice to the other of the occurrence of the event giving rise to the suspension and of its nature and anticipated duration. The Parties shall cooperate with each other to find alternative means and methods for the provision of the suspended Service.

(c) Without limiting the generality of Section 4.03, neither Party shall be under any liability for failure to fulfill any obligation under this Agreement, so long as and to the extent to which the fulfillment of such obligation is prevented, frustrated, hindered, or delayed as a consequence of circumstances of Force Majeure.

Section 6.06 Entire Agreement. This Agreement (including the Schedules constituting a part of this Agreement) and any other writing signed by the Parties that specifically references or is specifically related to this Agreement constitute the entire agreement among the Parties with respect to the subject matter hereof and supersede all prior agreements, understandings and negotiations, both written and oral, between the Parties with respect to the subject matter hereof. This Agreement is not intended to confer upon any Person other than the Parties hereto any rights or remedies hereunder.

Section 6.07 Information. Subject to applicable law and privileges, each Party hereto covenants with and agrees to provide to the other Party all information regarding itself and transactions under this Agreement that the other Party reasonably believes is required to comply with all applicable federal, state, county and local laws, ordinances, regulations and codes, including, but not limited to, securities laws and regulations.

Section 6.08 Notices. Any notice, instruction, direction or demand under the terms of this Agreement required to be in writing shall be duly given upon delivery, if delivered by hand, facsimile transmission, or mail (with postage prepaid), to the following addresses:

- (a) If to EMC, to:
Office of the General Counsel
176 South Street
Hopkinton, MA 01748
Fax: (508) 497-6915
- (b) If to VMware, to:
Office of the General Counsel
3401 Hillview Ave
Palo Alto, CA 94304
Fax: 650-427-5001

or to such other addresses or telecopy numbers as may be specified by like notice to the other Party.

Section 6.09 Governing Law. This Agreement, including the validity hereof and the rights and obligations of the Parties hereunder, shall be construed in accordance with and shall be governed by the laws of The Commonwealth of Massachusetts applicable to contracts made and to be performed entirely in such Commonwealth (without giving effect to the conflicts of laws provisions thereof).

Section 6.10 Severability. If any terms or other provision of this Agreement or the Schedules or exhibits hereto shall be determined by a court, administrative agency or arbitrator to be invalid, illegal or unenforceable, such invalidity or unenforceability shall not render the entire Agreement invalid. Rather, this Agreement shall be construed as if not containing the particular invalid, illegal or unenforceable provision, and all other provisions of

this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent permitted under applicable law.

Section 6.11 Amendment. This Agreement may only be amended by a written agreement executed by both Parties hereto.

Section 6.12 Counterparts. This Agreement may be executed in separate counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same agreement.

Section 6.13 Authority. Each of the Parties represent to the other Party that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it have been duly authorized by all necessary corporate or other actions, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

[Signature Page Follows]

IN WITNESS WHEREOF , the Parties have caused this Agreement to be signed by their duly authorized representatives.

EMC CORPORATION

By: _____
Name:
Title:

VMWARE, INC.

By: _____
Name:
Title:

SCHEDULE I

SERVICES TO BE PROVIDED BY EMC TO VMWARE

TAX SHARING AGREEMENT

by and among

**EMC CORPORATION
AND ITS AFFILIATES,**

and

**VMWARE, INC.
AND ITS AFFILIATES,**

Dated

[DATE]

TAX SHARING AGREEMENT

THIS TAX SHARING AGREEMENT (this “Agreement”) dated as of [Date], by and among EMC Corporation, a Massachusetts corporation (“EMC”), each EMC Affiliate (as defined below), VMware, Inc., an Delaware corporation and currently an indirect, wholly-owned subsidiary of EMC (“VMware”), and each VMware Affiliate (as defined below) is entered into in connection with the IPO (as defined below).

RECITALS

WHEREAS, as of the date hereof, EMC and its direct and indirect domestic subsidiaries are members of an Affiliated Group (as defined below), of which EMC is the common parent;

WHEREAS, EMC owns all of the issued and outstanding shares of VMware stock;

WHEREAS, EMC intends to cause VMware to complete the VMware Recapitalization (as defined below);

WHEREAS, EMC intends, sometime after the VMware Recapitalization, to effect the initial public offering by VMware of VMware common stock that will reduce EMC’s ownership of VMware, on a fully diluted basis, to not less than eighty percent (80%) of the value of VMware’s common stock (the “IPO”); and

WHEREAS, in contemplation of the IPO, the parties hereto have determined to enter into this Agreement, setting forth their agreement with respect to certain tax matters.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto hereby agree as follows:

Section 1. Definitions.

As used in this Agreement, capitalized terms shall have the following meanings (such meanings to be equally applicable to both the singular and the plural forms of the terms defined):

“**Affiliated Group**” means an affiliated group of corporations within the meaning of section 1504(a) of the Code that files a consolidated return for United States federal Income Tax purposes.

“**After Tax Amount**” means any additional amount necessary to reflect the hypothetical Tax consequences of the receipt or accrual of any payment required to be made under this Agreement (including payment of an additional amount or amounts hereunder and the effect of the

deductions available for interest paid or accrued and for Taxes such as state and local Income Taxes), determined by using the highest applicable statutory corporate Income Tax rate (or rates, in the case of an item that affects more than one Tax) for the relevant taxable period (or portion thereof).

“Agreement” has the meaning set forth in the preamble hereto.

“Audit” means any audit, assessment of Taxes, other examination by any Taxing Authority, proceeding, or appeal of such a proceeding relating to Taxes, whether administrative or judicial, including proceedings relating to competent authority determinations.

“Carryback Period” has the meaning set forth in Section 4.02 of this Agreement.

“Code” means the Internal Revenue Code of 1986, as amended.

“Combined Return” means any Tax Return, other than with respect to United States federal Income Taxes, filed on a consolidated, combined (including nexus combination, worldwide combination, domestic combination, line of business combination or any other form of combination) or unitary basis wherein VMware or one or more VMware Affiliates join in the filing of such Tax Return (for any taxable period or portion thereof) with EMC or one or more EMC Affiliates.

“Consolidated Return” means any Tax Return with respect to United States federal Income Taxes filed on a consolidated basis wherein VMware or one or more VMware Affiliates join in the filing of such Tax Return (for any taxable period or portion thereof) with EMC or one or more EMC Affiliates.

“Controlling Party” has the meaning set forth in Section 8.01 of this Agreement.

“Deconsolidation Event” means, with respect to VMware and each VMware Affiliate, any event or transaction that causes VMware and/or one or more VMware Affiliates to no longer be eligible to join with EMC or one or more EMC Affiliates in the filing of a Consolidated Return or a Combined Return.

“Distribution” means any distribution by EMC of its issued and outstanding shares of VMware stock (and securities, if any) that EMC holds at such time to EMC shareholders and/or securityholders in a transaction intended to qualify as a distribution under section 355 of the Code.

“Distribution Taxes” means any Taxes imposed on, or increase in Taxes incurred by, EMC or any EMC Affiliate, and any Taxes of an EMC shareholder (or former EMC shareholder) that are required to be paid or reimbursed by EMC or any EMC Affiliate pursuant to a legal determination, provided that EMC shall have vigorously defended itself in any legal proceeding involving Taxes of an EMC shareholder, (without regard to whether such Taxes are offset or reduced by any Tax Asset, Tax Item, or otherwise) resulting from, or arising in connection with, the failure of a Distribution to qualify as a tax-free transaction under section 355 of the Code

(including any Tax resulting from the application of section 355(d) or section 355(e) of the Code to a Distribution) or corresponding provisions of the laws of any other jurisdictions. Any Income Tax referred to in the immediately preceding sentence shall be determined using the highest applicable statutory corporate Income Tax rate for the relevant taxable period (or portion thereof).

“EMC” has the meaning set forth in the preamble hereto.

“EMC Affiliate” means any corporation or other entity directly or indirectly “controlled” by EMC where “control” means the ownership of fifty percent (50%) or more of the ownership interests of such corporation or other entity (by vote or value) or the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such corporation or other entity, but at all times excluding VMware or any VMware Affiliate.

“EMC Business” means all of the businesses and operations conducted by EMC and EMC Affiliates, excluding the VMware Business, at any time, whether prior to or after the IPO Date.

“EMC Group” means the Affiliated Group, or similar group of entities as defined under corresponding provisions of the laws of other jurisdictions, of which EMC is the common parent corporation, and any corporation or other entity which may be, may have been or may become a member of such group from time to time, but excluding any member of the VMware Group.

“Estimated Tax Installment Date” means, with respect to United States federal Income Taxes, the estimated Tax installment due dates prescribed in section 6655(c) of the Code and, in the case of any other Tax, means any other date on which an installment payment of an estimated amount of such Tax is required to be made.

“Final Determination” shall mean the final resolution of liability for any Tax for any taxable period, by or as a result of: (i) a final and unappealable decision, judgment, decree or other order by any court of competent jurisdiction; (ii) a final settlement with the IRS, a closing agreement or accepted offer in compromise under sections 7121 or 7122 of the Code, or a comparable agreement under the laws of other jurisdictions, which resolves the entire Tax liability for any taxable period; (iii) any allowance of a refund or credit in respect of an overpayment of Tax, but only after the expiration of all periods during which such refund may be recovered by the jurisdiction imposing the Tax; or (iv) any other final disposition, including by reason of the expiration of the applicable statute of limitations.

“Income Tax” shall mean any federal, state, local or non-U.S. Tax determined (in whole or in part) by reference to net income, net worth, gross receipts or capital, or any Taxes imposed in lieu of such a tax. For the avoidance of doubt, the term “Income Tax” includes any franchise tax or any Taxes imposed in lieu of such a tax.

“Income Tax Return” means any Tax Return relating to any Income Tax.

“Independent Accountant” has the meaning set forth in Section 2.04(b) of this Agreement.

“Independent Firm” has the meaning set forth in Section 10.03 of this Agreement.

“IPO” has the meaning set forth in the recitals hereto.

“IPO Date” means the close of business on the date which the IPO is effected.

“IRS” means the United States Internal Revenue Service or any successor thereto, including its agents, representatives, and attorneys.

“Joint Responsibility Item” means any Tax Item for which the non-Controlling Party’s responsibility under this Agreement could exceed one hundred fifty thousand dollars (\$150,000), but not a Sole Responsibility Item.

“Non-Income Tax Return” means any Tax Return relating to any Tax other than an Income Tax.

“Officer’s Certificate” means a letter executed by an officer of EMC or VMware and provided to Tax Counsel as a condition for the completion of a Tax Opinion or Supplemental Tax Opinion.

“Option” means an option to acquire common stock, or other equity-based incentives the economic value of which is designed to mirror that of an option, including non-qualified stock options, discounted non-qualified stock options, cliff options to the extent stock is issued or issuable (as opposed to cash compensation), and tandem stock options to the extent stock is issued or issuable (as opposed to cash compensation).

“Owed Party” has the meaning set forth in Section 7.05 of this Agreement.

“Owing Party” has the meaning set forth in Section 7.05 of this Agreement.

“Payment Period” has the meaning set forth in Section 7.05(e) of this Agreement.

“Post-Deconsolidation Period” means any taxable period beginning after the date of a Deconsolidation Event.

“Post-IPO Period” means any taxable period beginning after the IPO Date.

“Pre-Deconsolidation Period” means any taxable period beginning on or before the date of a Deconsolidation Event.

“Ruling” means (i) any private letter ruling issued by the IRS in connection with a Distribution in response to a request for such a private letter ruling filed by EMC (or any EMC

Affiliate) prior to the date of a Distribution, and (ii) any similar ruling issued by any other Taxing Authority addressing the application of a provision of the laws of another jurisdiction to a Distribution.

“Ruling Documents” means (i) the request for a Ruling filed with the IRS, together with any supplemental filings or other materials subsequently submitted on behalf of EMC, its Subsidiaries and shareholders to the IRS, the appendices and exhibits thereto, and any Ruling issued by the IRS to EMC (or any EMC Affiliate) in connection with a Distribution and (ii) any similar filings submitted to, or rulings issued by, any other Taxing Authority in connection with a Distribution.

“Sole Responsibility Item” means any Tax Item for which the non-Controlling Party has the entire economic liability under this Agreement.

“Straddle IPO Period” means any taxable period beginning on or before the IPO Date and ending after the IPO Date.

“Supplemental Ruling” means (i) any ruling (other than the Ruling) issued by the IRS in connection with a Distribution, and (ii) any similar ruling issued by any other Taxing Authority addressing the application of a provision of the laws of another jurisdiction to a Distribution.

“Supplemental Ruling Documents” means (i) the request for a Supplemental Ruling, together with any supplemental filings or other materials subsequently submitted, the appendices and exhibits thereto, and any Supplemental Rulings issued by the IRS in connection with a Distribution and (ii) any similar filings submitted to, or rulings issued by, any other Taxing Authority in connection with a Distribution .

“Supplemental Tax Opinion” has the meaning set forth in Section 5.02(c) of this Agreement.

“Taxes” means all federal, state, local or non-U.S. taxes, charges, fees, duties, levies, imposts, rates or other assessments, including income, gross receipts, net worth, excise, property, sales, use, license, capital stock, transfer, franchise, payroll, withholding, social security, value added or other taxes, (including any interest, penalties or additions attributable thereto) and a “Tax” shall mean any one of such Taxes.

“Taxpayer” means any taxpayer and its Affiliated Group or similar group of entities as defined under corresponding provisions of the laws of any other jurisdiction of which a taxpayer is a member.

“Tax Asset” means any Tax Item that has accrued for Tax purposes, but has not been realized during the taxable period in which it has accrued, and that could reduce a Tax in another taxable period, including a net operating loss, net capital loss, investment tax credit, foreign tax credit, charitable deduction or credit related to alternative minimum tax or any other Tax credit.

“Tax Benefit” means a reduction in the Tax liability (or increase in refund or credit or any item of deduction or expense) of a Taxpayer for any taxable period. Except as otherwise provided in this Agreement, a Tax Benefit shall be deemed to have been realized or received from a Tax Item in a taxable period only if and to the extent that the Tax liability of the Taxpayer for such period, after taking into account the effect of the Tax Item on the Tax liability of such Taxpayer in the current period and all prior periods, is less than it would have been had such Tax liability been determined without regard to such Tax Item.

“Tax Counsel” means a nationally recognized law firm selected by EMC to provide a Tax Opinion.

“Tax Detriment” means an increase in the Tax liability (or reduction in refund or credit or any item of deduction or expense) of a Taxpayer for any taxable period. Except as otherwise provided in this Agreement, a Tax Detriment shall be deemed to have been realized or incurred from a Tax Item in a taxable period only if and to the extent that the Tax liability of the Taxpayer for such period, after taking into account the effect of the Tax Item on the Tax liability of such Taxpayer in the current period and all prior periods, is more than it would have been had such Tax liability been determined without regard to such Tax Item.

“Tax Item” means any item of income, gain, loss, deduction, expense or credit, or other attribute that may have the effect of increasing or decreasing any Tax.

“Tax Opinion” means an opinion issued by Tax Counsel as one of the conditions to completing a Distribution addressing certain United States federal Income Tax consequences of a Distribution under section 355 of the Code.

“Tax Return” means any return, report, certificate, form or similar statement or document (including any related or supporting information or schedule attached thereto and any information return, amended tax return, claim for refund or declaration of estimated Tax) required to be supplied to, or filed with, a Taxing Authority in connection with the determination, assessment or collection of any Tax or the administration of any laws, regulations or administrative requirements relating to any Tax.

“Taxing Authority” means any governmental authority or any subdivision, agency, commission or authority thereof or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the IRS).

“VMware” has the meaning set forth in the preamble hereto.

“VMware Affiliate” means any corporation or other entity directly or indirectly “controlled” by VMware at the time in question, where “control” means the ownership of fifty percent (50%) or more of the ownership interests of such corporation or other entity (by vote or value) or the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such corporation or other entity.

“VMware Business” means the business and operations conducted by VMware and VMware Affiliates as such business and operations will continue after the IPO Date.

“VMware Business Records” has the meaning set forth in Section 10.02(b) of this Agreement.

“VMware Group” means the Affiliated Group, or similar group of entities as defined under corresponding provisions of the laws of other jurisdictions, of which VMware will be the common parent corporation immediately after a Deconsolidation Event and including any corporation or other entity which may become a member of such group from time to time.

“VMware Recapitalization” means the recapitalization of VMware’s stock structure intended to be completed by the (i) cancellation of all of VMware’s then authorized, issued and/or outstanding stock, (ii) authorization of two new classes of VMware stock, VMware Class A Common Stock and VMware Class B Common Stock, which will be identical in all respects, except that each share of VMware Class B Common Stock will be entitled to more votes per share than each share of VMware Class A Common Stock, and (iii) issuance of VMware Class B Common Stock to EMC with respect to EMC’s ownership of VMware stock.

“VMware Separate Tax Liability” means an amount equal to the Tax liability that VMware and each VMware Affiliate would have incurred if they had filed a consolidated return, combined return (including nexus combination, worldwide combination, domestic combination, line of business combination or any other form of combination), unitary return or a separate return, as the case may be, separate from the members of the EMC Group, for the relevant Tax period, and such amount shall be computed by EMC (A) in a manner consistent with (i) general Tax accounting principles, (ii) the Code and the Treasury regulations promulgated thereunder, and (iii) past practice, if any, and (B) taking into account any Tax Asset of VMware and any VMware Affiliate attributable to any Tax period beginning on or after January 1, 2007; provided, however, that, although the VMware Separate Tax Liability is to be computed on a hypothetical basis as if VMware and each VMware Affiliate were separate from the members of the EMC Group, the fact that VMware or any VMware Affiliate is included in a Consolidated Return or a Combined Return and the effect that such inclusion has on the calculation of any Tax Item, shall nevertheless be taken into account for purposes of computing the VMware Separate Tax Liability (for example, for purposes of calculating its R&D credit, VMware shall be entitled to its allocable share of the consolidated R&D credit of the EMC Group. The allocation methodology will be mutually agreed to between EMC and VMware.

Section 2. Preparation and Filing of Tax Returns.

2.01. EMC’s Responsibility. Subject to the other applicable provisions of this Agreement, EMC shall have sole and exclusive responsibility for the preparation and filing of:

- (a) all Consolidated Returns and all Combined Returns for any taxable period;

(b) all Income Tax Returns (other than Consolidated Returns and Combined Returns) with respect to EMC and/or any EMC Affiliate for any taxable period;

(c) all Income Tax Returns (other than Consolidated Returns and Combined Returns) with respect to VMware and/or any VMware Affiliate that are required to be filed (taking into account any extension of time which has been requested or received) on or prior to the IPO Date; and

(d) all Non-Income Tax Returns with respect to EMC, any EMC Affiliate, or the EMC Business or any part thereof for any taxable period.

2.02. VMware's Responsibility. Subject to the other applicable provisions of this Agreement, VMware shall have sole and exclusive responsibility for the preparation and filing of:

(a) all Income Tax Returns (other than Consolidated Returns and Combined Returns) with respect to VMware and/or any VMware Affiliate that are required to be filed (taking into account any extension of time which has been requested or received) after the IPO Date; and

(b) all Non-Income Tax Returns with respect to VMware, any VMware Affiliate, or the VMware Business or any part thereof for any taxable period.

2.03. Agent. Subject to the other applicable provisions of this Agreement, VMware hereby irrevocably designates, and agrees to cause each VMware Affiliate to so designate, EMC as its sole and exclusive agent and attorney-in-fact to take such action (including execution of documents) as EMC, in its sole discretion, may deem appropriate in any and all matters (including Audits) relating to any Tax Return described in Section 2.01 of this Agreement.

2.04. Manner of Tax Return Preparation.

(a) Unless otherwise required by a Taxing Authority, the parties hereby agree to prepare and file all Tax Returns, and to take all other actions, in a manner consistent with (1) this Agreement, (2) any Tax Opinion, (3) any Supplemental Tax Opinion, (4) any Ruling, and (5) any Supplemental Ruling. All Tax Returns shall be filed on a timely basis (taking into account applicable extensions) by the party responsible for filing such returns under this Agreement.

(b) EMC shall have the exclusive right, in its sole discretion, with respect to any Tax Return described in Section 2.01 of this Agreement, to determine (1) the manner in which such Tax Return shall be prepared and filed, including the elections, method of accounting, positions, conventions and principles of taxation to be used and the manner in which any Tax Item shall be reported, (2) whether any extensions shall be requested, (3) the elections that will be made by EMC, any EMC Affiliate, VMware, and/or any VMware Affiliate on such Tax Return, (4) whether any amended Tax Returns shall be filed, (5) whether any claims for refund shall be made, (6) whether any refunds shall be paid by way of refund or credited against any liability for the related Tax, and (7) whether to retain outside firms to prepare and/or review such Tax Returns; provided, however, that EMC shall consult with VMware prior to changing any method of

accounting if such action would solely impact VMware or VMware Affiliates. In the case of any Consolidated Return or Combined Return with respect to a Straddle IPO Period or a Post-IPO Period that reports a VMware Separate Tax Liability in excess of five million dollars (\$5,000,000), EMC shall provide to VMware a pro forma draft of the portion of such Tax Return that reflects the VMware Separate Tax Liability and a statement showing in reasonable detail EMC's calculation of the VMware Separate Tax Liability (including copies of all worksheets and other materials used in preparation thereof) at least twenty-one (21) days prior to the due date (with applicable extensions) for the filing of such Tax Return for VMware's review and comment. VMware shall provide its comments to EMC at least ten (10) days prior to the due date (with applicable extensions) for the filing of such Tax Return. In the case of a dispute regarding the reporting of any Tax Item on such Tax Return or the requesting of a change of method of accounting which would solely impact VMware or VMware Affiliates, which the parties cannot resolve, EMC and VMware shall jointly retain a nationally recognized accounting firm that is mutually agreed upon by EMC and VMware (the "Independent Accountant") to determine whether the proposed reporting of EMC or VMware is more appropriate. If EMC and VMware are unable to agree, the Independent Accountant shall be Deloitte Tax LLP. The relevant Tax Item shall be reported in the manner that the Independent Accountant determines is more appropriate, and such determination shall be final and binding on EMC and VMware. If VMware has not provided its comments on the pro forma draft of the portion of the Tax Return, or in the case of a dispute regarding the reporting of any Tax Item, such dispute has not been resolved by the due date (with applicable extension) for the filing of any Tax Return, EMC shall file such Tax Return reporting all Tax Items in the manner as originally set forth on the pro forma draft of the portion of the Tax Return provided to VMware; provided, however, that EMC agrees that it will thereafter file an amended Tax Return, if necessary, reporting any disputed Tax Item in the manner determined by the Independent Accountant, and any other Tax Item as agreed upon by EMC and VMware. The fees and expenses incurred in retaining the Independent Accountant shall be borne equally by EMC and VMware, except that if the Independent Accountant determines that the proposed reporting of the disputed Tax Item(s) submitted to the Independent Accountant for its determination by a party is frivolous, has not been asserted in good faith or for which there is not substantial authority, one hundred percent (100%) of the fees and expenses of the Independent Accountant shall be borne by such party.

(c) Information. VMware shall timely provide, in accordance with EMC's internal tax return calendar, which will be provided to VMware on a rolling one year schedule, all information necessary for EMC to prepare all Tax Returns and compute all estimated Tax payments (for purposes of Section 7.01 of this Agreement). If VMware does not meet these deadlines, the Section 2.04(b) notice period to VMware shall be waived.

Section 3. Liability for Taxes.

3.01. VMware's Liability for Taxes. VMware and each VMware Affiliate shall be jointly and severally liable for the following Taxes, and shall be entitled to receive and retain all refunds of Taxes previously incurred by VMware, any VMware Affiliate, or the VMware Business with respect to such Taxes:

(a) all Taxes with respect to Tax Returns described in Section 2.01(a) of this Agreement to the extent that such Taxes are related to (i) the VMware Separate Tax Liability, or (ii) the VMware Business, for any taxable period;

(b) all Taxes with respect to Tax Returns described in Section 2.01(c) of this Agreement;

(c) all Taxes with respect to Tax Returns described in Section 2.02 of this Agreement; and

(d) all Taxes imposed by any Taxing Authority with respect to the VMware Business, VMware or any VMware Affiliate (other than in connection with the required filing of a Tax Return described in Sections 2.01(a), 2.01(c) or 2.02 of this Agreement) for any taxable period.

3.02. EMC's Liability for Taxes. EMC shall be liable for the following Taxes, and shall be entitled to receive and retain all refunds of Taxes previously incurred by EMC, any EMC Affiliate, or the EMC Business with respect to such Taxes:

(a) except as provided in Section 3.01(a) of this Agreement, all Taxes with respect to Tax Returns described in Section 2.01(a) of this Agreement;

(b) all Taxes with respect to Tax Returns described in Sections 2.01(b) or 2.01(d) of this Agreement; and

(c) all Taxes imposed by any Taxing Authority with respect to EMC, any EMC Affiliate, or the EMC Business (other than in connection with the required filing of a Tax Return described in Sections 2.01(a), 2.01(b) or 2.01(d) of this Agreement) for any taxable period.

3.03. Taxes, Refunds and Credits. Notwithstanding Sections 3.01 and 3.02 of this Agreement, (i) EMC shall be liable for all Taxes incurred by any person with respect to the EMC Business for all periods and shall be entitled to all refunds and credits of Taxes previously incurred by any person with respect to such Taxes, and (ii) VMware and each VMware Affiliate shall be jointly and severally liable for all Taxes incurred by any person with respect to the VMware Business for all periods and shall be entitled to all refunds and credits of Taxes previously incurred by any person with respect to such Taxes. Nothing in this Agreement shall be construed as to require compensation, by payment, credit, offset or otherwise, by EMC (or any EMC Affiliate) to VMware (or any VMware Affiliate) for any loss, deduction, credit or other Tax attribute arising in connection with, or related to, VMware, any VMware Affiliate, or the VMware Business, that is shown on, or otherwise reflected with respect to, any Tax Return described in Section 2.01 of this Agreement.

3.04. Payment of Tax Liability. If one party is liable or responsible for Taxes, under Sections 3.01 through 3.03 of this Agreement, with respect to Tax Returns for which another party is responsible for filing, or with respect to Taxes that are paid by another party, then the liable or responsible party shall pay the Taxes (or a reimbursement of such Taxes) to the other party pursuant to Section 7.05 of this Agreement.

3.05. Computation. EMC shall provide VMware with a written calculation in reasonable detail (including, upon reasonable request, copies of all work sheets and other materials used in preparation thereof) setting forth the amount of any VMware Separate Tax Liability or estimated VMware Separate Tax Liability (for purposes of Section 7.01 of this Agreement) and any Taxes related to the VMware Business. VMware shall have the right to review and comment on such calculation. Any dispute with respect to such calculation shall be resolved pursuant to Section 10.03 of this Agreement; provided, however, that, notwithstanding any dispute with respect to any such calculation, in no event shall any payment attributable to the amount of any VMware Separate Tax Liability or estimated VMware Separate Tax Liability be paid later than the date provided in Section 7 of this Agreement.

Section 4. Deconsolidation Events.

4.01. Tax Allocations. Although neither party has any plan or intent to effectuate any transaction that would constitute a Deconsolidation Event, the parties have set forth how certain Tax matters with respect to a Deconsolidation Event would be handled in the event that, as a result of changed circumstances, a transaction that constitutes a Deconsolidation Event is pursued at some future time.

(a) Allocation of Tax Items. In the case of a Deconsolidation Event, all Tax computations for (1) any Pre-Deconsolidation Periods ending on the date of the Deconsolidation Event and (2) the immediately following taxable period of VMware or any VMware Affiliate, shall be made pursuant to the principles of section 1.1502-76(b) of the Treasury Regulations or of a corresponding provision under the laws of other jurisdictions, as reasonably determined by EMC, taking into account all reasonable suggestions made by VMware with respect thereto.

(b) Allocation of Tax Assets. In the case of a Deconsolidation Event, EMC and VMware shall cooperate in determining the allocation of any Tax Assets among EMC, each EMC Affiliate, VMware, and each VMware Affiliate. The parties hereby agree that in the absence of controlling legal authority or unless otherwise provided under this Agreement, Tax Assets shall be allocated to the legal entity that is required under Section 3 of this Agreement to bear the liability for the Tax associated with such Tax Asset, or in the case where no party is required hereunder to bear such liability, the party that incurred the cost or burden associated with the creation of such Tax Asset.

4.02. Carrybacks.

(a) In General. In the case of a Deconsolidation Event, EMC agrees to pay to VMware the Tax Benefit from the use in any Pre-Deconsolidation Period (the "Carryback Period") of a carryback of any Tax Asset of the VMware Group from a Post-Deconsolidation Period (other than a carryback of any Tax Asset attributable to Distribution Taxes for which the liability is borne by EMC or any EMC Affiliate). If subsequent to the payment by EMC to VMware of the Tax

Benefit of a carryback of a Tax Asset of the VMware Group, there shall be a Final Determination which results in a decrease (1) to the amount of the Tax Asset so carried back or (2) to the amount of such Tax Benefit, VMware shall repay to EMC any amount which would not have been payable to VMware pursuant to this Section 4.02(a) had the amount of the benefit been determined in light of these events. Nothing in this Section 4.02(a) shall require EMC to file an amended Tax Return or claim for refund of Income Taxes; provided, however, that EMC shall use its reasonable efforts to use any carryback of a Tax Asset of the VMware Group that is carried back under this Section 4.02(a).

(b) Net Operating Losses. In the case of a Deconsolidation Event, notwithstanding any other provision of this Agreement, VMware hereby expressly agrees to elect (under section 172(b)(3) of the Code and, to the extent feasible, any similar provision of any state, local or non-U.S. Tax law, including section 1.1502-21T(b)(3) of the Treasury Regulations) to relinquish any right to carryback net operating losses to any Pre-Deconsolidation Periods of EMC (in which event no payment shall be due from EMC to VMware in respect of such net operating losses).

4.03 Continuing Covenants.

Each of EMC (for itself and each EMC Affiliate) and VMware (for itself and each VMware Affiliate) agrees (1) not to take any action reasonably expected to result in an increased Tax liability to the other, a reduction in a Tax Asset of the other or an increased liability to the other under this Agreement, and (2) to take any action reasonably requested by the other that would reasonably be expected to result in a Tax Benefit or avoid a Tax Detriment to the other, provided, in either such case, that the taking or refraining to take such action does not result in any additional cost not fully compensated for by the other party or any other adverse effect to such party. The parties hereby acknowledge that the preceding sentence is not intended to limit, and therefore shall not apply to, the rights of the parties with respect to matters otherwise covered by this Agreement.

Section 5. Distribution Taxes.

5.01. Liability for Distribution Taxes. Although neither party has any plan or intent to effectuate a Distribution, the parties have set forth how certain Tax matters with respect to a Distribution would be handled in the event that, as a result of changed circumstances, a Distribution is pursued at some future time.

(a) EMC's Liability for Distribution Taxes. In the event of a Distribution, notwithstanding Sections 3.01 through 3.03 of this Agreement, EMC and each EMC Affiliate shall be jointly and severally liable for any Distribution Taxes, to the extent that such Distribution Taxes are attributable to, caused by, or result from, one or more of the following:

(i) any action or omission by EMC (or any EMC Affiliate) inconsistent with any information, covenant, representation, or material related to EMC, any EMC Affiliate, or the EMC Business in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling (for the avoidance

of doubt, disclosure of any action or fact that is inconsistent with any information, covenant, representation, or material submitted to Tax Counsel, the IRS, or other Taxing Authority, as applicable, in connection with an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling shall not relieve EMC (or any EMC Affiliate) of liability under this Agreement);

(ii) any action or omission by EMC (or any EMC Affiliate), including a cessation, transfer to affiliates, or disposition of its active trades or businesses, or an issuance of stock, stock buyback or payment of an extraordinary dividend by EMC (or any EMC Affiliate) following a Distribution;

(iii) any acquisition of any stock or assets of EMC (or any EMC Affiliate) by one or more other persons (other than VMware or a VMware Affiliate) prior to or following a Distribution; or

(iv) any issuance of stock by EMC (or any EMC Affiliate), or change in ownership of stock in EMC (or any EMC Affiliate).

(b) VMware's Liability for Distribution Taxes. In the event of a Distribution, notwithstanding Sections 3.01 through 3.03 of this Agreement, VMware and each VMware Affiliate shall be jointly and severally liable for any Distribution Taxes, to the extent that such Distribution Taxes are attributable to, caused by, or result from, one or more of the following:

(i) any action or omission by VMware (or any VMware Affiliate) after a Distribution at any time, that is inconsistent with any information, covenant, representation, or material related to VMware, any VMware Affiliate, or the VMware Business in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling (for the avoidance of doubt, disclosure by VMware (or any VMware Affiliate) to EMC (or any EMC Affiliate) of any action or fact that is inconsistent with any information, covenant, representation, or material submitted to Tax Counsel, the IRS, or other Taxing Authority, as applicable, in connection with an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling shall not relieve VMware (or any VMware Affiliate) of liability under this Agreement);

(ii) any action or omission by VMware (or any VMware Affiliate) after the date of a Distribution (including any act or omission that is in furtherance of, connected to, or part of a plan or series of related transactions (within the meaning of section 355(e) of the Code) occurring on or prior to the date of a Distribution) including a cessation, transfer to affiliates or disposition of the active trades or businesses of VMware (or any VMware Affiliate), stock buyback or payment of an extraordinary dividend;

(iii) any acquisition of any stock or assets of VMware (or any VMware Affiliate) by one or more other persons (other than EMC or any EMC Affiliate) prior to or following a Distribution; or

(iv) any issuance of stock by VMware (or any VMware Affiliate) after a Distribution, including any issuance pursuant to the exercise of employee stock options or other employment related arrangements or the exercise of warrants, or change in ownership of stock in VMware (or any VMware Affiliate) after a Distribution.

(c) Joint Liability for Remaining Distribution Taxes. EMC shall be liable for fifty percent (50%) and VMware and each VMware Affiliate shall be jointly and severally liable for fifty percent (50%), of any Distribution Taxes not otherwise allocated by Sections 5.01(a) or (b) of this Agreement.

5.02. Continuing Covenants.

(a) VMware Restrictions. VMware agrees that, so long as a Distribution could, in the reasonable discretion of EMC, be effectuated, VMware will not knowingly take or fail to take, or permit any VMware Affiliate to knowingly take or fail to take, any action that could reasonably be expected to preclude EMC's ability to effectuate a Distribution. In the event of a Distribution, VMware agrees that (1) it will take, or cause any VMware Affiliate to take, any action reasonably requested by EMC in order to enable EMC to effectuate a Distribution and (2) it will not take or fail to take, or permit any VMware Affiliate to take or fail to take, any action where such action or failure to act would be inconsistent with any information, covenant, representation, or material that relates to facts or matters related to VMware (or any VMware Affiliate) or within the control of VMware and is contained in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling (except where such information, covenant, representation, or material was not previously disclosed to VMware) other than as permitted by Section 5.02(c) of this Agreement. For this purpose an action is considered inconsistent with a representation if the representation states that there is no plan or intention to take such action. In the event of a Distribution, VMware agrees that it will not take (and it will cause the VMware Affiliates to refrain from taking) any position on a Tax Return that is inconsistent with such Distribution qualifying under section 355 of the Code.

(b) EMC Restrictions. In the event of a Distribution, EMC agrees that it will not take or fail to take, or permit any EMC Affiliate to take or fail to take, any action where such action or failure to act would be inconsistent with any material, information, covenant or representation that relates to facts or matters related to EMC (or any EMC Affiliate) or within the control of EMC and is contained in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling. For this purpose an action is considered inconsistent with a representation if the representation states that there is no plan or intention to take such action. In the event of a Distribution, EMC agrees that it will not take (and it will cause the EMC Affiliates to refrain from taking) any position on a Tax Return that is inconsistent with such Distribution qualifying under section 355 of the Code.

(c) Certain VMware Actions Following a Distribution. In the event of a Distribution, VMware agrees that, during the two (2) year period following a Distribution, without first obtaining, at VMware's own expense, either a supplemental opinion from Tax Counsel that

such action will not result in Distribution Taxes (a “Supplemental Tax Opinion”) or a Supplemental Ruling that such action will not result in Distribution Taxes, unless in any such case EMC and VMware agree otherwise, VMware shall not (1) sell all or substantially all of the assets of VMware or any VMware Affiliate, (2) merge VMware or any VMware Affiliate with another entity, without regard to which party is the surviving entity, (3) transfer any assets of VMware in a transaction described in section 351 (other than a transfer to a corporation which files a Consolidated Return with VMware and which is wholly-owned, directly or indirectly, by VMware) or subparagraph (C) or (D) of section 368(a) (1) of the Code, (4) issue stock of VMware or any VMware Affiliate (or any instrument that is convertible or exchangeable into any such stock) in an acquisition or public or private offering, or (5) facilitate or otherwise participate in any acquisition of stock in VMware that would result in any shareholder owning five percent (5%) or more of the outstanding stock of VMware. VMware (or any VMware Affiliate) shall only undertake any of such actions after EMC’s receipt of such Supplemental Tax Opinion or Supplemental Ruling and pursuant to the terms and conditions of any such Supplemental Tax Opinion or Supplemental Ruling or as otherwise consented to in writing in advance by EMC. The parties hereby agree that they will act in good faith to take all reasonable steps necessary to amend this Section 5.02(c), from time to time, by mutual agreement, to (i) add certain actions to the list contained herein, or (ii) remove certain actions from the list contained herein, in either case, in order to reflect any relevant change in law, regulation or administrative interpretation occurring after the date of this Agreement.

(d) Notice of Specified Transactions. Not later than twenty (20) days prior to entering into any oral or written contract or agreement, and not later than five (5) days after it first becomes aware of any negotiations, plan or intention (regardless of whether it is a party to such negotiations, plan or intention), regarding any of the transactions described in paragraph (c), VMware shall provide written notice of its intent to consummate such transaction or the negotiations, plan or intention of which it becomes aware, as the case may be, to EMC.

(e) VMware Cooperation. VMware agrees that, at the request of EMC, VMware shall cooperate fully with EMC to take any action necessary or reasonably helpful to effectuate a Distribution, including seeking to obtain, as expeditiously as possible, a Tax Opinion, Supplemental Tax Opinion, Ruling, and/or Supplemental Ruling. Such cooperation shall include the execution of any documents that may be necessary or reasonably helpful in connection with obtaining any Tax Opinion, Supplemental Tax Opinion, Ruling, and/or Supplemental Ruling (including any (i) power of attorney, (ii) Officer’s Certificate, (iii) Ruling Documents, (iv) Supplemental Ruling Documents, and/or (v) reasonably requested written representations confirming that (a) VMware has read the Officer’s Certificate, Ruling Documents, and/or Supplemental Ruling Documents and (b) all information and representations, if any, relating to VMware, any VMware Affiliate or the VMware Business contained therein are true, correct and complete in all material respects).

(f) Earnings and Profits. EMC will advise VMware in writing of the decrease in EMC earnings and profits attributable to a Distribution under section 312(h) of the Code on or before the first anniversary of a Distribution; provided, however, that EMC shall provide VMware with estimates of such amounts (determined in accordance with past practice) prior to such anniversary as reasonably requested by VMware.

Section 6. Indemnification.

6.01. In General. EMC and each member of the EMC Group shall jointly and severally indemnify VMware, each VMware Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which EMC or any EMC Affiliate is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from, the failure of EMC, any EMC Affiliate or any director, officer or employee to make any payment required to be made under this Agreement. VMware and each member of the VMware Group shall jointly and severally indemnify EMC, each EMC Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which VMware or any VMware Affiliate is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from, the failure of VMware, any VMware Affiliate or any director, officer or employee to make any payment required to be made under this Agreement.

6.02. Inaccurate or Incomplete Information. EMC and each member of the EMC Group shall jointly and severally indemnify VMware, each VMware Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any cost, fine, penalty, or other expense of any kind attributable to the failure of EMC or any EMC Affiliate in supplying VMware or any VMware Affiliate with inaccurate or incomplete information, in connection with the preparation of any Tax Return. VMware and each member of the VMware Group shall jointly and severally indemnify EMC, each EMC Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any cost, fine, penalty, or other expenses of any kind attributable to the failure of VMware or any VMware Affiliate in supplying EMC or any EMC Affiliate with inaccurate or incomplete information, in connection with the preparation of any Tax Return.

6.03. No Indemnification for Tax Items. Nothing in this Agreement shall be construed as a guarantee of the existence or amount of any loss, credit, carryforward, basis or other Tax Item, whether past, present or future, of EMC, any EMC Affiliate, VMware or any VMware Affiliate. In addition, for the avoidance of doubt, for purposes of determining any amount owed between the parties hereto, all such determinations shall be made without regard to any financial accounting tax asset or liability or other financial accounting items.

Section 7. Payments.

7.01. Estimated Tax Payments. Not later than three (3) days prior to each Estimated Tax Installment Date with respect to a taxable period for which a Consolidated Return or a Combined Return will be filed, VMware shall pay to EMC on behalf of the VMware Group an amount equal to the amount of any estimated VMware Separate Tax Liability that VMware otherwise would have been required to pay to a Taxing Authority on such Estimated Tax Installment Date. Not later

than seven (7) days prior to each such Estimated Tax Installment Date, EMC shall provide VMware with a written notice setting forth the amount payable by VMware in respect of such estimated VMware Separate Tax Liability and a calculation of such amount.

7.02. True-Up Payments. Not later than ten (10) business days after completion of (i) a Consolidated Return, VMware shall pay to EMC, or EMC shall pay to VMware, as appropriate, an amount equal to the difference, if any, between thereceipt of any VMware Separate Tax Liability and the aggregate amount paid by VMware with respect to such period under Section 7.01 computation pursuant to Section 3.05 of this Agreement and (ii) all Combined Returns, VMware shall pay to EMC, or EMC shall pay to VMware, as appropriate, an amount equal to the difference, if any, between the VMware Separate Tax Liability and the aggregate amount paid by VMware with respect to such period under Section 7.01 of this Agreement.

7.03. Redetermination Amounts. In the event of a redetermination of any Tax Item reflected on any Consolidated Return or Combined Return (other than Tax Items relating to Distribution Taxes), as a result of a refund of Taxes paid, a Final Determination or any settlement or compromise with any Taxing Authority which in any such case would affect the VMware Separate Tax Liability, EMC shall prepare a revised pro forma Tax Return in accordance with Section 2.04(b) of this Agreement for the relevant taxable period reflecting the redetermination of such Tax Item as a result of such refund, Final Determination, settlement or compromise. VMware shall pay to EMC, or EMC shall pay to VMware, as appropriate, an amount equal to the difference, if any, between the VMware Separate Tax liability reflected on such revised pro forma Tax Return and the VMware Separate Tax liability for such period as originally computed pursuant to this Agreement.

7.04. Payments of Refunds, Credits and Reimbursements. If one party receives a refund or credit of any Tax to which the other party is entitled pursuant to Section 3.03 of this Agreement, the party receiving such refund or credit shall pay to the other party the amount of such refund or credit pursuant to Section 7.05 of this Agreement. If one party pays a Tax with respect to which the other party is liable of responsible pursuant to Sections 3.01 through 3.03 of this Agreement, then the liable or responsible party shall pay to the other party the amount of such Tax pursuant to Section 7.05 of this Agreement.

7.05. Payments Under This Agreement. In the event that one party (the "Owing Party") is required to make a payment to another party (the "Owed Party") pursuant to this Agreement, then such payments shall be made according to this Section 7.05.

(a) In General. All payments shall be made to the Owed Party or to the appropriate Taxing Authority as specified by the Owed Party within the time prescribed for payment in this Agreement, or if no period is prescribed, within ten (10) days after delivery of written notice of payment owing together with a computation of the amounts due.

(b) Treatment of Payments. Unless otherwise required by any Final Determination, the parties agree that any payments made by one party to another party pursuant to this Agreement (other than (i) payments for the VMware Separate Tax Liability for any Post-Deconsolidation Period, (ii) payments of interest pursuant to Section 7.05(e) of this Agreement, and (iv) payments of After Tax Amounts pursuant to Section 7.05 (d) of this Agreement) shall be treated for all Tax and financial accounting purposes as nontaxable payments (dividend distributions or capital contributions, as the case may be) made immediately prior to the Deconsolidation Event and, accordingly, as not includible in the taxable income of the recipient or as deductible by the payor.

(c) Prompt Performance. All actions required to be taken (including payments) by any party under this Agreement shall be performed within the time prescribed for performance in this Agreement, or if no period is prescribed, such actions shall be performed promptly.

(d) After Tax Amounts. If pursuant to a Final Determination it is determined that the receipt or accrual of any payment made under this Agreement (other than payments of interest pursuant to Section 7.05(e) of this Agreement) is subject to any Tax, the party making such payment shall be liable for (a) the After Tax Amount with respect to such payment and (b) interest at the rate described in Section 7.05(e) of this Agreement on the amount of such Tax from the date such Tax accrues through the date of payment of such After Tax Amount. A party making a demand for a payment pursuant to this Agreement and for a payment of an After Tax Amount with respect to such payment shall separately specify and compute such After Tax Amount. However, a party may choose not to specify an After Tax Amount in a demand for payment pursuant to this Agreement without thereby being deemed to have waived its right subsequently to demand an After Tax Amount with respect to such payment. VMware's liability for any and all payments of the VMware Separate Tax Liability for any Post-Deconsolidation Period shall be increased by the After Tax Amount with respect to such payment and decreased by the corresponding Tax Benefit, if any, attributable to such VMware Separate Tax Liability.

(e) Interest. Payments pursuant to this Agreement that are not made within the period prescribed in this Agreement (the "Payment Period") shall bear interest for the period from and including the date immediately following the last date of the Payment Period through and including the date of payment at a per annum rate equal to the prime rate as published in *The Wall Street Journal* on the last day of such Payment Period. Such interest will be payable at the same time as the payment to which it relates and shall be calculated on the basis of a year of three hundred sixty-five (365) days and the actual number of days for which due.

Section 8. Tax Proceedings.

8.01. In General. Except as otherwise provided in this Agreement, (i) with respect to Tax Returns described in Sections 2.01(a), 2.01(b), or 2.01(d) of this Agreement, EMC and (ii) with respect to Tax Returns described in Sections 2.01(c) or 2.02 of this Agreement, VMware (in either case, the "Controlling Party"), shall have the exclusive right, in its sole discretion, to control, contest, and represent the interests of EMC, any EMC Affiliate, VMware, and/or any VMware Affiliate in any Audit relating to such Tax Return and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Audit. The Controlling Party's rights shall extend to any matter pertaining to the management and control of an Audit, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item. Any costs incurred in handling, settling, or contesting an Audit shall be borne by the Controlling Party.

8.02. Participation of non-Controlling Party. Except as otherwise provided in Section 8.04 of this Agreement, the non-Controlling Party shall have control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment with respect to any Sole Responsibility Item. Except as otherwise provided in Section 8.04 of this Agreement, the Controlling Party and the non-Controlling Party shall have joint control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment with respect to any Joint Responsibility Item. Except as otherwise provided in Section 8.04 of this Agreement, the Controlling Party shall not settle any Audit it controls concerning a Tax Item on a basis that would reasonably be expected to adversely affect the non-Controlling Party by at least one hundred fifty thousand dollars (\$150,000) without obtaining such non-Controlling Party's consent, which consent shall not be unreasonably withheld, conditioned or delayed if failure to consent would adversely affect the Controlling Party.

8.03. Notice. Within ten (10) business days after a party becomes aware of the existence of a Tax issue that may give rise to an indemnification obligation under this Agreement, such party shall give prompt notice to the other party of such issue (such notice shall contain factual information, to the extent known, describing any asserted tax liability in reasonable detail), and shall promptly forward to the other party copies of all notices and material communications with any Taxing Authority relating to such issue. Notwithstanding any provision in Section 10.15 of this Agreement to the contrary, if a party to this Agreement fails to provide the other party notice as required by this Section 8.03, and the failure results in a detriment to the other party then any amount which the other party is otherwise required to pay pursuant to this Agreement shall be reduced by the amount of such detriment.

8.04. Control of Distribution Tax Proceedings. In the event of a Distribution, EMC shall have the exclusive right, in its sole discretion, to control, contest, and represent the interests of EMC, any EMC Affiliate, VMware, and/or any VMware Affiliate in any Audits relating to Distribution Taxes and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Audit; provided, however, that EMC shall not settle any such audit with respect to Distribution Taxes with a Taxing Authority that would reasonably be expected to result in a material Tax cost to VMware or any VMware Affiliate, without the prior consent of VMware, which consent shall not be unreasonably withheld, conditioned or delayed. EMC's rights shall extend to any matter pertaining to the management and control of such Audit, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item; provided, however, that to the extent that VMware is obligated to bear at least fifty percent (50%) of the liability for any Distribution Taxes under Section 5.01 of this Agreement, EMC and VMware shall have joint control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment. VMware may assume sole control of any Audits relating to Distribution Taxes if it acknowledges in writing that it has sole liability for any Distribution Taxes under Section 5.01 of this Agreement that might arise in such Audit and can demonstrate to the reasonable satisfaction of EMC that it can satisfy its liability for any such Distribution Taxes. If VMware is unable to demonstrate to the reasonable satisfaction of EMC that it will be able to satisfy its liability for such Distribution Taxes, but acknowledges in writing that it has sole liability for any Distribution Taxes under Section 5.01 of this Agreement, VMware and EMC shall have joint control over the Audit.

Section 9. Stock Options and Restricted Stock.

9.01. In General.

(a) The parties hereto agree that, so long as VMware continues to be a member of the Consolidated Group of which EMC is the common parent, EMC shall be entitled to any Tax Benefit arising by reason of (i) exercises of Options to purchase shares of EMC stock and (ii) the lapse of any restrictions with respect to shares of EMC stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code). The parties hereto agree (i) to report all Tax deductions with respect to exercises of Options to purchase shares of EMC stock and the lapse of any restrictions with respect to shares of EMC stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code) consistently with this Section 9.01(a), to the extent permitted by the Tax law, and (ii) that such Tax deductions shall not be considered Tax deductions of VMware or any VMware Affiliate for purposes of computing the VMware Separate Tax Liability.

(b) The parties hereto agree that, once VMware ceases to be a member of the Consolidated Group of which EMC is the common parent, so long as EMC and/or any EMC Affiliate own shares of VMware stock possessing at least twenty percent (20%) of the total voting power of all of the issued and outstanding shares of VMware stock, VMware shall pay the amount of the Tax Benefit arising by reason of (i) exercises of Options to purchase shares of EMC stock and (ii) the lapse of any restrictions with respect to shares of EMC stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code) to EMC.

9.02. Notices, Withholding, Reporting. EMC shall promptly notify VMware of any post-IPO Date event giving rise to income to any VMware Group employees or former employees in connection with exercises of Options to purchase shares of EMC stock or the lapse of any restrictions with respect to shares of EMC stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code). If required by the Tax law, VMware shall withhold applicable Taxes and satisfy applicable Tax reporting obligations in connection therewith.

9.03. Adjustments. If VMware or any VMware Affiliate as a result of a Final Determination or any settlement or compromise with any Taxing Authority receives any Tax Benefit to which EMC is entitled under Section 9.01 of this Agreement, VMware shall pay the amount of such Tax Benefit to EMC. If EMC or any EMC Affiliate as a result of a Final Determination or any settlement or compromise with any Taxing Authority receives any Tax Benefit to which VMware is entitled under Section 9.01 of this Agreement, EMC shall pay the amount of such Tax Benefit to VMware.

Section 10. Miscellaneous Provisions.

10.01. Effectiveness. This Agreement shall become effective upon execution by the parties hereto.

10.02. Cooperation and Exchange of Information.

(a) Cooperation. VMware and EMC shall each cooperate fully (and each shall cause its respective affiliates to cooperate fully) with all reasonable requests from another party for information and materials not otherwise available to the requesting party in connection with the preparation and filing of Tax Returns, claims for refund, and Audits concerning issues or other matters covered by this Agreement or in connection with the determination of a liability for Taxes or a right to a refund of Taxes. Such cooperation shall include:

(i) the retention until the expiration of the applicable statute of limitations, and the provision upon request, of copies of all Tax Returns, books, records (including information regarding ownership and Tax basis of property), documentation and other information relating to the Tax Returns, including accompanying schedules, related work papers, and documents relating to rulings or other determinations by Taxing Authorities;

(ii) the execution of any document that may be necessary or reasonably helpful in connection with any Tax Proceeding, or the filing of a Tax Return or refund claim by a member of the EMC Group or the VMware Group, including certification, to the best of a party's knowledge, of the accuracy and completeness of the information it has supplied; and

(iii) the use of the party's reasonable best efforts to obtain any documentation that may be necessary or reasonably helpful in connection with any of the foregoing. Each party shall make its employees and facilities available on a reasonable and mutually convenient basis in connection with the foregoing matters.

(b) Retention of Records. Any party that is in possession of documentation of EMC (or any EMC Affiliate) or VMware (or any VMware Affiliate) relating to the VMware Business, including books, records, Tax Returns and all supporting schedules and information relating thereto (the "VMware Business Records") shall retain such VMware Business Records for a period of seven (7) years following the IPO Date. Thereafter, any party wishing to dispose of VMware Business Records in its possession (after the expiration of the applicable statute of limitations), shall provide written notice to the other party describing the documentation proposed to be destroyed or disposed of sixty (60) business days prior to taking such action. The other party may arrange to take delivery of any or all of the documentation described in the notice at its expense during the succeeding sixty (60) day period.

10.03. Dispute Resolution. In the event that EMC and VMware disagree as to the amount or calculation of any payment to be made under this Agreement, or the interpretation or application of any provision under this Agreement, the parties shall attempt in good faith to resolve such dispute. If such dispute is not resolved within sixty (60) business days following the commencement of the dispute, EMC and VMware shall jointly retain a nationally recognized law or accounting firm, which firm is independent of both parties (the "Independent Firm"), to resolve the dispute. The Independent Firm shall act as an arbitrator to resolve all points of disagreement and its decision shall be final and binding upon all parties involved. Following the decision of the Independent Firm, EMC and VMware shall each take or cause to be taken any action necessary to implement the decision of the Independent Firm. The fees and expenses relating to the Independent Firm shall be borne equally by EMC and VMware, except that if the Independent Firm determines that the position advanced by either party is frivolous, has not been asserted in good faith or for which there is not substantial authority, one hundred percent (100%) of the fees and expenses of the Independent Firm shall be borne by such party. Notwithstanding anything in this Agreement to the contrary, the dispute resolution provisions set forth in this Section 10.03 shall not be applicable to any disagreement between the parties relating to Distribution Taxes and any such dispute shall be settled in a court of law or as otherwise agreed to by the parties.

10.04. Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed given upon (a) a transmitter's confirmation of a receipt of a facsimile transmission (but only if followed by confirmed delivery of a standard overnight courier the following business day or if delivered by hand the following business day), (b) confirmed delivery of a standard overnight courier or when delivered by hand or (c) the expiration of ten (10) business days after the date mailed by certified or registered mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to EMC or any EMC Affiliate, to the Director of Corporate Tax of EMC, with a copy to the General Counsel of EMC, at:

EMC Corporation
176 South Street
Hopkinton, Massachusetts 01748
Attention: Office of the General Counsel

If to VMware or any VMware Affiliate, to Director of Corporate Tax of VMware, with a copy to the General Counsel of VMware,
at:

VMware, Inc.
3145 Porter Drive
Palo Alto, California 94304
Attention: General Counsel

Either party may, by written notice to the other parties, change the address or the party to which any notice, request, instruction or other documents is to be delivered.

10.05. Changes in Law.

(a) Any reference to a provision of the Code or a law of another jurisdiction shall include a reference to any applicable successor provision or law.

(b) If, due to any change in applicable law or regulations or their interpretation by any court of law or other governing body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision.

10.06. Confidentiality. Each party shall hold and cause its directors, officers, employees, advisors and consultants to hold in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its counsel, by other requirements of law, all information (other than any such information relating solely to the business or affairs of such party) concerning the other parties hereto furnished it by such other party or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (1) in the public domain through no fault of such party or (2) later lawfully acquired from other sources not under a duty of confidentiality by the party to which it was furnished), and each party shall not release or disclose such information to any other person, except its directors, officers, employees, auditors, attorneys, financial advisors, bankers and other consultants who shall be advised of and agree to be bound by the provisions of this Section 10.06. Each party shall be deemed to have satisfied its obligation to hold confidential information concerning or supplied by the other party if it exercises the same care as it takes to preserve confidentiality for its own similar information.

10.07. Successors. This Agreement shall be binding on and inure to the benefit and detriment of any successor, by merger, acquisition of assets or otherwise, to any of the parties hereto, to the same extent as if such successor had been an original party.

10.08. Affiliates. EMC shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any EMC Affiliate, and VMware shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any VMware Affiliate; provided, however, that, if it is contemplated that an EMC Affiliate may cease to be an EMC Affiliate as a result of a transfer of its stock or other ownership interests to a third party in exchange for consideration in an amount approximately equal to the fair market value of the stock or other ownership interests transferred and such consideration is not distributed outside of the EMC Group to the shareholders of EMC, then (a) VMware shall execute a release of such EMC Affiliate from its obligations under this Agreement effective as of such transfer provided that EMC shall have confirmed in writing its obligations and the obligations of its remaining EMC Affiliates with respect to their own obligations and the obligations of the departing EMC Affiliate and that such departing EMC Affiliate shall have executed a release of any rights it may have against VMware or any VMware Affiliate by reason of this Agreement, or (b) EMC shall acknowledge in writing no later than thirty (30) days prior to such cessation that it shall bear one hundred percent

(100%) of the liability for the obligations of EMC and each EMC Affiliate (including the departing EMC Affiliate) under this Agreement. If at any time VMware shall, directly or indirectly, obtain beneficial ownership of more than fifty percent (50%) of the total combined voting power of any other entity, VMware shall cause such entity to become a party to this Agreement by executing together with EMC an agreement in substantially the same form as set forth in Schedule 10.08 and such entity shall have all rights and obligations of an VMware Affiliate under this Agreement.

10.09. Authorization, Etc. Each of the parties hereto hereby represents and warrants that it has the power and authority to execute, deliver and perform this Agreement, that this Agreement has been duly authorized by all necessary corporate action on the part of such party, that this Agreement constitutes a legal, valid and binding obligation of each such party and that the execution, delivery and performance of this Agreement by such party does not contravene or conflict with any provision of law or of its charter or bylaws or any agreement, instrument or order binding on such party.

10.10. Entire Agreement. This Agreement contains the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes any prior tax sharing agreements between EMC (or any EMC Affiliate) and VMware (or any VMware Affiliate) and such prior tax sharing agreements shall have no further force and effect. If, and to the extent, the provisions of this Agreement conflict with any agreement entered into in connection with a Distribution or another Deconsolidation Event, the provisions of this Agreement shall control.

10.11. Applicable Law; Jurisdiction. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY AND UNCONDITIONALLY (i) AGREES THAT THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND ALL DISPUTES, CONTROVERSIES OR CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE BREACH, TERMINATION OR VALIDITY HEREOF SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MASSACHUSETTS, EXCLUDING ANY CONFLICTS OF LAW RULES, (ii) TO BE SUBJECT TO, AND HEREBY CONSENTS AND SUBMITS TO, THE JURISDICTION OF THE COURTS OF THE STATE OF MASSACHUSETTS AND OF THE FEDERAL COURTS SITTING IN THE STATE OF MASSACHUSETTS, (iii) TO THE EXTENT SUCH PARTY IS NOT OTHERWISE SUBJECT TO SERVICE OF PROCESS IN THE STATE OF MASSACHUSETTS, HEREBY APPOINTS THE CORPORATION TRUST COMPANY, AS SUCH PARTY'S AGENT IN THE STATE OF MASSACHUSETTS FOR ACCEPTANCE OF LEGAL PROCESS AND (iv) AGREES THAT SERVICE MADE ON ANY SUCH AGENT SET FORTH IN (iii) ABOVE SHALL HAVE THE SAME LEGAL FORCE AND EFFECT AS IF SERVED UPON SUCH PARTY PERSONALLY WITHIN THE STATE OF MASSACHUSETTS.

10.12. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

10.13. Severability. If any term, provision, covenant, or restriction of this Agreement is held by a court of competent jurisdiction (or an arbitrator or arbitration panel) to be invalid, void,

or unenforceable, the remainder of the terms, provisions, covenants, and restrictions set forth herein shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated. In the event that any such term, provision, covenant or restriction is held to be invalid, void or unenforceable, the parties hereto shall use their best efforts to find and employ an alternate means to achieve the same or substantially the same result as that contemplated by such terms, provisions, covenant, or restriction.

10.14. No Third Party Beneficiaries. This Agreement is solely for the benefit of EMC, the EMC Affiliates, VMware and the VMware Affiliates. This Agreement should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, cause of action or other rights in excess of those existing without this Agreement.

10.15. Waivers, Etc. No failure or delay on the part of a party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement nor consent to any departure by the parties therefrom shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

10.16. Setoff. All payments to be made by any party under this Agreement may be netted against payments due to such party under this Agreement, but otherwise shall be made without setoff, counterclaim or withholding, all of which are hereby expressly waived.

10.17. Other Remedies. VMware recognizes that any failure by it or any VMware Affiliate to comply with its obligations under Section 5 of this Agreement would, in the event of a Distribution, result in Distribution Taxes that would cause irreparable harm to EMC, EMC Affiliates, and their stockholders. Accordingly, EMC shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which EMC is entitled at law or in equity.

10.18. Amendment and Modification. This Agreement may be amended, modified or supplemented only by a written agreement signed by all of the parties hereto.

10.19. Waiver of Jury Trial. Each of the parties hereto irrevocably and unconditionally waives all right to trial by jury in any litigation, claim, action, suit, arbitration, inquiry, proceeding, investigation or counterclaim (whether based in contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the parties hereto in the negotiation, administration, performance and enforcement thereof.

10.20. Interpretations. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement they shall be

deemed to be followed by the words “without limitation.” The words “hereof,” “herein” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified. The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by a duly authorized officer as of the date first above written.

EMC CORPORATION
on behalf of itself and each of the EMC Affiliates

By: _____
Name: [name]
Title: [title]

VMWARE, INC.
on behalf of itself and each of the VMware Affiliates

By: _____
Name: [name]
Title: [title]

WHEREAS, VMware, a Delaware corporation (“VMware”), owns, directly or indirectly, [all/more than fifty percent (50%)] of the outstanding stock or interests in the undersigned;

WHEREAS, the undersigned is not a party to that certain Tax Sharing Agreement, dated as of [DATE], by and among EMC, each EMC Affiliate, VMware and each VMware Affiliate (as defined therein) (the “Agreement”); and

WHEREAS, the undersigned, EMC and VMware desire to have the undersigned become a party to the Agreement and to have all rights and obligations of a party to the Agreement.

NOW, THEREFORE, in consideration of mutual obligations and undertakings contained in the Agreement, the parties agree that the undersigned shall become a party to the Agreement and shall have all rights and obligations of a party to the Agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates accompanying their respective signatures, but effective as of _____.

EMC CORPORATION

By: _____
Title: _____
Dated: _____

VMWARE, INC.

By: _____
Title: _____
Dated: _____

[NAME]

By: _____
Title: _____
Dated: _____

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**FORM OF
INTELLECTUAL PROPERTY AGREEMENT**

This **INTELLECTUAL PROPERTY AGREEMENT** (the “Agreement”), effective as of [] __, 2007 (the “Effective Date”), is between EMC Corporation, a Massachusetts corporation having an office at 176 South Street, Hopkinton, MA 01748-9103 (“EMC”) and VMware, Inc., a Delaware corporation having an office at 3145 Porter Drive, Palo Alto, CA 94304 (“VMware”) (EMC and VMware are each referred to herein as a “Party” and together the “Parties”).

WHEREAS , EMC beneficially owns 100% of the issued and outstanding common stock of VMware;

WHEREAS , the Parties currently contemplate that VMware will make an initial public offering (the “Offering”) of an amount of Class A common stock pursuant to a registration statement on Form S-1 under the Securities Act of 1933, as amended (the “Registration Statement”);

WHEREAS , EMC and VMware have entered into a Master Transaction Agreement as of the date hereof (the “Master Transaction Agreement”) to help delineate the relationship between EMC and VMware after the Offering, including setting forth certain rights and obligations of EMC and VMware following the Offering, and addressing certain matters relating to the Offering;

WHEREAS , the Master Transaction Agreement calls for the execution of an intellectual property agreement to memorialize certain agreements between EMC and VMware regarding the treatment of certain intellectual property rights and obligations; and

WHEREAS , EMC and VMware desire to (a) provide one another with the rights described below and (b) agree to the mutual restrictions described below, in each case on the terms set forth herein.

NOW, THEREFORE , in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto, for themselves and their respective successors and assigns, hereby covenant and agree as follows:

ARTICLE I

TREATMENT OF INTELLECTUAL PROPERTY RIGHTS

Section 1.1 Grant of Licenses.

(a) Subject to Section 5.11, EMC grants to the VMware, effective as of the Effective Date, a fully paid-up, non-exclusive, non-assignable, non-transferable, non-sublicenseable (except as provided in Section 1.2), worldwide right and license:

(i) under the EMC Patents to make, have made, use (including the right to practice any method which is involved in the use), import, offer for sale, lease, sell and/or otherwise dispose of (either directly or indirectly) VMware Licensed Products, and to provide or have provided services and support to third parties with respect to VMware Licensed Products;

(ii) under the EMC Copyrights to use, modify and thereby create derivative works of, and reproduce, the EMC Source Code and associated documentation in connection with designing, developing, distributing (directly and/or indirectly), servicing and supporting VMware Licensed Products;

(iii) under the EMC Trade Secrets to design, develop, distribute (directly and/or indirectly) service and support VMware Licensed Products; and

(iv) under all third party source code embedded in the source code referred to in Schedule A to take any of the actions contemplated under Section 1.1(a)(i)-(iii), but only if and to the extent that EMC has the right to provide VMware with the right to take any of such actions without additional payment to the third party or third parties who own such third party source code, and VMware agrees to be bound by all terms and conditions of EMC's use of that third party source code as if VMware were named in the place of EMC with regard to such terms and conditions.

(b) Subject to Section 5.11 and Section 5.11.1, VMware grants to EMC, effective as of the Effective Date, a fully paid-up, non-exclusive, non-assignable, non-transferable, non-sublicenseable (except as provided in Section 1.2), worldwide right and license:

(i) under the VMware Patents to make, have made, use (including the right to practice any method which is involved in the use), import, offer for sale, lease, sell and/or otherwise dispose of (either directly or indirectly) EMC Licensed Products, and to provide or have provided services and support to third parties with respect to EMC Licensed Products;

(ii) under the VMware Copyrights to use, modify and thereby create derivative works of, and reproduce, the VMware Source Code and associated documentation in connection with designing, developing, distributing (directly and/or indirectly), servicing and supporting EMC Licensed Products;

(iii) under the VMware Trade Secrets to design, develop, distribute (directly and/or indirectly), service and support EMC Licensed Products; and

(iv) under all third party source code embedded in the source code referred to in Schedule B to take any of the actions contemplated

under Section 1.1(b)(i)-(iii), but only if and to the extent that VMware has the right to provide EMC with the right to take any of such actions without additional payment to the third party or third parties who own such third party source code, and EMC agrees to be bound by all terms and conditions of VMware's use of that third party source code as if EMC were named in the place of VMware with regard to such terms and conditions.

Section 1.2 Sublicense Rights. The licenses granted by Section 1.1 include the non-assignable right of each Party to grant sublicenses to its Subsidiaries existing on or after the Effective Date, which sublicenses may include the non-assignable right of sublicensed Subsidiaries to sublicense other Subsidiaries of said Party. No sublicense granted to a Subsidiary under this Section 1.2(a) shall be broader in any respect at any time during the life of this Agreement than the license held at that time by the Party that granted the sublicense. Each licensed or sublicensed Subsidiary shall be bound by the terms and conditions of this Agreement as if it were named herein in the place of the Party of which it is a Subsidiary.

Section 1.3 Clarification Regarding Patent Laundering.

(a) The licenses granted under Section 1.1(a)(i) to VMware are intended to cover only VMware Licensed Products, and are not intended to cover manufacturing rights of third parties. Products that otherwise meet the definition of VMware Licensed Products are disqualified as VMware Licensed Products if such products are manufactured on behalf of any third party from designs licensed or received in whole or in part from the third party for resale to such third party.

(b) The licenses granted under Section 1.1(b)(i) to EMC are intended to cover only EMC Licensed Products, and are not intended to cover manufacturing rights of third parties. Products that otherwise meet the definition of EMC Licensed Products are disqualified as EMC Licensed Products if such products are manufactured on behalf of any third party from designs licensed or received in whole or in part from the third party for resale to such third party.

ARTICLE II

COVENANTS OF THE PARTIES

Section 2.1 Mutual Releases.

(a) Each Party (as "Releasor") on behalf of itself and its Subsidiaries irrevocably releases, acquits and forever discharges the other Party and its Subsidiaries (collectively "Releasees") from any and all claims or liability for infringement of Releasor's intellectual property licensed hereunder (including, without limitation, claims with respect to any method practiced in the manufacture or use of any Licensed Product), which claims are based on acts prior to the date on which a license covering such acts is granted hereunder. The releases contained in this Section 2.1(a) shall not apply to any person other than the Releasees named in this Section.

(b) Releasor on behalf of itself and its Subsidiaries also irrevocably releases, acquits and forever discharges (i) customers (both direct and indirect) of Releasees' products licensed hereunder to the same extent as provided in Section 2.1(a) for such customers' use of Releasees' products licensed hereunder; and (ii) Releasees' resellers for sales of Releasees' products licensed hereunder, where such sale is made under agreement with Releasee. By way of example, if a reseller adds to or changes Releasees' products licensed hereunder prior to resale, the releases contained herein apply only to Releasee's products licensed hereunder as received by the reseller from the Releasee and not to any items or portions of the resold item added or changed. The releases granted in this Section 2.1(b) are effective concurrently with the releases granted in Section 2.1(a).

Section 2.2 Nonencumbrance.

(a) EMC agrees that it will not take any action that will require a license or assignment of any VMware IP without VMware's prior written consent, including, but not limited to (i) licensing or otherwise distributing VMware Licensed Products, directly or indirectly, or (ii) using VMware code in such a way as to subject such code to the provisions of any standards organization or Open Source Code Contract which could (1) require or condition the use or distribution of such code; (2) require the license of an VMware Product or any portion thereof for the purpose of making modifications or derivative works; (3) require the distribution of such VMware code or any portion thereof without charge; (4) require or condition the disclosure, licensing or distribution of any VMware code or any portion of any VMware Product; or (5) otherwise impose a limitation, restriction or condition on the right of VMware to distribute a VMware Product or any portion thereof.

(b) VMware agrees that it will not take any action that will require a license or assignment of any intellectual property right owned by EMC unless previously approved in writing by the General Counsel of EMC (or such other person that the General Counsel has specifically authorized in writing to give such consent), including, but not limited to (i) licensing or otherwise distributing EMC Licensed Products, directly or indirectly, or (ii) using EMC code in such a way as to subject such code to the provisions of any standards organization or Open Source Code Contract which could (1) require or condition the use or distribution of such code; (2) require the license of an EMC Product or any portion thereof for the purpose of making modifications or derivative works; (3) require the distribution of such EMC code or any portion thereof without charge; (4) require or condition the disclosure, licensing or distribution of any EMC code or any portion of any EMC Product; or (5) otherwise impose a limitation, restriction or condition on the right of VMware to distribute a EMC Product or any portion thereof.

Section 2.3 Future Business Arrangements Between the Parties. The terms and conditions of any business relationships between the Parties after the Effective Date, including

the terms and conditions of ownership of and license rights to any intellectual property generated in connection with such business relationships (whether jointly or otherwise), shall be the subject of one or more separate written agreements, provided that no such agreement shall become effective until specifically approved in writing by the General Counsel of EMC (or such other person that the General Counsel has specifically authorized in writing to give such consent).

Section 2.4 Future Business Relationships Between VMware and Third Parties . The terms and conditions of any business relationships between VMware and Third Parties after the Effective Date, including the terms and conditions of ownership of and license rights to any intellectual property generated in connection with such business relationships (whether jointly or otherwise), shall be subject to EMC's ownership rights in intellectual property owned by it, as well as the limits on VMware's use of source code, patents, copyrights, and trade secrets licensed to it under Section 1.1(a), which limitations shall be specified in writing in any agreements concerning such business relationships.

Section 2.5 Indemnification .

(a) Indemnification by VMware . VMware shall indemnify EMC and its directors, officers, agents, employees, successors, and assigns (the "EMC Indemnitees"), from and against and in respect of any and all damages, losses, expenses (including reasonable attorney's fees, court costs and investigation expenses), liabilities, settlement and claims (collectively, "Losses") to the extent relating to or arising out of any use by VMware and/or any authorized sublicensees of VMware of any of the EMC IP, including but not limited to any contract claim, product liability claim, tort claim or other claim or proceeding brought against EMC by a Third Party claiming relief against EMC by reason of VMware's use of the EMC IP.

(b) Indemnification by EMC . EMC shall indemnify, defend and hold harmless VMware and its directors, officers, agents, employees, successors, and assigns (collectively, the "VMware Indemnitees"), from and against and in respect of any and all Losses to the extent relating to or arising out of any use by EMC and/or any authorized sublicensees of EMC of any of the VMware IP, including but not limited to any contract claim, product liability claim, tort claim or other claim or proceeding brought against VMware by a Third Party claiming relief against VMware by reason of EMC's use of the VMware IP.

(c) If the Indemnified Party becomes aware of a matter which might give rise to a Relevant Claim, the Indemnified Party shall:

(i) notify the Indemnifying Party immediately of the matter (stating in reasonable detail the nature of the matter and, if practicable, the amount claimed) and consult with the Indemnifying Party with respect to the matter; if the matter has become the subject of proceedings the Indemnified Party shall notify the Indemnifying Party within sufficient time to enable the Indemnifying Party to contest the proceedings before final judgment;

(ii) provide to the Indemnifying Party and its advisers reasonable access to premises and personnel and to all relevant documents and records that it possesses or controls for the purposes of investigating the matter and enabling the Indemnifying Party to take action;

(iii) take any action and institute any proceedings, and give any information and assistance the Indemnifying Party may reasonably request to:

(A) dispute, resist, appeal, compromise, defend, remedy or mitigate the matter; or

(B) enforce against a person (other than the Indemnifying Party) the Indemnified Party's rights in relation to the matter; and

(C) in connection with proceedings related to the matter (other than against the Indemnifying Party) use advisers chosen by the Indemnifying Party and, if the Indemnifying Party requests, allow the Indemnifying Party the exclusive conduct of the proceedings.

(d) The Indemnified Party may not admit liability in respect of or settle the matter without first obtaining the Indemnifying Party's written consent (not to be unreasonably withheld or delayed), which in the case of EMC must be specifically set forth in writing by the General Counsel of EMC (or such other person that the General Counsel has specifically authorized in writing to give such consent).

(e) Nothing in this Agreement in any way restricts or limits the Indemnified Party's general obligation at law to mitigate a loss which it may incur as a result of a matter giving rise to a claim pursuant to this Agreement.

ARTICLE III

TERM AND TERMINATION

Section 3.1 Term. This Agreement shall remain in full force and effect unless and until terminated pursuant to Section 3.2.

Section 3.2 Termination.

(a) This Agreement may be terminated by and in the sole discretion of EMC, without the approval of VMware, at any time prior to the Offering. In the event of such a termination, EMC shall not have any liability of any kind to VMware.

(b) This Agreement may also be terminated at any time after the Offering by means of a written agreement between the Parties specifically approved in writing by the General Counsel of EMC (or such other person that the General Counsel has specifically authorized in writing to enter into such an agreement on behalf of EMC).

(c) The license granted by a Party under Article I may be terminated by giving Notice to the other Party if such Party:

(i) fails to remedy, where it is capable of remedy, any breach of any of its material obligations under this Agreement after having been provided a Notice describing the breach in sufficient detail; or

(ii) engages in a series of breaches of any of its material obligations hereunder. Upon any such termination, such Party shall promptly cease use of the terminated right(s).

Section 3.3 For purposes of clarity, if a right is terminated under Section 3.2(c), such termination shall not affect the terminating Party's rights in any way.

Section 3.4 Survival. Sections 2.1-2.5, 3.3, 3.4, 4.1, 5.2-5.19, and Article VI shall survive any termination of this Agreement.

ARTICLE IV

DISCLAIMER OF WARRANTY

Section 4.1 EACH PARTY ACKNOWLEDGES AND AGREES THAT ALL INTELLECTUAL PROPERTY LICENSED HEREUNDER IS PROVIDED ON AN "AS IS, WHERE IS" BASIS AND THAT NEITHER PARTY NOR ANY OF ITS SUBSIDIARIES HAS MADE OR WILL MAKE ANY WARRANTY WHATSOEVER, EXPRESS, IMPLIED OR STATUTORY, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, TITLE, ENFORCEABILITY OR NON-INFRINGEMENT.

ARTICLE V

MISCELLANEOUS PROVISIONS

Section 5.1 Export Restrictions. Both Parties shall adhere to all applicable laws, regulations and rules relating to the export of technical data, and shall not export or

reexport any technical data, any products received from Disclosing Party, or the direct product of such technical data, to any proscribed country listed in such applicable laws, regulations and rules unless properly authorized.

Section 5.2 No Implied Licenses. Nothing contained in this Agreement shall be construed as conferring any rights by implication, estoppel or otherwise, under any intellectual property right other than the rights expressly granted in this Agreement. Neither Party is required hereunder to furnish or disclose to the other any technical or other information.

Section 5.3 Infringement Suits. Neither Party shall have any obligation hereunder to defend any action or suit brought by a Third Party that alleges infringement of any intellectual property rights by the authorized use of intellectual property under this Agreement.

Section 5.4 No Other Obligations. NEITHER PARTY ASSUMES ANY RESPONSIBILITIES OR OBLIGATIONS WHATSOEVER, OTHER THAN THE RESPONSIBILITIES AND OBLIGATIONS EXPRESSLY SET FORTH IN THIS AGREEMENT OR IN A SEPARATE WRITTEN AGREEMENT BETWEEN THE PARTIES.

Section 5.5 Limitation of Liability. IN NO EVENT SHALL EITHER PARTY OR ITS RESPECTIVE SUBSIDIARIES BE LIABLE TO THE OTHER PARTY OR ITS RESPECTIVE SUBSIDIARIES FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; PROVIDED, HOWEVER, THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EACH PARTY'S INDEMNIFICATION OBLIGATIONS FOR LIABILITIES AS SET FORTH IN THIS AGREEMENT OR IN ANY ANCILLARY AGREEMENT.

Section 5.6 Entire Agreement. This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof. This Agreement may not be modified by the Parties other than by means of a written agreement specifically approved in writing by the General Counsel of EMC (or such other person that the General Counsel has specifically authorized in writing to give such approval). The Subsidiaries of the Parties may enter into one or more separate written agreements regarding the terms and conditions of license rights to intellectual property rights, provided that no such agreement shall become effective until specifically approved in writing by the General Counsel of EMC (or such other person that the General Counsel has specifically authorized in writing to give such consent).

Section 5.7 Governing Law. This Agreement, including the validity hereof and the rights and obligations of the Parties hereunder, shall be construed in accordance with and all disputes arising hereunder shall be governed by the laws of The Commonwealth of Massachusetts applicable to Contracts made and to be performed entirely in such Commonwealth (without giving effect to the conflicts of laws provisions thereof).

Section 5.8 Notices. Notices, offers, requests or other communications required or permitted to be given by either Party pursuant to the terms of this Agreement (each a “Notice”) shall be given in writing to the respective Parties to the following addresses:

if to EMC:

EMC Corporation
176 South Street
Hopkinton, MA 01748
Attention: []
Facsimile: (508) 435-8900

with a copy to:

EMC Corporation
176 South Street
Hopkinton, MA 01748
Attention: Office of the General Counsel
Facsimile: (508) 497-6915

if to VMware:

VMware Inc.
3145 Porter Drive
Palo Alto, CA 94304
Attention: Legal Department
Fax: (650) 475-5101

or to such other address or facsimile number as the Party to whom notice is given may have previously furnished to the other in writing as provided herein. Any notice involving non-performance, termination, or renewal shall be sent by hand delivery, recognized overnight courier or, within the United States, may also be sent via certified mail, return receipt requested. All other notices may also be sent by facsimile, confirmed by first class mail. All notices shall be deemed to have been given when received, if hand delivered; when transmitted, if transmitted by facsimile or similar electronic transmission method; one working day after it is sent, if sent by recognized overnight courier; and three days after it is postmarked, if mailed first class mail or certified mail, return receipt requested, with postage prepaid.

Section 5.9 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

Section 5.10 Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the Parties hereto. Neither this Agreement nor any obligation or

right hereunder may be assigned or delegated by either Party without the prior written consent of the other Party, which in the case of EMC must be specifically set forth in writing by the General Counsel of EMC (or such other person that the General Counsel has specifically authorized in writing to give such consent), provided that the Parties may each exercise the limited sublicense rights to them by Section 1.2. Notwithstanding the foregoing, either Party may assign this Agreement to a successor entity in conjunction with such Party's reincorporation in another jurisdiction or into another business form.

Section 5.11 Change of Control.

(a) License Rights on Change of Control of a Party. In the event that, subsequent to the Effective Date, a Change of Control shall occur with respect to a Party (as distinguished from a Change of Control of a Subsidiary of a Party or a Subsidiary otherwise ceasing to be a Subsidiary of a Party, which are addressed in Section 5.11(b)), the licenses granted hereunder to such Party shall continue in full force and effect, provided, however, that if a Change of Control shall occur with respect to EMC after EMC ceases to beneficially own fifty percent (50%) or more of the aggregate number of shares of the then outstanding common stock of VMware the provisions of Section 5.11.1 hereof shall apply, and following such Change of Control the licenses granted hereunder by VMware to EMC shall continue as to (i) all EMC Licensed Products in existence upon such Change of Control and any updates, upgrades, and future versions of those products, and (ii) all EMC Licensed Products under development at the time of a Change of Control of EMC, and terminate upon such Change of Control as to all other future EMC products, but the licenses granted hereunder by EMC to VMware shall continue in full force and effect. EMC will not undertake any development in anticipation of a Change of Control of EMC solely for the purpose of capturing such development under the license by VMware to EMC.

(b) License Rights on Change of Control of a Subsidiary. In the event that, subsequent to the Effective Date, a Change of Control shall occur with respect to a Subsidiary of a Party but not the Party itself, or such Subsidiary otherwise ceases to be a Subsidiary of the Party, the licenses granted hereunder to such Subsidiary shall continue in full force and effect, provided, however, that, in the event that (i) a Subsidiary of EMC undergoes a Change of Control or otherwise ceases to be a Subsidiary of EMC, and such Subsidiary or its successor-in-interest thereafter develops or sells products that are equivalent to any EMC Excluded Products or end user or application accessible systems infrastructure products for virtualized environments, VMware shall have the right to terminate the licenses granted to such Subsidiary hereunder, solely for said products, upon delivery of written notice by VMware to such Subsidiary or its successor-in-interest, or (ii) a Subsidiary of VMware undergoes a Change of Control or otherwise ceases to be a Subsidiary of VMware, and such Subsidiary or its successor-in-interest thereafter develops or sells products that are equivalent to any VMware Excluded Products, EMC shall have the right to terminate the licenses granted to such Subsidiary hereunder, solely for said products, upon delivery of written notice by EMC to such Subsidiary or its successor-in-interest. Following a Change of Control of a Subsidiary of EMC or following such time as a Subsidiary of EMC otherwise ceases to be a Subsidiary of EMC, such Subsidiary shall be permitted to grant sublicenses pursuant to the licenses granted under this Section 5.11(b) only to its wholly-owned subsidiaries, upon delivery of written notice by EMC to VMware.

(c) License Rights on Change In Ownership Interest in a Subsidiary of EMC. In the event that, subsequent to the Effective Date, EMC ceases to beneficially own fifty percent (50%) or more of the aggregate number of shares of the then outstanding common stock of an EMC Subsidiary, then the licenses granted hereunder by VMware to such EMC Subsidiary shall continue as to (i) all EMC Licensed Products of such Subsidiary in existence upon such change in ownership interest of such EMC Subsidiary and any updates, upgrades, and future versions of those products, and (ii) all EMC Licensed Products under development at the time of such change in ownership interest of such EMC Subsidiary, and terminate upon such change in ownership interest of such EMC Subsidiary as to all other future products of such EMC Subsidiary. EMC will not undertake any development in anticipation of ceasing to beneficially own fifty percent (50%) or more of the aggregate number of shares of the then outstanding common stock of an EMC Subsidiary solely for the purpose of capturing such development under the license by VMware to an EMC Subsidiary. In the event of a conflict between the provisions of this Section 5.11(c) and Section 5.11(b), the provisions of Section 5.11(b) shall prevail.

Section 5.11.1 EMC Beneficial Ownership. After the date that EMC ceases to beneficially own fifty percent (50%) or more of the aggregate number of the then outstanding shares of common stock of VMware, “EMC Excluded Products” shall mean EMC Excluded Products as defined in Section 6.4 of this Agreement as well as end user or application accessible systems infrastructure products for virtualized environments. After the date that EMC ceases to beneficially own twenty percent (20%) or more of the aggregate number of the then outstanding shares of common stock of VMware, “EMC Licensed Products” shall instead mean (i) all EMC products in existence as of the date of such change in ownership and any updates, upgrades, and future versions of those products, and (ii) all EMC products under development as of the date of such change in ownership, and upon such change in ownership, shall not include any other future EMC products. EMC will not undertake any development in anticipation of ceasing to beneficially own fifty percent (50%) or twenty percent (20%), as applicable, or more of the aggregate number of the then outstanding shares of common stock of VMware solely for the purpose of capturing such development under the license by VMware to EMC.

Section 5.12 Severability. If any term or other provision of this Agreement is determined by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

Section 5.13 Failure or Indulgence not Waiver; Remedies Cumulative. No failure or delay on the part of either Party hereto in the exercise of any right hereunder shall

impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

Section 5.14 Authority. Each of the Parties hereto represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it have been duly authorized by all necessary corporate or other actions, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

Section 5.15 Interpretation. The headings contained in this Agreement and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When a reference is made in this Agreement to an Article or a Section such reference shall be to an Article or Section of this Agreement unless otherwise indicated.

Section 5.16 Conflicting Agreements. In the event of conflict between this and any other agreement executed on or prior to the Effective Date in connection with the subject matter hereof, the provisions of this Agreement shall prevail. Notwithstanding the foregoing, in the event of a conflict between this Agreement and any future written agreement of a nature referenced in Section 2.3 hereof, the provisions of such future written agreement shall prevail.

Section 5.17 Third Party Beneficiaries. Except as specifically set forth in this Agreement, none of the provisions of this Agreement shall be for the benefit of or enforceable by any Third Party, including any creditor of any Person. No such Third Party shall obtain any right under any provision of this Agreement or shall by reasons of any such provision make any claim in respect of any liability (or otherwise) against either Party hereto.

Section 5.18 Dispute Resolution. All disputes arising directly under the express terms of this Agreement or the grounds for termination thereof shall be resolved as follows: (i) the senior management of both Parties shall meet to attempt to resolve such disputes; (ii) if the disputes cannot be resolved by the senior management, either party may make a written request for both Parties to meet for one day with an impartial mediator and consider dispute resolution alternatives other than litigation; and (iii) if there is no response to such written request within thirty (30) days of such request, or if an alternative method of dispute resolution is not agreed upon within thirty (30) days after the one day mediation, either party may begin litigation proceedings pursuant to Section 5.19.

Section 5.19 Jurisdiction. Should the dispute resolution procedures of Section 5.18 fail to result in a mutually satisfactory resolution and either Party chooses to go forward

with litigation, both Parties agree to submit to the exclusive jurisdiction and venue of the federal or state courts located in the Commonwealth of Massachusetts and voluntarily waive the right to jury during such litigation.

ARTICLE VI

DEFINITIONS

For the purpose of this Agreement, initially capitalized terms defined above shall have the meaning ascribed to them, and the following additional initially capitalized terms shall have the meaning specified herein:

Section 6.1 Change of Control. “Change of Control” means the acquisition by a single Third Party or a group of affiliated Third Parties of shares representing at least a majority of votes entitled to be cast in the election of the members of the board of directors or similar governing body.

Section 6.2 Contract. “Contract” means any agreement, understanding, contract, deed, mortgage, lease, sublease, license, sublicense, instrument, commitment, promise, undertaking or other binding arrangement, whether written or oral.

Section 6.3 EMC Copyrights. “EMC Copyrights” means all copyrights owned by EMC as of the Effective Date throughout the world in the EMC Source Code and associated documentation.

Section 6.4 EMC Excluded Products. “EMC Excluded Products” means all EMC products released after the Effective Date that are end user or application accessible server or desktop virtualization software products.

Section 6.5 EMC IP. “EMC IP” means collectively the EMC Patents, the EMC Copyrights, and the EMC Trade Secrets.

Section 6.6 EMC Licensed Products. “EMC Licensed Products” means (a) all EMC products as of the Effective Date and any updates, upgrades and future versions of those products, and (b) all future EMC products; but not EMC Excluded Products.

Section 6.7 EMC Patents. “EMC Patents” means all patents and patent applications throughout the world owned by EMC as of the Effective Date related to the EMC Source Code, as well as any patents and patent applications that claim priority to the foregoing.

Section 6.8 EMC Source Code. “EMC Source Code” means the software code described on Schedule A hereto.

Section 6.9 EMC Trade Secrets. “EMC Trade Secrets” means all trade secrets owned by EMC as of the Effective Date embodied in the EMC Source Code.

Section 6.10 Open Source Code. “Open Source Code” means any software code that is distributed as “open source software” or “freeware” or is otherwise distributed publicly or made generally available in source code form under terms that permit modification and redistribution of such software. “Open Source Code” includes without limitation software code that is licensed under the GNU General Public License, GNU Lesser General Public License, Mozilla License, Common Public License, Apache License, BSD License, Artistic License, or Sun Community Source License.

Section 6.11 Person. “Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, and a governmental entity or any department, agency or political subdivision thereof.

Section 6.12 Subsidiary. “Subsidiary” means with respect to any specified Person, any corporation, any limited liability company, any partnership or other legal entity of which such Person owns, directly or indirectly, a majority of votes entitled to be cast in the election of the members of the board of directors or similar governing body.

Section 6.13 Third Party. “Third Party” means a Person other than EMC and its Subsidiaries and VMware and its Subsidiaries.

Section 6.14 VMware Copyrights. “VMware Copyrights” means all copyrights owned by VMware throughout the world in the VMware Source Code, and associated documentation.

Section 6.15 VMware Excluded Products. “VMware Excluded Products” means all VMware products released after the Effective Date that provide storage virtualization, data protection, replication, or backup functionality on a standalone basis.

Section 6.16 VMware IP. “VMware IP” means collectively the VMware Patents, the VMware Copyrights, and the VMware Trade Secrets.

Section 6.17 VMware Licensed Products. “VMware Licensed Products” means (a) all VMware products as of the Effective Date and any updates, upgrades and future versions of those products, and (b) portions of future VMware products (but only to the extent such portions implement interoperability with EMC products); but not VMware Excluded Products.

Section 6.18 VMware Patents. “VMware Patents” means all patents and patent applications throughout the world owned by VMware until the first date on which EMC ceases to beneficially own twenty percent (20%) or more of the aggregate number of the then outstanding shares of common stock of VMware, as well as any patents and patent applications that claim priority to the foregoing.

Section 6.19 VMware Source Code. “VMware Source Code” means the software code described on Schedule B hereto.

Section 6.20 VMware Trade Secrets. “VMware Trade Secrets” means all trade secrets owned by VMware embodied in the VMware Source Code.

WHEREFORE, the Parties have signed this Agreement by their duly authorized representatives as of the Effective Date.

EMC CORPORATION

By: _____
Title: _____
Date: _____

VMWARE, INC.

By: _____
Title: _____
Date: _____

FORM OF
EMPLOYEE BENEFITS AGREEMENT
BETWEEN EMC CORPORATION AND
VMWARE, INC.

EMPLOYEE BENEFITS AGREEMENT

This EMPLOYEE BENEFITS AGREEMENT, dated as of June [], 2007, is between EMC Corporation, a Massachusetts corporation (“EMC”), and VMware, Inc., a Delaware corporation and a wholly owned subsidiary of EMC (“VMware”).

WHEREAS, EMC is the beneficial owner of all the issued and outstanding common stock of VMware;

WHEREAS, EMC, through VMware, is engaged in the business of virtual infrastructure technology (the “VMware Business”), as more completely described in a Registration Statement on Form S-1 (File No. []) filed with the Securities and Exchange Commission (“Commission”) under the Securities Act, as amended (the “IPO Registration Statement”);

WHEREAS, EMC and VMware currently contemplate that VMware will make an initial public offering (“IPO”) pursuant to the aforementioned Registration Statement; and

WHEREAS, in furtherance of the foregoing, EMC and VMware have entered into a Master Transaction Agreement, dated as of [to come] (the “Master Transaction Agreement”), and other specific agreements that will govern certain matters relating to the IPO and the relationship of EMC, VMware, and their respective Affiliated Companies following the IPO; and

WHEREAS, EMC and VMware have agreed to provide for the allocation between them of assets, liabilities, and responsibilities with respect to certain employees and employee compensation and benefit plans, programs and matters.

NOW, THEREFORE, in consideration of the foregoing and the terms, conditions, covenants and provisions of this Agreement, EMC and VMware mutually covenant and agree as follows:

ARTICLE I DEFINITIONS

For purposes of this Agreement the following terms shall have meanings set forth in this Section 1. Capitalized terms used but not defined herein shall have the meaning set forth in the Master Transaction Agreement:

- 1.1 “Agreement” means this Employee Benefits Agreement.
- 1.2 “COBRA” means the continuation coverage requirements for “group health plans” under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and as codified in Code Section 4980B and ERISA Sections 601 through 608.
- 1.3 “Code” means the Internal Revenue Code of 1986, as amended from time to time, or any successor federal income tax law, and the regulations promulgated thereunder.

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- 1.4 “EMC” is defined in the recitals to this Agreement.
- 1.5 “EMC Employee” means any individual who, as of the IPO Date, is either actively employed by or then on a leave of absence from EMC or an EMC Entity, but does not include any EMC Transferee or any VMware Employee.
- 1.6 “EMC Entity” means any entity that is, at the time relevant to the applicable provision of this Agreement, an Affiliated Company of EMC, except that, for periods beginning as of the IPO Date, the term “EMC Entity” shall not include VMware or a VMware Entity.
- 1.7 “EMC Plan” means any plan, policy, program, on-going arrangement, contract, trust, insurance policy or other agreement or funding vehicle, to the extent amended from time to time, other than a VMware Plan, for which the eligible classes of participants include employees or former employees of EMC or an EMC Entity.
- 1.8 “EMC Savings Plan” means the EMC Corporation 401(k) Savings Plan.
- 1.9 “EMC Transferees” means the individuals whose names are set forth on Schedule A hereto, as such list may be amended from time to time by mutual agreement of the parties.
- 1.10 “ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time and the regulations promulgated thereunder.
- 1.11 “Exchange Offer” means the exchange offer initiated by EMC and approved by VMware that will enable VMware Employees to exchange their outstanding equity awards granted under EMC’s equity incentive plans for equity awards to be granted under the 2007 Plan (as hereinafter defined), and which offer shall expire on or about the IPO Date.
- 1.12 “HIPAA” means the health insurance portability and accountability requirements for “group health plans” under the Health Insurance Portability and Accountability Act of 1996, as amended from time to time.
- 1.13 “Participating Company” means (a) EMC, (b) any Person (other than an individual) that EMC has approved as a participating employer or sponsor, and which is participating in an EMC Plan, and (c) any Person (other than an individual) which, by the terms of such plan, participates in such EMC Plan.
- 1.14 “VMware Employee” means any individual who, as of the IPO Date, is either actively employed by or then on a leave of absence from VMware or a VMware Entity.
- 1.15 “VMware Entity” means VMware and any subsidiary of VMware.
- 1.16 “VMware 401(k) Plan” means a qualified 401(k) savings plan sponsored by VMware.
- 1.17 “VMware Plan” means any plan, policy, program, on-going arrangement, contract, trust, insurance policy or other agreement or funding vehicle, as amended from time to time, for which the eligible classes of participants are limited to employees or former employees of VMware or a VMware Entity, including the VMware Revenue and Profit Contribution Plan and the VMware Management by Objectives Plan.

1.18 “U.S. Health or Welfare Benefit Plan” means any of the employee benefit plans and programs set forth on Schedule B hereto.

ARTICLE II

GENERAL PRINCIPLES

- 2.1 Assumption and Retention of Liabilities by VMware . As of the IPO Date, and except as otherwise explicitly provided herein, VMware shall retain or assume and agree to pay, perform, fulfill, and discharge, as the case may be, (i) all Liabilities under VMware Plans, (ii) all employment or service-related Liabilities with respect to (A) all VMware Employees (and their dependents and beneficiaries) for all periods of employment with VMware or a VMware Entity, (B) all former employees of VMware or a VMware Entity (and their dependents and beneficiaries) for all periods of employment with VMware or a VMware Entity, and (C) any Person or individual who is, or was, an independent contractor, temporary employee, temporary service worker, consultant, freelancer, agency employee, leased employee, on-call worker, incidental worker, or non-payroll worker or in any other similar direct contractual relationship with VMware or a VMware Entity.
- 2.2 Assumption and Retention of Liabilities by EMC . Except as otherwise explicitly provided herein, EMC shall retain and agree to pay, perform, fulfill and discharge, as the case may be (i) all Liabilities under the EMC Plans, (ii) all employment or service-related Liabilities with respect to (A) all EMC Employees (and their dependents and beneficiaries), (B) all former employees of EMC or an EMC Entity, (C) all EMC Transferees until such time as their employment is transferred to VMware or a VMware Entity pursuant to the provisions of Section 2.4 hereof, and (D) any Person who is, or was, an independent contractor, temporary employee, temporary service worker, consultant, freelancer, agency employee, leased employee, on-call worker, incidental worker or non-payroll worker or in any other contractual relationship with EMC or an EMC Entity.
- 2.3 Terms of Participation by VMware Employees in VMware Plans . To the extent applicable, EMC and VMware shall adopt, or cause to be adopted, all reasonable and necessary plan amendments and procedures to prevent the IPO from being deemed to be a termination of employment for purposes of any EMC Plan or any VMware Plan.
- 2.4 EMC Transferees . No EMC Transferee shall become an employee of VMware or a VMware Entity unless and until such time as EMC and VMware agree to effect a transfer of employment and agree upon the terms and conditions thereof, including the allocation of all assets, Liabilities and obligations, all of which shall be set forth in a separate written agreement covering such EMC Transferees. Unless and until such time as a transfer of employment is mutually agreed upon, EMC will continue to employ and compensate the EMC Transferees in the same manner and to the same extent as prior to the IPO Date, and

VMware or a VMware Entity shall continue to compensate EMC for such services in the same manner and to the same extent as immediately prior to the IPO Date. At VMware's request, EMC shall engage in the hiring of employees after the IPO Date to provide services in accordance with the same procedures and arrangements as in effect immediately prior to the IPO Date and VMware shall continue to reimburse EMC for such services in accordance with such procedures and arrangements. Any such individuals hired by EMC or an EMC Entity after the IPO Date shall be added from time to time to the list of EMC Transferees set forth in Schedule A hereto.

- 2.5 Continuation of Independent Contractor Arrangements. Unless otherwise requested by VMware, EMC shall continue to maintain (and renew if necessary) all agreements and arrangements with independent contractors and consultants who directly or indirectly provide services for VMware or a VMware Entity, and VMware shall continue to pay or reimburse EMC for the cost of such services in the ordinary course in accordance with the procedures and arrangements used by the parties immediately prior to the IPO Date. After the IPO Date, VMware may request EMC to transfer or assign one or more of such arrangements or agreements to VMware or a VMware Entity, in which case the parties shall mutually agree upon the terms of any such transfer or assignment at such time.

ARTICLE III

DEFINED CONTRIBUTION PLAN

3.1 VMware 401(k) Plan.

- (a) VMware, Inc. 401(k) Savings Plan and Trust. In no event later than 180 days following the IPO Date (the "Implementation Date"), VMware shall adopt a defined contribution savings plan qualified under Section 401(a) of the Code and establish a related trust exempt from taxation under Section 501(a) of the Code. Until the completion of the transfer of employee accounts pursuant to Section 3.1(b) hereof, all eligible VMware Employees shall continue to be entitled to participate in the EMC Savings Plan on the same terms and conditions as in effect immediately prior to the IPO Date and any employees hired by VMware or a VMware Entity after the IPO Date but prior to the Implementation Date shall be permitted to participate in the EMC Savings Plan in accordance with the terms thereof.
- (b) Assumption of Liabilities and Transfer of Assets. EMC and VMware shall use reasonable best efforts to cause, in the manner described herein, the accounts under the EMC Savings Plan of each eligible current VMware Employee to be transferred to the VMware 401(k) Plan as soon as practicable after the adoption of the VMware 401(k) Plan. As soon as practicable after such date:
- (i) EMC shall cause the accounts (including any outstanding loan balances) of each eligible current VMware Employee in the EMC Savings Plan to be transferred to the VMware 401(k) Plan and its related trust in kind based on the investment election of the individuals in accordance with Sections 401(a)(12), 411(d)(6) and 414(l) of the

Code; (ii) VMware (or any successor VMware Entity) and the VMware 401(k) Plan shall assume and be solely responsible for all Liabilities under the VMware 401(k) Plan relating to the accounts that are so transferred as of the time of such transfer; and (iii) VMware shall cause such transferred accounts to be accepted by the VMware 401(k) Plan and its related trust and shall cause the VMware 401(k) Plan to satisfy all protected benefit requirements under the Code and applicable law with respect to the transferred accounts. In determining whether a VMware Employee is vested in his or her account under the VMware 401(k) Plan, the VMware 401(k) Plan shall credit each VMware Employee with all the individual's service credited under the EMC Savings Plan; provided, however, that in no event shall VMware be required to provide any service or any other benefit-affecting credits to any individual to the extent that the provision of such credits would result in any duplication of benefits. Immediately prior to the date upon which the transfer described above occurs, EMC shall contribute to the EMC Savings Plan all matching contributions, if any, due to the VMware Employees pursuant to the terms and conditions of such Plan for periods prior to the transfer date. Notwithstanding anything contained herein to the contrary, the transfer described herein shall not take place prior to the 31st day following the filing of any required Forms 5310-A in connection therewith.

ARTICLE IV

HEALTH AND WELFARE PLANS AND FOREIGN BENEFIT PLANS

- 4.1 Retention of Health and Welfare Plan Liabilities. EMC shall retain its obligations and Liabilities under any EMC Plan which is a U.S. Health or Welfare Benefit Plan and VMware shall retain its obligations and Liabilities under any VMware Plan that is a U.S. Health or Welfare Benefit Plan.
- 4.2 Continued Participation in Foreign EMC Plans. After the IPO Date, EMC shall permit VMware Employees working outside of the United States to enroll and participate in, or to continue to be eligible and/or participate in, the EMC Plans pursuant to the arrangements in place immediately prior to the IPO Date, or on terms substantially similar to the terms of such arrangements, as the case may be, including the reimbursement arrangements between the parties, unless and until VMware provides EMC with at least ninety (90) days' written notice of its intention to discontinue the participation of some or all such employees in the EMC Plans.

ARTICLE V

INCENTIVE AND EQUITY COMPENSATION MATTERS

- 5.1 EMC Equity Incentive Plans. All outstanding options to purchase shares of EMC and other EMC equity awards held by VMware Employees and the EMC Transferees that are not exchanged pursuant to the Exchange Offer shall continue to vest and remain outstanding

until the earlier of (i) the date the option or other award is exercised or expires under the terms of the award agreement or (ii) the date the employee is deemed to have “terminated” as defined in the plan under which the award was granted or, if later, the end of any post-termination exercise period specified in the award agreement or by the plans’ administrative committees.

- 5.2 Approval of Plans. Prior to the IPO Date, VMware shall adopt (i) the VMware, Inc. 2007 Equity and Incentive Plan (the “2007 Plan”), and (ii) an employee stock purchase plan intended to comply with the requirements of Section 423 of the Code (the “VMware ESPP”), and EMC shall approve each such plan as VMware’s sole shareholder prior to the IPO Date.
- 5.3 EMC Employee Stock Purchase Plan. EMC shall take such action as is necessary or appropriate to cause VMware and each VMware Entity to cease to be participating entities in the EMC Employee Stock Purchase Plan (the “EMC ESPP”) effective as of the IPO Date and the cash balance in the accounts of all VMware Employees shall be administered in accordance with the terms of the EMC ESPP.
- 5.4 Registration Requirements. Within six (6) months after the IPO Date, VMware agrees that it shall cause to be registered pursuant to the Securities Act of 1933, as amended, any shares of VMware Common Stock authorized for issuance under the 2007 Plan, the VMware ESPP and the VMware 401(k) Plan. EMC shall use commercially reasonable efforts to assist VMware in completing any such registrations.

ARTICLE VI

EXCLUSIVE OWNERSHIP OF DEVELOPMENTS AND BENEFITS OF EMPLOYMENT OF EMC TRANSFEREES

- 6.1 Ownership of Developments. EMC intends and agrees that all work product created by the EMC Transferees, regardless of whether it is eligible for protection under patent, copyright, trademark or trade secret law (hereinafter, “Work Product”) that is created, invented, developed or conceived in the course of such employees’ performance of duties solely for the benefit of VMware shall be considered “works made for hire” by such employees for VMware, and all rights and intellectual property rights therein shall be owned by VMware. To the extent that any such Work Product is deemed by the parties not to be “works made for hire” or not otherwise initially owned by VMware, and to the extent any such Work Product is mutually deemed by the parties to be owned exclusively by EMC, EMC and its Affiliated Companies hereby assign all right, title and interest (subject, however, to EMC’s intellectual property rights therein), including, without limitation, all intellectual property rights exclusively arising therein to VMware. To the extent any court of competent jurisdiction holds such assignment to be invalid with respect to any specific Work Product, the above assignment shall be deemed modified to a worldwide, perpetual, irrevocable, royalty-free, transferable, sublicensable license with respect thereto, and the above assignment to VMware of all other Work Product of such employees shall not be affected thereby.

- 6.2 Further Actions. EMC and its Affiliated Companies shall promptly disclose all past, current and future Developments to VMware and make available to VMware any work papers, models, diskettes, computer tapes or other intangible incidents of such Developments. EMC and its Affiliated Companies agree to perform, at VMware's request and expense, any acts that may be necessary or desirable to vest, protect and perfect ownership of the rights set forth in Section 6.1 above by VMware.

ARTICLE VII

GENERAL AND ADMINISTRATIVE

- 7.1 Payment of Liabilities. VMware shall continue to pay or reimburse EMC promptly for the services rendered by the EMC Transferees after the IPO Date in accordance with the arrangements in place between EMC and VMware immediately prior to the IPO Date unless and until such EMC Transferees commence employment with VMware or a VMware Entity pursuant to the provisions of Section 2.4 hereof.
- 7.2 Sharing of Participant Information. EMC and VMware shall share, EMC shall cause each applicable EMC Entity to share, and VMware shall cause each applicable VMware Entity to share, with each other and their respective agents and vendors (and without obtaining releases unless otherwise required by applicable law) all participant information necessary for the efficient and accurate administration of each of the EMC Plans and the VMware Plans. EMC and VMware and their respective authorized agents shall, subject to applicable laws on confidentiality, be given reasonable and timely access to, and may make copies of, all information relating to the subjects of this Agreement in the custody of the other party, to the extent necessary for such administration. Until the consummation of the IPO, all participant information shall be provided in the manner and medium applicable to Participating Companies in the EMC Plans generally, and thereafter until the time at which the parties subsequently determine, all participant information shall be provided in a manner and medium that are compatible with the data processing systems of EMC as in effect as of the consummation of the IPO, unless otherwise agreed to by EMC and VMware.
- 7.3 Confidentiality and Proprietary Information. No provision of the Master Transaction Agreement or this Agreement shall be deemed to release any individual for any violation of any agreement or policy pertaining to confidential or proprietary information of EMC or any of its Affiliated Companies or of VMware or any of its Affiliated Companies, respectively, or otherwise relieve any individual of his or her obligations under any such agreements or policies.
- 7.4 Non-Termination of Employment; No Third Party Beneficiaries. No provision of this Agreement or the Master Transaction Agreement shall be construed to (i) create any right, or accelerate entitlement, to any compensation or benefit whatsoever on the part of any future, present, or former employee of EMC, an EMC Entity, VMware, or a VMware Entity under any EMC Plan or VMware Plan or otherwise or (ii) to be for the benefit of or otherwise enforceable by employee, creditor or any other third party. Without limiting the

generality of the foregoing: (i) except as expressly provided in this Agreement, neither the occurrence of the consummation of the IPO nor any termination of the Participating Company status of VMware or a VMware Entity shall cause any employee to be deemed to have incurred a termination of employment which entitles such individual to the commencement of benefits under any of the VMware Plans; (ii) except as expressly provided in this Agreement, nothing in this Agreement shall preclude VMware or any VMware Entity, at any time after the consummation of the IPO, from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any VMware Plan, any benefit under any Plan or any trust, insurance policy or funding vehicle related to any VMware Plan; and (iii) except as expressly provided in this Agreement, nothing in this Agreement shall preclude EMC or any EMC Entity, at any time prior to or after the consummation of the IPO, from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any EMC Plan, any benefit under any Plan or any trust, insurance policy or funding vehicle related to any EMC Plan.

- 7.5 Fiduciary Matters. EMC and VMware each acknowledge that actions required to be taken pursuant to this Agreement may be subject to fiduciary duties or standards of conduct under ERISA or other applicable law, and no party shall be deemed to be in violation of this Agreement if it fails to comply with any provisions hereof based upon its good faith determination that to do so would violate such a fiduciary duty or standard. Each party shall be responsible for taking such actions as are deemed necessary and appropriate to comply with its own fiduciary responsibilities and shall fully release the other party for any Liabilities imposed on such party pursuant to the provisions of this Agreement by the failure to satisfy any such responsibility.
- 7.6 Consent of Third Parties. If any provision of this Agreement is dependent on the consent of any third party (such as a vendor) and such consent is withheld, EMC and VMware shall use commercially reasonable efforts to implement the applicable provisions of this Agreement to the full extent practicable. If any provision of this Agreement cannot be implemented due to the failure of such third party to consent, EMC and VMware shall negotiate in good faith to implement the provision in a mutually satisfactory manner. The phrase "commercially reasonable efforts" as used herein shall not be construed to require the incurrence of any non-routine or unreasonable expense or liability or the waiver of any right.
- 7.7 Cooperation. The parties agree to, and to cause their Affiliated Companies to, cooperate and use reasonable efforts to promptly (a) comply with all requirements of this Agreement, ERISA, the Code and other laws which may be applicable to the matters addressed herein, and (b) subject to applicable law, provide each other with such information reasonably requested by the other party to assist the other party in administering its plans and programs and complying with applicable law and regulations and the terms of this Agreement.

ARTICLE VIII

MISCELLANEOUS

- 8.1 Consent . Any consent of either party pursuant to this Agreement shall not be effective unless it is in writing and evidenced by the signature of the General Counsel of such party (or such other person that the General Counsel has specifically authorized in writing to give such consent).
- 8.2 Limitation of Liability . IN NO EVENT SHALL ANY MEMBER OF THE EMC GROUP OR VMWARE GROUP BE LIABLE TO ANY OTHER MEMBER OF THE EMC GROUP OR VMWARE GROUP FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; PROVIDED, HOWEVER, THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EACH PARTY'S INDEMNIFICATION OBLIGATIONS FOR LIABILITIES AS SET FORTH IN ANY ANCILLARY AGREEMENT.
- 8.3 Entire Agreement . This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and thereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof and thereof.
- 8.4 Governing Law and Jurisdiction . This Agreement, including the validity hereof and the rights and obligations of the parties hereunder, shall be construed in accordance with and all Disputes hereunder shall be governed by the laws of The Commonwealth of Massachusetts applicable to contracts made and to be performed entirely in such Commonwealth (without giving effect to the conflicts of laws provisions thereof). The Parties agree that the courts of The Commonwealth of Massachusetts shall have exclusive jurisdiction over all actions between the Parties.
- 8.5 Termination; Amendment . Subject to any undertaking given by either or both parties hereto, this Agreement may be terminated or amended at any time by mutual consent of EMC and VMware, evidenced by an instrument in writing signed on behalf of each of the parties. In the event of termination pursuant to this Section 8.5, no party shall have any liability of any kind to the other party.

- 8.6 Notices. Notices, offers, requests or other communications required or permitted to be given by either party pursuant to the terms of this Agreement shall be given in writing to the respective Parties to the following addresses:

if to EMC:

EMC Corporation
176 South Street
Hopkinton, MA 01748
Attention: Office of the General Counsel
Facsimile: (508) 497-6915

if to VMware:

VMware Inc.
3145 Porter Drive
Palo Alto, CA 94304
Attention: Office of the General Counsel
Fax: [____]

with a copy to:

[____]
Attention:
Fax:

or to such other address or facsimile number as the party to whom notice is given may have previously furnished to the other in writing as provided herein. Any notice involving non-performance, termination, or renewal shall be sent by hand delivery, recognized overnight courier or, within the United States, may also be sent via certified mail, return receipt requested. All other notices may also be sent by facsimile, confirmed by first class mail. All notices shall be deemed to have been given when received, if hand delivered; when transmitted, if transmitted by facsimile or similar electronic transmission method; one working day after it is sent, if sent by recognized overnight courier; and three days after it is postmarked, if mailed first class mail or certified mail, return receipt requested, with postage prepaid.

- 8.7 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.
- 8.8 Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the Parties hereto and their respective legal representatives and successors, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. This Agreement may be enforced separately by each member of the EMC Group and each member of the VMware Group. Neither party may assign this Agreement or any rights or obligations hereunder, without the prior written consent of the other party, and any such assignment shall be void; provided, however, either party may assign this Agreement to a successor entity in conjunction with such party's reincorporation in another jurisdiction or into another business form.
- 8.9 Severability. If any term or other provision of this Agreement is determined by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall

nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

- 8.10 Failure or Indulgence not Waiver; Remedies Cumulative. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.
- 8.11 Authority. Each of the parties hereto represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it have been duly authorized by all necessary corporate or other actions, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.
- 8.12 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Employee Benefits Agreement to be duly executed as of the day and year first above written and the parties agree that this Employee Benefits Agreements shall have been entered into after the execution of the Intellectual Property Agreement by the parties hereto.

EMC CORPORATION

Name:
Title:

VMWARE, INC.

Name:
Title:

Schedule A

List of EMC Transferees

Schedule B

List of U.S. Health and Welfare Benefit Plans

1. medical insurance plans, including prescription drug coverage
2. dental insurance plan
3. vision services plan
4. life and accidental death insurance and dismemberment insurance
5. short and long term disability insurance
6. FSA – flexible spending accounts
 - (i) healthcare reimbursement account
 - (ii) dependent care reimbursement account

REAL ESTATE LICENSE AGREEMENT

This REAL ESTATE LICENSE AGREEMENT (this "License Agreement") is made as of the [____] of [_____] 2007, between EMC Corporation, a Massachusetts Corporation having its principal office at 176 South Street, Hopkinton, Massachusetts ("Licensor"), and VMware, Inc., a Delaware Corporation having its principal office at 3401 Hillview Drive, Palo Alto, California ("Licensee").

WITNESSETH:

WHEREAS, by those certain lease agreements set forth on Schedule I annexed hereto and incorporated herein (the "Leases" and individually "Lease"), Licensor did hire and lease those certain spaces more particularly described in the Leases (the "Premises") and is the current holder of the leasehold estates created thereby;

WHEREAS, the parties desire, by this License Agreement, to provide for the licensing by Licensor to Licensee of the right to use and occupy certain spaces as set forth in Schedule II, annexed hereto and made a part hereof (each space to be referred to herein as a "License Area" and collectively the "License Areas"), each of which is located in the Premises as set forth in the related Leases; and

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby covenant and agree as follows:

1. License.

(a) Licensor hereby grants to Licensee a license (the "License") to use and occupy the License Areas and rights of access thereto for the purposes hereinafter provided along with the right to use all equipment, furniture and fixtures, including communications and information systems equipment, cabling and appurtenant items that are owned by Licensor and located in the License Areas as of the "Commencement Date" (as such term is defined hereafter), for the applicable "License Period" (as such term is defined in paragraph 2 hereof). In connection with its use of each License Area, Licensee shall also have the non-exclusive right to use (a) in common with Licensor and the other occupants of the building in which the Premises are located, the common areas outside the Premises that Licensor has the right to use and (b) in common with the Licensor and the other occupants of the Premises, the hallways, stairways, elevators, restrooms, kitchens, break rooms, photocopy rooms, facsimile rooms, conference rooms and other areas of the Premises (including the equipment and supplies located therein) that may be reasonably necessary for Licensee's use of the Premises, except those areas that Licensor may reasonably designate as private for security reasons.

(b) Licensee has inspected and is familiar with the License Areas and accepts same and the contents thereof in their "as is" condition as of the Commencement Date. Licensor shall not be required to perform any work or furnish any materials in order to prepare the License Areas for Licensee's occupancy.

2. License Period.

(a) The License Period for each License Area shall commence on [____] [____], 2007 (the "Commencement Date") and, subject to the provisions of subparagraphs (b) and (c) below (as and to the extent applicable), shall expire (subject to sooner termination as hereinafter provided) at 11:59 P.M. on the date (the "Expiration Date") that is one (1) day prior to the expiration date of the term of the related Lease covering the related License Area, unless sooner terminated pursuant to any term or provision hereof or pursuant to law. For the avoidance of doubt, Schedule [X] annexed hereto and incorporated herein sets forth the license periods for each License Area.

(b) Notwithstanding the foregoing, either party may terminate this License Agreement as to a License Area by delivering written notice to the other party. Such notice shall be delivered not less than three (3) month's prior to the desired early termination date as to License Areas which are occupied by less than twenty (20) Licensee Personnel (defined below) and not less than six (6) month's prior to the desired early termination date as to License Areas which are occupied by twenty (20) or more Licensee Personnel, or such other periods as may be mutually agreed by Licensor and Licensee. In such event, this License Agreement shall terminate as to such License Area on the early termination date specified in such termination notice as if such date was the Expiration Date of this License Agreement as to such License Area. If Licensor is the party that provides such notice as to a License Area, however, Licensor shall reimburse Licensee for the unamortized cost (amortized on a straight line basis over the term of the applicable Lease) of any alterations to the applicable Premises made by Licensee prior to the date of such notice.

(c) In the event the term of a Lease covering a License Area shall sooner terminate in accordance with the provisions thereof (e.g., by reason of casualty or condemnation), the License Period for the License Area shall automatically terminate on the date of such termination of such Lease. Licensor shall give Licensee reasonable prior notice of any such termination.

(d) Licensor will not, without Licensee's prior written consent, enter into an amendment to any Lease which will increase Licensee's obligations or decrease Licensee's rights hereunder or have a material adverse effect on Licensee's occupancy of the related License Area covered thereby or Licensee's permitted use of such License Area.

3. License Fee. Licensee shall pay a license fee for the License Areas at rates, in the manner, and on the dates set forth in Schedule III annexed hereto and made a part hereof (the "License Fee"). Except as provided herein to the contrary or as set forth in Schedule III, the License Fee payable for a particular License Area shall be equal to Licensor's actual, third party, out-of-pocket costs that accrue after the Commencement Date in occupying, maintaining and using the Premises in the related Lease ("Cost of Occupancy") divided by the number of Licensor (including any subsidiary or affiliate, including Licensee) employees, agents, and/or representatives (collectively, "Licensor Personnel") occupying the Premises multiplied by the number of Licensee employees, agents, and/or representatives (collectively, "Licensee Personnel")

occupying the related License Area; provided, however, (a) the License Fee as to any License Area shall not increase over the amount set forth on Schedule III hereof as a result of a decrease in the number of non-Licensee Personnel in the Premises, (b) Licensor shall not charge Licensee a higher Cost of Occupancy than it charges any other groups or departments within Licensor for occupancy costs in a Premises, (c) Licensor shall not include in the Cost of Occupancy for any License Area any expenses (other than normal rent payments under a Lease) in excess of \$10,000 without Licensee's prior written consent and (d) the Cost of Occupancy shall not include (i) costs occasioned by casualties or condemnation (including insurance deductibles), (ii) costs to comply with any law applicable to the Premises or the project in which the Premises are located on the Commencement Date, (iii) costs incurred in connection with the presence of any hazardous material, except to the extent caused by the release or emission of the hazardous material in question by Licensee Personnel, (iv) costs which could properly be capitalized under generally accepted accounting principles, except to the extent amortized over the useful life of the capital item in question, (v) costs due to Licensor's default under a Lease or (vi) costs that exclusively benefit or apply to portions of the Premises other than the License Areas. Licensor, in its reasonable discretion, shall determine its Cost of Occupancy based on principles consistent with Generally Accepted Accounting Principles (GAAP) or other commercially reasonable standard consistent with accounting practices used in similar buildings the License Area is located in, with the concurrence of Licensee's finance department. Licensee or its authorized representative shall have the right to inspect the books of Licensor, for the purpose of verifying the costs included in the Cost of Occupancy, and Licensor and Licensee shall work together reasonably and in good faith to equitably resolve any amounts that Licensee may question. The number of Licensor Personnel and Licensee Personnel occupying each License Area shall be determined in a fair, equitable and consistent manner as of the end of each month during the term of this License Agreement.

4. Services. Licensee acknowledges that in some of locations of the License Areas, a third-party landlord provides services to such locations. Licensor shall reasonably cooperate with Licensee so as to enable Licensee to obtain such services, but the foregoing shall not require Licensor to institute any action or proceeding against a landlord. To the extent that any services to a License Area has been supplied directly by Licensor, then Licensor shall continue to provide such services to such License Area during the related License Period and Licensee shall be responsible for its pro rata share of Licensor's out-of-pocket costs in connection therewith. Licensor shall provide such services to such License Area in substantially the same manner and quality as Licensor has provided the same to the License Area prior to the Commencement Date or in substantially the same manner and quality as Licensor provides such services to itself. Licensor hereby grants to Licensee the right to receive all of the services and benefits with respect to the License Areas which are to be provided by the related landlord under the Leases. Notwithstanding the foregoing, although the parties contemplate that the landlords will, in fact, perform their obligations under the Leases, in the event of any default or failure of such performance by any of the landlords, Licensor will, upon the specific written request of Licensee, make demand upon such landlord(s) to perform its obligations under the related Lease.

5. Uses. Licensee shall only use and occupy a License Area as permitted as a permitted use under the related Lease and for no other purpose except (and only to the extent permitted under the terms of the related Leases) as may be reasonably agreed upon in writing by Licensors and Licensee. Nothing in this paragraph shall require Licensee to use and occupy a License Area, except to the extent Licensors are required to use or occupy same under the terms of the related Lease.

6. Compliance with Law; Observance of Lease Provisions.

(a) To the extent required of the tenant under a related Lease, Licensee shall promptly comply with all present and future applicable laws and regulations of all state, Federal, municipal and local governments, departments, commissions and boards and any direction of any public officer pursuant to law, and all orders, rules and regulations of any Board of Fire Underwriters or any similar body (all of the foregoing being hereinafter collectively referred to as "Laws") having jurisdiction which shall impose any violation, order or duty upon Licensors, any landlord of Licensors or Licensee with respect to the related License Area, to the extent only, however, that such compliance relates to Licensee's particular manner of use of the related License Area as opposed to the mere use for the purposes herein permitted.

(b) To the extent that for a related License Area, the Licensee is not required to comply with any Laws pursuant to subparagraph (a) above, Licensors shall (to the extent required under a related Lease) comply with such Laws applicable to the related License Area or, if applicable, Licensors shall exercise reasonable efforts to require its third-party landlord to comply with such Laws (to the extent such compliance is the obligation of such landlord under the terms of the related Lease to Licensors).

(c) To the extent required under a related Lease, Licensors shall obtain the consent of the related landlord for Licensee to license the related License Area. Licensors shall promptly be reimbursed by Licensee for any actual costs incurred by Licensors in obtaining such consents from the landlord, not to exceed \$1,000 per Lease. Licensors shall also cause each landlord to extend to Licensee the benefit of the release and waiver of subrogation in each Lease.

(d) Licensee shall not violate applicable provisions of any Lease governing the manner of use of the related License Area, the use of building elevators, building common areas, and similar provisions, so as to cause a default thereunder.

(e) This License Agreement is subject to, and Licensee accepts this License Agreement subject to, all the terms, covenants, provisions, conditions and agreements contained in the Leases and the matters to which the related landlords are subject and subordinate, all of which are made a part of this License Agreement as though fully set forth herein as if Licensee were the Tenant named therein and Licensors were the landlord named therein. This License Agreement shall also be subject to, and Licensee accepts this License Agreement also subject to, any amendments and supplements to the Leases hereafter made between any landlord and Licensors provided the same do not limit the rights or expand the obligations of Licensee hereunder in any material respect or interfere with Licensee's use or occupancy of a License Area or

related parking rights. Licensee covenants and agrees (i) not to violate any covenant, condition and provision of the related Leases as applicable to the related License Area (including the Building rules and regulations) and (ii) that Licensee will not do or cause to be done or suffer or permit its agents or employees to do any act or thing which would or might cause the landlord or the rights of Licensor as tenant thereunder to any Lease be cancelled, terminated or forfeited or make Licensor liable for any damages, claim or penalty. Licensor (A) will not do or cause to be done or suffer or permit any act or thing to be done which would or might cause a Lease or the rights of Licensee thereunder (through this License Agreement) to be cancelled, terminated or forfeited or make Licensee liable for damages, claims or penalty or that could result in a substantial interference with Licensee's use of the Premises or materially increase Licensee's obligations or decrease Licensee's rights under this License Agreement without, in each instance, Licensee's prior written consent, (B) will not voluntarily terminate a Lease or take any action that could give rise to a termination right under a Lease without the prior consent of Licensee, (C) shall perform all of its obligations under each Lease to the extent Licensee has not expressly agreed to perform such obligations under this License Agreement and (D) shall deliver to Licensee promptly upon receipt or delivery copies of all default notices under a Lease sent or received by Licensor.

(f) In the event Licensee is in default under any of the terms of this Agreement and such default is not cured within applicable notice and cure periods, Licensor shall have the same rights and remedies against Licensee as are available to the related landlord against Licensor for that particular License Area and Licensor shall have the right enter such License Area and cure the same at the sole cost and expense of Licensee.

7. Repairs. Licensee, throughout the License Period, shall take good care of the License Areas and the fixtures and appurtenances therein in neat, orderly condition. Licensor, throughout the License Period, shall otherwise maintain the Premises as required of the tenant pursuant to the terms of the related Leases. In the event a particular Lease is silent on Licensor's obligations to repair, then in addition to Licensor's obligations above, Licensor, for that particular License Area, shall also be responsible for the cost to repair any damage other than damage from the elements, fire or other casualty to the building of such License Area forms a part or caused by a third-party landlord or their respective, agents, employees, sublessees, licensees or invitees. Licensor shall make, or exercise reasonable efforts to cause to be made by such related landlord responsible for such repairs, all necessary structural and other repairs (for which Licensee or Licensor is not responsible pursuant to the provisions hereof) to the License Area.

8. Damage and Destruction

(a) Neither Licensor nor Licensee shall have any responsibility to each other in the event of any damage to or theft of any equipment or property of the other party except if caused by the gross negligence or willful misconduct of such party, and the party incurring such loss shall look to its own insurance coverage, if any, for recovery in the event of any such damage, loss or theft.

(b) If a License Area is destroyed or damaged by fire or other casualty, the License Fee as to such License Area shall abate (entirely if all or substantially all of the License Area is damaged and rendered untenable and proportionately if only a portion of the License Area is damaged and rendered untenable) from the date of the casualty to the date by which (as provided in the Lease covering the License Area) the related landlord or Licensor shall have repaired and restored the License Area or damaged portion thereof (but not Licensee's property and equipment therein) to substantially the same condition it was in prior to the occurrence of such casualty. If the casualty or damage occasioned to the License Area, or to the Premises covered by the related Lease, of which the damaged License Area forms a part, shall be so extensive as to entitle either or both of the landlord and Licensor to terminate the Lease, and either such landlord or Licensor shall terminate the Lease therefor in accordance with the terms thereof, then this License Agreement with respect to the License Area shall automatically terminate on the Lease termination date, as provided in paragraph 2(b) hereof.

(c) In the event of the occurrence of a casualty or condemnation which affords Licensor a right under the Lease to terminate the Lease by reason of such casualty or condemnation, then Licensee shall have the exclusive right to determine whether to exercise such right of termination in its sole and absolute discretion.

9. Insurance/Indemnity.

(a) To the extent carrying such insurance is not Licensor's responsibility under another agreement between Licensor and Licensee, Licensee shall maintain in full force and effect throughout the related License Periods with respect to the related License Area the insurance (other than property insurance as to alterations in the Premises or equipment owned by Licensor in the Premises, which insurance Licensor shall carry) required to be maintained by Licensor under the related Lease. Upon request by Licensor, if Licensee carries such insurance separate from Licensor, Licensee shall provide evidence of such insurance to Licensor in accordance with the requirements of the related Lease.

(b) Indemnification of Licensor. Per each License Area, Licensee shall owe the same indemnification obligations to Licensor as set forth in the Lease covering such License Area as if the words "Owner" or "Landlord" and "Tenant" or "Lessee" or words of similar import, wherever the same appear in the related Lease pertaining to indemnification were construed to mean, respectively, "Licensor" and "Licensee"; provided, however, when such indemnities exclude the negligence, willful misconduct or other actions of the actual owner or landlord of the Premises, such references to "Owner" or "Landlord" shall mean both the actual landlord or owner of the Premises and Licensor. To the extent a Lease is silent on the indemnification obligations running from the "Tenant" to "Landlord", then for that related License Area, Licensee shall indemnify, defend and hold Licensor, and any partner, officer, agent, employee and director of Licensor (the "Licensor Indemnitees") harmless from and shall defend the Licensor Indemnitees against all claims made or judicial or administrative actions filed which allege that any one of the Licensor Indemnitees is liable to the claimant (other than to the extent caused by or arising from a Licensor Indemnitee's negligence or willful misconduct) by reason of (i) any injury to or death of any person, or damage to or loss of

property, or any other thing occurring on or about the License Area or the Premises, or in any manner growing out of, resulting from or connected with the use, condition or occupancy of, the License Area or the Premises, if caused by any negligent act or willful misconduct of Licensee or its agents, partners, contractors, employees, permitted assignees, licensees, sublessees, invitees or any other person or entity for whose conduct Licensee is legally responsible, (ii) violation by Licensee of any contract or agreement to which Licensee is a party in each case affecting the License Area or the occupancy or use thereof by Licensee and (iii) violation of or failure to observe or perform any condition, provision or agreement of this License Agreement on Licensee's part to be observed or performed hereunder. Licensor shall similarly indemnify, defend and hold Licensee, and any partner, officer, agent, employee and director of Licensee (the "Licensee Indemnitees") harmless from and shall defend the Licensee Indemnitees against all claims made or judicial or administrative actions filed which allege that any one of the Licensee Indemnitees is liable to the claimant (other than to the extent caused by or arising from a Licensee Indemnitee's negligence or willful misconduct) by reason of (i) any injury to or death of any person, or damage to or loss of property, or any other thing occurring on or about the Premises, or in any manner growing out of, resulting from or connected with the use, condition or occupancy of, the Premises, if caused by any negligent act or willful misconduct of Licensor or its agents, partners, contractors, employees, permitted assignees, licensees, sublessees, invitees or any other person or entity for whose conduct Licensor is legally responsible (other than Licensee), (ii) violation by Licensor of any contract or agreement to which Licensor is a party in each case affecting the Premises or the occupancy or use thereof by Licensor and (iii) violation of or failure to observe or perform any condition, provision or agreement of this License Agreement on Licensor's part to be observed or performed hereunder. In addition, to the extent that Licensor is the beneficiary of an indemnity or release from the landlord under a Lease, Licensor shall similarly indemnify or release Licensee.

10. Assignment; Sublicensing. The License granted hereby is personal to Licensee and shall not be assigned nor shall Licensee sublicense or otherwise permit or suffer the occupancy of any/all License Area(s) by any third party without first obtaining the prior written consent of Licensor and if required by the related Lease, the landlord. Notwithstanding the foregoing, Licensee may, without Licensor's prior written consent and without constituting an assignment or sublicense hereunder, assign this License Agreement or sublicense any of the License Areas to (a) an entity controlling, controlled by or under common control with Licensee, (b) a successor entity related to Licensee by merger, consolidation or reorganization, or (c) a purchaser of a substantial portion of Licensee's assets. A sale or transfer of Licensee's stock shall not be deemed as assignment or sublicense. Similarly, Licensor shall not assign any Lease or sublet any Premises without the prior written consent of Licensee, which shall not be unreasonably withheld or delayed, and if required by the related Lease, the landlord.

11. Alterations; Restoration.

- (a) **Commingle Space.** In the event that all or a part of a License Area is not physically segregated by demising walls from Licensor's space:
 - (i) No alterations may be made by Licensee to the License Area without first obtaining (A) the prior written consent of Licensor, which may be withheld in its reasonable discretion and (B) if required by the related Lease, the prior written consent of the related landlord of such Lease (which Licensor shall request from such landlord).
 - (ii) Licensor, at the time of giving consent to any alterations by Licensee, shall notify Licensee if any such alterations must be removed and the License Area restored, at the expiration or sooner termination of the applicable License Period.
- (b) **Physically Segregated Space.** In the event that a License Area is physically segregated by demising walls from the Licensor's space:
 - (i) Licensee may make any alterations to the License Area to the extent permitted by (and in accordance with) the terms of the related Lease, provided that Licensee obtains the prior written consent thereto of Licensor which shall not be unreasonably withheld, conditioned or delayed.
 - (ii) In the event Licensee shall desire to make any alterations to the License Area, Licensee shall provide Licensor prior written notice thereof, specifying in Licensee's notice the scope and location of the desired alteration(s) as necessary to enable Licensor to formulate a judgment as to the effect such alteration(s) would have upon the building and its systems, and Licensor's use of, and operation within, that portion of the Premises not constituting the License Area (the "Retained Space"), except that, subject to approval of the related landlord if required by the related Lease, Licensor approves the installation of information systems cabling, electrical distribution circuitry and finishes appurtenant thereto. Licensor shall not have any consent rights to such alteration, except Licensor may refuse to allow such alteration if in Licensor's reasonable judgment such alteration would materially adversely affect Licensor's use of the Retained Space.
 - (iii) Any costs associated with making such alterations, including, but limited to, construction or increased operating costs shall be borne by Licensee.
- (c) **Performance of Alterations.** Upon request by Licensee, Licensor shall perform any requested alteration for Licensee. Before commencing such work, Licensor shall obtain Licensee's approval of a binding estimate of the time and cost to perform such alteration. Upon receipt of such approval, Licensor shall perform

such work in accordance with the time estimate provided to Licensee in a good and workmanlike manner, in accordance with all laws and plans approved by Licensee. Promptly upon the completion of such work, Licensee shall reimburse Licensee its actual costs to perform such work, not to exceed the amount set forth in the approved budget.

12. Default. If either party defaults in the performance of any of its obligations hereunder with respect to a License Area or the License Areas and such default continues for more than fifteen (15) days in the case of a monetary default with respect to a License Area, thirty (30) days with respect to any other monetary default hereunder, and thirty (30) days in the case of a nonmonetary default, in all cases after receipt of written notice from the nondefaulting party (except that if such nonmonetary default cannot be reasonably cured with the exercise of reasonable diligence during said 30-day period, such period shall be extended for reasonable additional time, provided that the defaulting party has commenced to cure such default within the 30-day period and proceeds diligently thereafter to effect such cure), the nondefaulting party shall have the right to terminate the License herein granted with respect to the applicable License Area and pursue any other remedies available at law or in equity, except as limited in paragraph 14 hereof. Notwithstanding anything to the contrary herein, Licensee shall not be in default under this License Agreement if Licensee's failure to comply with a requirement of this License Agreement is due to Licensor's failure to provide a service required of Licensor under another agreement between Licensor and Licensee.

13. Limitation of Liability. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS LICENSE AGREEMENT, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY PUNITIVE, INDIRECT, CONSEQUENTIAL, SPECIAL OR INCIDENTAL DAMAGES, INCLUDING LOSS OF GOODWILL OR LOSS OF PROFITS.

14. Notices.

(a) Any notice, demand or request under this License Agreement shall be in writing, shall be addressed as hereinafter provided and delivered by registered or certified mail (return receipt requested) which is delivered by reputable overnight commercial carrier (e.g., Federal Express) or hand-delivered and shall be deemed effective upon receipt. Any notice, demand or request by Licensor to Licensee shall be addressed to Licensee at its address stated in the preamble hereto,

In the case of Licensor:

EMC Corporation
176 South Street
Hopkinton, Massachusetts 01748
Attention: Office of the General Counsel

In the case of Licensee:

VMware, Inc.
3401 Hillview Drive
Palo Alto, California 94304
Attention: Legal Department

And to

Director of Real Estate

(b) Rejection or other refusal to accept, or the inability to deliver because of a changed address of which no notice was given, shall be deemed to be receipt of the notice, demand or request sent.

15. Quiet Enjoyment. Licensor covenants and agrees that, so long as Licensee shall pay the License Fee as and when due and shall otherwise fully, faithfully and timely observe and perform within applicable notice and cure periods the agreements, covenants and conditions of this License Agreement on its part to be observed and performed with respect to the related License Area, Licensee shall and may peaceably and quietly have, hold and enjoy the related License Area for the related License Period, as same may be extended, without disturbance, hindrance, ejection or molestation by or from Licensor (subject, however, to the provisions hereof) or any one claiming by, through or under Licensor.

16. Waiver of Claims. As to the period from and after the Commencement Date, notwithstanding anything to the contrary herein, each party hereto waives all claims against the other party, its agents and employees for damage to property sustained by the waiving party resulting from damage to the License Areas or the Premises, as the case may be, its fixtures or any of the waiving party's personal property, or resulting directly or indirectly from any act or omission of the other party. This section 16 shall apply especially, but not exclusively, to damage caused by roof leakage, refrigerators, sprinkling devices, air conditioning apparatus, water, steam, excessive heat or cold, falling plaster, broken glass, sewage, gas, odors or noise, or the bursting or leaking of pipes or plumbing fixtures and shall apply whether any such damage results from the act or omission of Licensor or of any other person, and whether such damage be caused or result from anything above mentioned or referred to, or be of a different nature. All property belonging to the waiving party or any occupant of the License Areas or the Premises, as the case may be, shall be there at the risk of the waiving party or such other occupant only, and the other party shall not be liable for damage thereto or theft or misappropriation thereof. The waiving party (and any such occupant) shall look to any insurance coverage that it may have for recovery of any loss or damage to property that such waiving party or such occupant may sustain.

17. Surrender. On the related expiration dates or sooner termination of the License with respect to the related License Area, Licensee, if requested by Licensor or required by the restoration terms of the related Lease which would be applicable to the related License Area in the event of the expiration or sooner termination of the related Lease, shall surrender the License Area in neat, orderly condition, ordinary wear and tear, fire and other casualty excepted and remove any alterations made by Licensee after the

Commencement Date as required under Section 11 above. Notwithstanding anything to the contrary contained herein, in no event shall Licensee have any obligation to restore a License Area to the condition such space was in on the Commencement Date to the extent such restoration related to an alteration which was made to such space prior to the Commencement Date.

18. Subordination. The License granted herein is subject and subordinate to all ground and underlying leases affecting the real property of which the License Areas form a part and to all mortgages which may now or hereafter affect such leases or such real property. Licensor shall use commercially reasonable efforts to obtain a nondisturbance agreement from any holder of an underlying lease, mortgage or deed of trust as to the applicable Lease.

19. Warranties. EXCEPT AS SET FORTH IN THIS LICENSE AGREEMENT, THE PARTIES DO NOT MAKE ANY WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THIS LICENSE AGREEMENT, INCLUDING THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

20. Inability To Perform. Neither party shall be responsible for delays in the performance of its obligations caused by events beyond that party's reasonable control, including, but not limited to, acts of God.

21. Good Faith. The License Areas are of such configuration and is not of such size as to justify, in either case, in the opinion of the parties, entering into formal leases and/or subleases covering each of the License Area. The parties have therefore entered into this License Agreement which, the parties recognize, is not dispositive of all matters and issues that may arise during the License Period with respect to the License Area. As and when issues and matters arise during the course of the License Period that are not definitively controlled by the provisions of this License Agreement or the related lease, the parties shall act reasonably and in good faith endeavor to adjust and resolve such issues and matters.

22. No Contact With Landlord. Licensee shall not, directly or indirectly, communicate with or have contact of any kind with any landlord under the Leases with respect to the License Area or landlord services or repairs or maintenance to be provided to the License Area or with regard to the Premises (the only exception to the foregoing being if Licensee shall wish to lease space in a building a part of the Premises is located in) the intention hereof being that any communications or contact regarding any of the foregoing (except with regard to a separate leasing of space in such building by Licensee) shall be made solely to Licensor.

23. Landlord's Responsibilities. Licensee recognizes that Licensor is not in a position to furnish the services set forth in the Leases; obtain an agreement of nondisturbance, or to perform certain other obligations which are not within the control of Licensor. If Licensor institutes an enforcement action to compel a landlord under a Lease to perform its obligations with respect not only to the License Area but also with respect to other portions of the Premises, provided Licensee consents thereto (which

consent shall not be unreasonably withheld or delayed) the reasonable costs and expenses of such enforcement action shall be equitably apportioned so that, insofar as can be practically determined, each party shall bear its allocable share of such costs and expenses.

24. Signage. Subject to the related Lease, (i) Licensor shall permit Licensee to install wall signs (whose size, composition and content shall be subject to Licensor's prior approval, which approval shall not be unreasonably withheld) in the Premises in which the License Area is located (including the lobbies of such Premises), (ii) Licensor shall afford Licensee its pro rata share (based on the ratio of Licensee Personnel to the sum of Licensor Personnel (including any affiliate and subsidiary but excluding Licensee Personnel) and Licensee Personnel at the Premises covered by the related Lease) of the listings on, if any, the directory board of the License Area building afforded Licensor pursuant to the related Lease and (iii) as to Premises in which Licensee Personnel account for more than twenty percent (20%) of the occupancy of such Premises, Licensor shall afford Licensee its pro rata share as set forth in subpart (ii) above of the monument sign for such Premises, if any, pursuant to the related Lease. At Licensee's request, Licensor shall reasonably cooperate with Licensee (at no cost to Licensor) to request the applicable landlord's consent to the installation of any sign, permitted under the Lease but for which landlord's consent is required before installing.

25. Parking. For each License Area (subject to the terms of the related Lease covering the License Area), Licensee shall have nonexclusive access to the parking spaces allocated to Licensor under the terms of the related Lease and the number of parking spaces shall be equitably allocated between Licensor and Licensee as provided in Section 24(ii) above. Licensee shall have access to the parking area to the same extent Licensor has access to the parking area under the related Lease. Licensor shall, at Licensee's request, reasonably cooperate with Licensee (at no cost to Licensor) to request the applicable landlord to enable Licensee to obtain additional parking permits to the extent required by Licensee. If Licensor is charged for parking under any or all of the Leases, Licensor and Licensee shall determine an equitable allocation of such parking charges based on the use of such spaces by Licensee Personnel.

26. Miscellaneous. (a) Counterparts. This License Agreement may be executed in two or more counterparts, each of which will be deemed to be an original, but all of which together will constitute one and the same instrument.

(b) Governing Law. This License Agreement shall, with respect to the License Area, be governed by and construed in accordance with the laws of the particular area in which the related License Area is located.

(c) Section Headings. The section titles herein are for convenience only and do not define, limit or construe the contents of such sections.

(d) Attachments and Exhibits. All attachments and exhibits to this License Agreement are hereby made a part hereof as if fully set out herein.

(e) Severability. If any provision or provisions in this License Agreement is/are found to be in violation of any law or otherwise unenforceable, all other provisions will remain unaffected and in full force and effect.

(f) Site Specific Agreements. The parties shall execute or cause their applicable subsidiaries to execute any additional agreements as may be reasonably necessary to effectuate the intent of this License Agreement.

(g) Subsidiaries. If any of the Premises are leased by a subsidiary of Licensor, (a) Licensor shall cause its subsidiary to license the applicable License Area to Licensee and to perform all of the requirements of Licensor hereunder as to such Premises, (b) such subsidiary may exercise the rights of Licensor hereunder as to such Premises and (c) references herein to Licensor shall mean Licensor's subsidiary as to such Premises. In addition, if any of the Premises are currently occupied by a subsidiary of Licensee, (i) Licensee's subsidiary shall have the right to occupy such License Area and exercise the rights of Licensee hereunder as to such Premises, (ii) Licensee shall cause its subsidiary to perform all of the obligations of Licensee hereunder as to such License Area and (iii) references herein to Licensee shall mean Licensee's subsidiary as to such License Area.

(h) Other. Time is of the essence with respect to the performance of every provision of this License Agreement in which time of performance is a factor. When a party is required to do something by this License Agreement, it shall do so at its sole cost and expense without right of reimbursement from the other party unless specific provision is made therefor. If either party brings any action or legal proceeding with respect to this License Agreement, the prevailing party shall be entitled to recover reasonable attorneys' and experts' fees and court costs. Whenever one party's consent or approval is required to be given as a condition to the other party's right to take any action pursuant to this License Agreement, unless another standard is expressly set forth, such consent or approval shall not be unreasonably withheld or delayed. This License Agreement may be executed in counterparts. Any executed copy of this License Agreement shall be deemed an original for all purposes.

27. Nonliability. Licensor and Licensee agree that neither their respective directors, officers, employees, shareholders nor any of their respective agents shall have any personal obligation hereunder, and that Licensor and Licensee shall not seek to assert any claim or enforce any of their rights hereunder against such directors, officers, employees, shareholders or agents.

28. Binding Effect. This License Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, and shall not be modified except by an express written agreement signed by duly authorized representative of both parties.

29. Reference to Arbitration. If a dispute between Licensor and Licensee arises in connection with this License Agreement or any License Area(s), Licensor and Licensee agree that they will first attempt to settle any dispute through direct negotiations between business executives with authority to resolve the dispute.

Upon receipt by a party of written notice from the other party describing the dispute, each party to the dispute shall promptly designate a senior manager or officer of the entity most directly involved in the dispute with authority to resolve the dispute. If the designated persons are unable to resolve the dispute within fifteen days of receipt of written notice, either party to the dispute may request that the respective chief executive officers of the entity most directly involved in the dispute, or their delegees, attempt to resolve such dispute. If the dispute has not been resolved for any reason within thirty (30) days of receipt of written notice either party may commence legal proceedings to resolve such dispute.

30. Cooperation. Should Licensee desire to license spaces not set forth on Schedule [X], to expand or reduce the size of any License Area, or to renew any license and consequently the related underlying Lease for any space or location set forth on Schedule [X], then the parties agree to cooperate with each other and to provide reasonable assistance to each other in identifying new spaces and entering into new leases, subleases, or other agreements, as applicable, with landlords and other related third parties as well as to cooperate and work with one another to reach mutually acceptable terms and provisions to add or subtract such space to this License Agreement. Without limiting any of the obligations herein, for any such space, the parties have decided to memorialize and be bound by the following terms:

(a) Licensor shall be responsible for paying the security deposit, as applicable, associated with entering into a new lease or sublease with a landlord or other third party.

(b) Licensee shall not make any material alterations or construct any material improvements to any space except as provided in Section 11 above.

(c) Within nine (9) months (or such longer period as may be required under a Lease) prior to the expiration of any Lease or any new lease not set forth on Schedule [___] entered into by either party and which the leased space is shared with or licensed to the other, each party agrees (i) to notify the other whether it intends to continue sharing the space and (ii) to cooperate in determining which party, if any, shall renew such lease.

(d) If Licensor enters into a lease, sublease, or any similar agreement to use and occupy any space, and such space shall be used primarily by Licensee, and Licensor shall not in any material respect occupy the space, then Licensee shall reimburse Licensor for all actual, reasonable, third party, out of pocket expenses incurred by Licensor in connection with entering into the agreement and complying with the terms thereof. To the extent both parties occupy the space, the calculation of any license fee, rent or payment of a similar nature shall be determined using the formula for the License Fee set forth in Section 3.

This provision shall survive the Term of this License Agreement.

IN WITNESS WHEREOF, the parties have duly executed this License Agreement as of the date first above written

LICENSOR:

EMC Corporation,
a Massachusetts corporation

By: _____
Name:
Title:

LICENSEE:

VMware, Inc., a Delaware corporation

By: _____
Name:
Title:

March 16, 2007

Mark Peek
951 17th Ave. East
Seattle, WA 98112

Dear Mark,

We are pleased to offer you a position with VMware, Inc. (the "Company"), a wholly owned subsidiary of EMC Corporation ("EMC"), as Chief Financial Officer, commencing at the earliest possible date. You will report to Diane Greene, President of VMware.

You will receive an annualized salary of \$400,000.00 which will be paid semi-monthly in accordance with the Company's normal payroll procedures. You will also receive a special sign-on bonus of \$67,000.00, net of taxes, payable within thirty (30) days following your date of hire.

You will be eligible to participate in the VMware Company Bonus Program as it may be amended from time to time. For 2007, you will have an annualized bonus target of \$225,000.00. Payments will be made semi-annually on a prorated basis from your date of hire through the end of the bonus period. Terms and conditions of the bonus will be in accordance with the Bonus Program.

You will be eligible to participate in the Company's benefit plans and programs available to our full-time regular employees.

A recommendation will be made to the Compensation Committee of EMC's Board of Directors that you be granted a number of EMC restricted shares calculated to preserve the intrinsic value of the unvested outstanding equity (which you hold as of the date of this letter) that you forego upon resignation from your current employer. The number of restricted shares will be calculated based upon the closing share prices of EMC and your current employer on the date immediately preceding the date on which this award is approved by the Compensation Committee. The terms and conditions of the grant will be determined by the Compensation Committee on the day the grant is approved.

As incentive to share in the value created for VMware investors in the announced IPO, we will recommend to the VMware Board of Directors that you be granted an option to acquire 250,000 shares of VMware stock to be granted on the date of the IPO with an option exercise price equal to the IPO price per share. The terms and conditions of the options will be in accordance with the VMware, Inc. stock plan and stock option agreement.

Per our discussions, the Company will assist in the relocation of you and your family to the Bay Area consistent with the Company's normal practice. To assist you in your transition to the Bay area, you will receive supplemental compensation in the gross amount of \$7,000.01) per month for your first twenty-four (24) months of employment with the Company.

Your employment with the Company is "at will" meaning that either you or the Company is free to terminate the employment relationship at any time and for any reason, with or without notice.

Mark Peek
March 16, 2007
Page Two

As a condition of employment, you will be required to sign and comply with VMware's Employment, Confidential Information, and Invention Assignment Agreement, which requires, among other provisions, the assignment of patent rights to any invention made during your employment at VMware and non-disclosure of proprietary information. As a VMware employee, you will be expected to abide by company rules and policies.

In compliance with federal immigration law, on your date of hire you will be required to verify your legal right to work in the United States.

To indicate your acceptance of the Company's offer, please sign and date this letter in the space provided below and return it to Betsy Sutter. A duplicate original is enclosed for your records. This letter may not be modified or amended except by a written agreement, signed by an officer of the Company and by you. This offer expires three (3) days from the date of this letter.

I am excited about you joining VMware and look forward to working with you.

Sincerely,

Diane Greene
President
diane@vmware.com

ACCEPTED AND AGREED TO this 19th day of March, 2007.

/s/ Mark S. Peek
(Employee Signature)

Start Date:

Enclosures:
Duplicate Original Letter

**FORM OF
INDEMNIFICATION AGREEMENT**

AGREEMENT effective as of [DATE] (the “Effective Date”), between VMware, Inc., a Delaware corporation (the “Company”), and [NAME] (the “Indemnitee”).

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available; and

WHEREAS, the Indemnitee is a director or officer of the Company; and

WHEREAS, basic protection against undue risk of personal liability of directors and officers heretofore has been proved through insurance coverage providing reasonable protection at reasonable cost, and the Indemnitee has relied on the availability of such coverage, but as a result of substantial changes in the marketplace for such insurance it has become increasingly more difficult to obtain such insurance on terms providing reasonable protection at reasonable cost; and

WHEREAS, the current Bylaws and Amended and Restated Certificate of Incorporation of the Company (collectively, the “Charter Documents”) require the Company to indemnify and advance expenses to its directors and officers to the fullest extent permitted by law and the Indemnitee has been serving and continues to serve as a director and/or officer of the Company in part in reliance on such Charter Documents; and

WHEREAS, the current difficulty in obtaining adequate director and officer liability insurance coverage at a reasonable cost and uncertainties as to the availability of indemnification created by recent court decisions have increased the risk that the Company will be unable to retain and attract as directors and officers the most capable persons available; and

WHEREAS, the Board of Directors of the Company has determined that the inability of the Company to retain and attract as directors and officers the most capable persons would be detrimental to the interests of the Company and that the Company therefore should seek to assure such persons that indemnification and insurance coverage will be available in the future; and

WHEREAS, in recognition of the Indemnitee’s need for substantial protection against personal liability in order to enhance the Indemnitee’s continued service to the Company in an effective manner, the increasing difficulty in obtaining satisfactory director and officer liability insurance coverage, and the Indemnitee’s reliance on the Company’s Charter Documents, and in part to provide the Indemnitee with specific contractual assurance that the protection promised by such Charter Documents will be available to the Indemnitee (regardless of, among other things, any amendment to or revocation of such Charter Documents or any change in the composition of the Company’s Board of Directors or acquisition transaction relating to the Company), the Company wishes to provide in this Agreement for indemnification of and the

advancing of expenses to the Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained, for the continued coverage of the Indemnitee under the Company's directors' and officers' liability insurance policies;

NOW, THEREFORE, in consideration of the premises and of the Indemnitee continuing to serve the Company directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Basic Indemnification Arrangement.

(a) In accordance with the provisions of the DGCL, the Company shall, to the extent legally permissible, indemnify the Indemnitee against any and all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnitee in with the defense or settlement of any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company), in which the Indemnitee may be involved or with which the Indemnitee was, is or is threatened to be made, while in office or thereafter, a defendant or respondent by reason of the Indemnitee being or having been an officer or director of the Company.

(b) If so requested by the Indemnitee, the Company shall advance (within five business days of such request) any and all expenses, including attorneys' fees or other costs, paid or incurred by the Indemnitee in connection with the defense or settlement of any such action, suit or other proceeding ("Expenses"), to the Indemnitee (an "Expense Advance"). The Company shall, in accordance with such request (but without duplication), either (i) pay such Expenses on behalf of the Indemnitee, or (ii) reimburse the Indemnitee for such Expenses. The Indemnitee's right to an Expense Advance is absolute and shall not be subject to any prior determination by the Company, the Company's Board of Directors, or any other appropriate person or body (including legal counsel) (each, a "Reviewing Party"), that the Indemnitee has satisfied any applicable standard of conduct for indemnification.

(c) Notwithstanding anything in this Agreement to the contrary, the Indemnitee shall not be entitled to indemnification or advancement of Expenses pursuant to this Agreement in connection with any threatened, pending or completed action, suit or proceeding initiated by the Indemnitee unless (i) the Company has joined in or Company's Board of Directors has authorized or consented to the initiation of such threatened, pending or completed action, suit or proceeding or (ii) the threatened, pending or completed action, suit or proceeding is one to enforce the Indemnitee's rights under this Agreement.

(d) Notwithstanding the foregoing, (i) the indemnification obligations of the Company under Section 1(a) shall be subject to the condition that the Reviewing Party shall not have determined that the Indemnitee would not be permitted to be indemnified under applicable law, and (ii) the obligation of the Company to make an Expense Advance pursuant to Section 1(b)

shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that the Indemnitee would not be permitted to be so indemnified under applicable law, the Company shall be entitled to be reimbursed by the Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid (it being understood and agreed that the foregoing agreement by the Indemnitee shall be deemed to satisfy any requirement that the Indemnitee provide the Company with an undertaking to repay any Expense Advance if it is ultimately determined that the Indemnitee is not entitled to indemnification under applicable law); provided, however, that if the Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that the Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that the Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and the Indemnitee shall not be required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). The Indemnitee's undertaking to repay such Expense Advances shall be unsecured and interest-free. If there has been no determination by the Reviewing Party within thirty days after written demand is presented to the Company or if the Reviewing Party determines that the Indemnitee would not be permitted to be indemnified in whole or in part under applicable law, the Indemnitee shall have the right to commence litigation in any court in the States of California or Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise shall be conclusive and binding on the Company and the Indemnitee.

2. Other Expenses. The Company shall be liable to and shall pay the Indemnitee for any and all expenses (including attorneys' fees) which are incurred by the Indemnitee in connection with any action brought by the Indemnitee for (i) indemnification or advance payment of Expenses by the Company under this Agreement or any other agreement or Charter Documents now or hereafter in effect relating to indemnification and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether the Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be. If requested by the Indemnitee, the Company shall promptly advance (but in no event more than five business days after receiving such request) any such expenses to the Indemnitee.

3. Partial Indemnity, Etc. If the Indemnitee is entitled under any provision of this Agreement to indemnification or payment by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of any threatened, pending or completed action, suit or proceeding but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify or pay the Indemnitee for the portion thereof to which the Indemnitee is entitled.

4. Burden of Proof. In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnatee is entitled to be indemnified hereunder the Reviewing Party or court shall presume that the Indemnatee has satisfied the applicable standard of conduct and is entitled to indemnification, and the burden of proof shall be on the Company to establish, by clear and convincing evidence, that Indemnatee is not so entitled.

5. No Other Presumptions. For purposes of this Agreement, the termination of any claim, action, suit or proceeding, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnatee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether the Indemnatee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that the Indemnatee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by the Indemnatee to secure a judicial determination that the Indemnatee should be indemnified under applicable law shall be a defense to the Indemnatee's claim or create a presumption that the Indemnatee has not met any particular standard of conduct or did not have any particular belief.

6. Nonexclusivity, Etc. The rights of the Indemnatee hereunder shall be in addition to any other rights the Indemnatee may have under the Company's Charter Documents or the General Corporation Law of the State of Delaware or otherwise. To the extent that a change in applicable law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company's Charter Documents or this Agreement, it is the intent of the parties hereto that the Indemnatee shall enjoy by this Agreement the greater benefits so afforded by such change.

7. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, the Indemnatee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer.

8. Amendments, Etc. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

9. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnatee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

10. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any claim made against the Indemnatee in connection with any threatened, pending or completed action, suit or proceeding to the extent the Indemnatee has otherwise actually received payment (under any insurance policy, provision of a Charter Document or otherwise) of the amounts otherwise indemnifiable hereunder.

11. Notice. All notices, requests, consents or other communications under this Agreement shall be delivered by hand or sent by registered or certified mail, return receipt requested, or by overnight prepaid courier, or by facsimile (receipt confirmed) to:

if to the Company: VMware, Inc.
3145 Porter Drive
Palo Alto, CA 94304
Attention: Office of the General Counsel
Facsimile: 650-475-5005

if to the Indemnatee: **[NAME
ADDRESS]**

All such notices, requests, consents and other communications shall be deemed to have been duly delivered and received three (3) days following the date on which mailed, or one (1) day following the date mailed if sent by overnight courier, or on the date on which delivery by hand or by facsimile transmission.

12. Binding Effect, Etc. This Agreement shall be effective as of the Effective Date and shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, spouses, heirs, executors and personal and legal representatives. This Agreement shall continue in effect regardless of whether the Indemnatee continues to serve as an officer or director of the Company or of any other enterprise at the Company's request.

13. Severability. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the fullest extent permitted by law.

14. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above written.

VMWARE, INC.

By: _____

Name:

Title:

[NAME]

VMWARE, INC.
2007 EQUITY AND INCENTIVE PLAN

1. PURPOSE; TYPES OF AWARDS; CONSTRUCTION.

The purpose of the VMware, Inc. 2007 Equity and Incentive Plan is to attract, motivate and retain employees and independent contractors of the Company and any Subsidiary and Affiliate and non-employee directors of the Company, any Subsidiary or any Affiliate. The Plan is also designed to encourage stock ownership by such persons, thereby aligning their interest with those of the Company's shareholders and to permit the payment of compensation that qualifies as performance-based compensation under Section 162(m) of the Code. Pursuant to the provisions hereof, there may be granted Options (including "incentive stock options" and "non-qualified stock options"), and Other Stock-Based Awards, including but not limited to Restricted Stock, Restricted Stock Units, Stock Appreciation Rights (payable in shares) and Other Cash-Based Awards.

The 2007 Equity and Incentive Plan shall become effective as of the date of the adoption by the Board.

2. DEFINITIONS. For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) "Adoption Date" means the date that the Plan was adopted by the Board.
- (b) "Affiliate" means an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act.
- (c) "Award" means individually or collectively, a grant under the Plan of Options, Restricted Stock, Restricted Stock Units or Other Stock-Based Awards or Other Cash-Based Awards.
- (d) "Award Terms" means any written agreement, contract, notice or other instrument or document evidencing an Award.
- (e) "Board" means the Board of Directors of the Company.
- (f) "Cause" shall have the meaning set forth in the Grantee's employment or other agreement with the Company, any Subsidiary or any Affiliate, if any, provided that if the Grantee is not a party to any such employment or other agreement or such employment or other agreement does not contain a definition of Cause, then Cause shall have the meaning set forth in the Award Terms.
- (g) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

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- (h) “Committee” means the Compensation Committee of the Board. Unless otherwise determined by the Board, the Committee shall be comprised solely of directors who are (a) “non-employee directors” under Rule 16b-3 of the Exchange Act, (b) “outside directors” under Section 162(m) of the Code and (c) who otherwise meet the definition of “independent directors” pursuant to the applicable requirements of any national stock exchange upon which the Stock is listed. Any director appointed to the Committee who does not meet the foregoing requirements shall recuse himself or herself from all determinations pertaining to Rule 16b-3 of the Exchange Act and Section 162(m) of the Code.
 - (i) “Company” means VMware, Inc., a corporation organized under the laws of the State of Delaware, or any successor corporation.
 - (j) “Covered Employee” shall have the meaning set forth in Section 162(m)(3) of the Code.
 - (k) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, and as now or hereafter construed, interpreted and applied by regulations, rulings and cases.
 - (l) “Exchange Offer” means the offer by the Company to exchange awards issued under the Plan for awards of or with respect to the common stock of Parent held by certain employees of the Company and its Subsidiaries, as set forth in more detail in the Offer to Exchange expected to be filed by the Company and Parent.
 - (m) “Fair Market Value” shall be the closing sales price per share of Stock for the date of grant on the principal securities exchange on which the Stock is traded or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported; if the Stock is not listed for trading on a national securities exchange, the fair market value of Stock shall be determined in good faith by the Board. For purposes of the exercise price of Options granted in the Exchange Offer, Fair Market Value shall mean the initial public offering price of the Stock as set forth in the Company’s Form S-1 Registration Statement.
 - (n) “Grantee” means a person who, as an employee or independent contractor of or non-employee director with respect to the Company, a Subsidiary or an Affiliate, has been granted an Award under the Plan.
 - (o) “ISO” means any Option designated as and intended to be and which qualifies as an incentive stock option within the meaning of Section 422 of the Code.

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- (p) “NQSO” means any Option that is designated as a nonqualified stock option or which does not qualify as an ISO.
 - (q) “Option” means a right, granted to a Grantee under Section 6(b)(i), to purchase shares of Stock. An Option may be either an ISO or an NQSO.
 - (r) “Other Cash-Based Award” means a cash-based Award granted to a Grantee under Section 6(b)(iv) hereof, including cash awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the Plan.
 - (s) “Other Stock-Based Award” means an Award granted to a Grantee pursuant to Section 6(b)(iv) hereof, that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, each of which may be subject to the attainment of Performance Goals or a period of continued employment or other terms and conditions as permitted under the Plan.
 - (t) “Parent” means EMC Corporation, a Massachusetts corporation.
 - (u) “Performance Goals” means performance goals based on one or more of the following criteria: (i) earnings including operating income, earnings before or after taxes, earnings before or after interest, depreciation, amortization, or extraordinary or special items or book value per share (which may exclude nonrecurring items); (ii) pre-tax income or after-tax income; (iii) earnings per common share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth or rate of revenue growth; (vi) return on assets (gross or net), return on investment, return on capital, or return on equity; (vii) returns on sales or revenues; (viii) operating expenses; (ix) stock price appreciation; (x) cash flow, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (xi) implementation or completion of critical projects or processes; (xii) economic value created; (xiii) cumulative earnings per share growth; (xiv) operating margin or profit margin; (xv) common stock price or total stockholder return; (xvi) cost targets, reductions and savings, productivity and efficiencies; (xvii) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, and goals relating to acquisitions, divestitures, joint ventures and similar transactions, and budget comparisons; (xviii) personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions, the development of long term business

goals, formation of joint ventures, research or development collaborations, and the completion of other corporate transactions; and (xix) any combination of, or a specified increase in, any of the foregoing. Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company, a Subsidiary or Affiliate, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Committee. The Performance Goals may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be made (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur). Each of the foregoing Performance Goals shall be determined in accordance with generally accepted accounting principles and shall be subject to certification by the Committee; provided that, to the extent an Award is intended to satisfy the performance-based compensation exception to the limits of Section 162(m) of the Code and then to the extent consistent with such exception, the Committee shall have the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary or Affiliate or the financial statements of the Company or any Subsidiary or Affiliate, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles.

- (v) “Plan” means this VMware, Inc. 2007 Equity and Incentive Plan, as amended from time to time.
- (w) “Restricted Stock” means an Award of shares of Stock to a Grantee under Section 6(b)(ii) that is subject to certain restrictions and to a risk of forfeiture.
- (x) “Restricted Stock Unit” means a right granted to a Grantee under Section 6(b)(iii) of the Plan to receive shares of Stock subject to certain restrictions and to a risk of forfeiture.
- (y) “Rule 16b-3” means Rule 16b-3, as from time to time in effect promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act, including any successor to such Rule.

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- (z) “Stock” means shares of Class A common stock, par value \$0.01 per share, of the Company.
 - (aa) “Stock Appreciation Right” means an Award that entitles a Grantee upon exercise to the excess of the Fair Market Value of the Stock underlying the Award over the base price established in respect of such Stock.
 - (bb) “Subsidiary” means any corporation in an unbroken chain of corporations beginning with the Company if, at the time of granting of an Award, each of the corporations (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

3. ADMINISTRATION.

(a) The Plan shall be administered by the Committee or, at the discretion of the Board, the Board. In the event the Board is the administrator of the Plan, references herein to the Committee shall be deemed to include the Board. The Board may from time to time appoint a member or members of the Committee in substitution for or in addition to the member or members then in office and may fill vacancies on the Committee however caused. Subject to applicable law, the Board or the Committee may delegate to a sub-committee or individual the ability to grant Awards to employees who are not subject to potential liability under Section 16(b) of the Exchange Act with respect to transactions involving equity securities of the Company at the time any such delegated authority is exercised.

(b) The decision of the Committee as to all questions of interpretation and application of the Plan shall be final, binding and conclusive on all persons. The Committee shall have the authority in its discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the power and authority either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including without limitation, the authority to grant Awards, to determine the persons to whom and the time or times at which Awards shall be granted, to determine the type and number of Awards to be granted, the number of shares of Stock to which an Award may relate and the terms, conditions, restrictions and Performance Goals relating to any Award; to determine Performance Goals no later than such time as is required to ensure that an underlying Award which is intended to comply with the requirements of Section 162(m) of the Code so complies; to determine whether, to what extent, and under what circumstances an Award may be settled, cancelled, forfeited, accelerated (including upon a “change in control”), exchanged, or surrendered; to make adjustments in the terms and conditions (including Performance Goals) applicable to Awards; to construe and interpret the Plan and any Award; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the Award Terms (which need not be identical for each Grantee); and to make all other determinations deemed necessary or advisable for the administration of the

Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award Terms granted hereunder in the manner and to the extent it shall deem expedient to carry the Plan into effect and shall be the sole and final judge of such expediency. No Committee member shall be liable for any action or determination made with respect to the Plan or any Award.

4. ELIGIBILITY.

(a) Awards may be granted to officers, employees, independent contractors and non-employee directors of the Company or of any of the Subsidiaries and Affiliates; provided, that (i) ISOs may be granted only to employees (including officers and directors who are also employees) of the Company or any of its “related corporations” (as defined in the applicable regulations promulgated under the Code) and (ii) Awards may be granted only to eligible employees who are not employed by the Company or a Subsidiary if such employees are assigned to perform services exclusively for the Company or a Subsidiary.

(b) No ISO shall be granted to any employee of the Company or any of its Subsidiaries if such employee owns, immediately prior to the grant of the ISO, stock representing more than 10% of the voting power or more than 10% of the value of all classes of stock of the Company or Parent or a Subsidiary, unless the purchase price for the stock under such ISO shall be at least 110% of its Fair Market Value at the time such ISO is granted and the ISO, by its terms, shall not be exercisable more than five years from the date it is granted. In determining the stock ownership under this paragraph, the provisions of Section 424(d) of the Code shall be controlling.

5. STOCK SUBJECT TO THE PLAN.

(a) The maximum number of shares of Stock reserved for the grant or settlement of Awards under the Plan (the “Share Limit”) shall be 80,000,000 (including the number of shares of Stock expected to be issued under the Exchange Offer) and shall be subject to adjustment as provided herein. The aggregate number of shares of Stock made subject to Awards granted during any fiscal year to any single individual shall not exceed 3,000,000. Such shares may, in whole or in part, be authorized but unissued shares or shares that shall have been or may be reacquired by the Company in the open market, in private transactions or otherwise. If any shares subject to an Award are forfeited, cancelled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of shares to the Grantee, the shares of stock with respect to such Award shall, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for Awards under the Plan.

(b) Except as provided in an Award Term or as otherwise provided in the Plan, in the event of any extraordinary dividend or other extraordinary distribution (whether in the form of cash, Stock, or other property), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, recapitalization, combination, repurchase, or share exchange, or other similar corporate transaction or event, the Committee shall make such equitable changes or adjustments as it deems

necessary or appropriate to any or all of (i) the number and kind of shares of Stock or other property (including cash) that may thereafter be issued in connection with Awards or the total number of Awards issuable under the Plan, (ii) the number and kind of shares of Stock or other property issued or issuable in respect of outstanding Awards, (iii) the exercise price, grant price or purchase price relating to any Award, (iv) the Performance Goals and (v) the individual limitations applicable to Awards; provided that, with respect to ISOs, any adjustment shall be made in accordance with the provisions of Section 424(h) of the Code and any regulations or guidance promulgated thereunder, and provided further that no such adjustment shall cause any Award hereunder which is or becomes subject to Section 409A of the Code to fail to comply with the requirements of such section.

6. SPECIFIC TERMS OF AWARDS.

(a) General. Subject to the terms of the Plan (including Schedule A attached hereto, as applicable) and any applicable Award Terms, (i) the term of each Award shall be for such period as may be determined by the Committee, and (ii) payments to be made by the Company or a Subsidiary or Affiliate upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee shall determine at the date of grant or thereafter, including, without limitation, cash, Stock or other property, and may be made in a single payment or transfer, in installments, or, subject to the requirements of Section 409A of the Code on a deferred basis.

(b) Awards. The Committee is authorized to grant to Grantees the following Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of such Awards, consistent with the terms of the Plan (including Schedule A attached hereto, as applicable).

(i) Options. The Committee is authorized to grant Options to Grantees on the following terms and conditions:

- (A) The Award Terms evidencing the grant of an Option under the Plan shall designate the Option as an ISO or an NQSO.
- (B) The exercise price per share of Stock purchasable under an Option shall be determined by the Committee, but in no event shall the exercise price of an Option per share of Stock be less than the Fair Market Value of a share of Stock as of the date of grant of such Option. The purchase price of Stock as to which an Option is exercised shall be paid in full at the time of exercise; payment may be made in cash, which may be paid by check, or other instrument acceptable to the Company, or, with the consent of the Committee, in shares of Stock, valued at the Fair Market Value on the date of exercise (including shares of Stock that otherwise would be distributed to the Grantee upon exercise of the Option), or if there were no sales on such

date, on the next preceding day on which there were sales or (if permitted by the Committee and subject to such terms and conditions as it may determine) by surrender of outstanding Awards under the Plan, or the Committee may permit such payment of exercise price by any other method it deems satisfactory in its discretion. In addition, subject to applicable law and pursuant to procedures approved by the Committee, payment of the exercise price may be made pursuant to a broker-assisted cashless exercise procedure. Any amount necessary to satisfy applicable federal, state or local tax withholding requirements shall be paid promptly upon notification of the amount due. The Committee may permit the minimum amount of tax withholding to be paid in shares of Stock previously owned by the employee, or a portion of the shares of Stock that otherwise would be distributed to such employee upon exercise of the Option, or a combination of cash and shares of such Stock.

- (C) Options shall be exercisable over the exercise period (which shall not exceed ten years from the date of grant), at such times and upon such conditions as the Committee may determine, as reflected in the Award Terms; provided that, the Committee shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as it, in its sole discretion, deems appropriate.
- (D) Upon the termination of a Grantee's employment or service with the Company and its Subsidiaries or Affiliates, the Options granted to such Grantee, to the extent that they are exercisable at the time of such termination, shall remain exercisable for such period as may be provided in the applicable Award Terms, but in no event following the expiration of their term. The treatment of any Option that is unexercisable as of the date of such termination shall be as set forth in the applicable Award Terms.
- (E) Options may be subject to such other conditions, as the Committee may prescribe in its discretion or as may be required by applicable law.
- (F) Notwithstanding anything to the contrary herein, grants of Options may be made hereunder which have the terms and conditions set forth in the Exchange Offer.

(ii) Restricted Stock.

- (A) The Committee may grant Awards of Restricted Stock under the Plan, subject to such restrictions, terms and conditions, as the Committee shall determine in its sole discretion and as shall be evidenced by the applicable Award Terms (provided that any such Award is subject to the vesting requirements described herein). The vesting of a Restricted Stock Award granted under the Plan may be conditioned upon the completion of a specified period of employment or service with the Company or any Subsidiary or Affiliate, upon the attainment of specified Performance Goals, and/or upon such other criteria as the Committee may determine in its sole discretion.
- (B) The Committee shall determine the purchase price, which, to the extent required by law, shall not be less than par value of the Stock, to be paid by the Grantee for each share of Restricted Stock or unrestricted stock or stock units subject to the Award. The Award Terms with respect to such stock award shall set forth the amount (if any) to be paid by the Grantee with respect to such Award and when and under what circumstances such payment is required to be made.
- (C) Except as provided in the applicable Award Terms, no shares of Stock underlying a Restricted Stock Award may be assigned, transferred, or otherwise encumbered or disposed of by the Grantee until such shares of Stock have vested in accordance with the terms of such Award.
- (D) If and to the extent that the applicable Award Terms may so provide, a Grantee shall have the right to vote and receive dividends on Restricted Stock granted under the Plan. Unless otherwise provided in the applicable Award Terms, any Stock received as a dividend on or in connection with a stock split of the shares of Stock underlying a Restricted Stock Award shall be subject to the same restrictions as the shares of Stock underlying such Restricted Stock Award.
- (E) Upon the termination of a Grantee's employment or service with the Company and its Subsidiaries or Affiliates, the Restricted Stock granted to such Grantee shall be subject to the terms and conditions specified in the applicable Award Terms.

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- (F) Notwithstanding anything to the contrary herein, grants of Restricted Stock may be made hereunder which have the terms and conditions set forth in the Exchange Offer.
- (iii) Restricted Stock Units. The Committee is authorized to grant Restricted Stock Units to Grantees, subject to the following terms and conditions:
- (A) At the time of the grant of Restricted Stock Units, the Committee may impose such restrictions or conditions to the vesting of such Awards as it, in its discretion, deems appropriate, including, but not limited to, the achievement of Performance Goals. The Committee shall have the authority to accelerate the settlement of any outstanding award of Restricted Stock Units at such time and under such circumstances as it, in its sole discretion, deems appropriate, subject compliance with the requirements of Section 409A of the Code.
 - (B) Unless otherwise provided in the applicable Award Terms or except as otherwise provided in the Plan, upon the vesting of a Restricted Stock Unit there shall be delivered to the Grantee, as soon as practicable following the date on which such Award (or any portion thereof) vests, that number of shares of Stock equal to the number of Restricted Stock Units becoming so vested.
 - (C) Subject to compliance with the requirements of Section 409A of the Code, Restricted Stock Units may provide the Grantee with the right to receive dividend equivalent payments with respect to Stock actually or notionally subject to the Award, which payments may be either made currently or credited to an account for the Grantee, and may be settled in cash or Stock, as determined by the Committee. Any such settlements and any such crediting of dividend equivalents may be subject to such conditions, restrictions and contingencies as the Committee shall establish, including the reinvestment of such credited amounts in Stock equivalents.
 - (D) Upon the termination of a Grantee's employment or service with the Company and its Subsidiaries or Affiliates, the Restricted Stock Units granted to such Grantee shall be subject to the terms and conditions specified in the applicable Award Terms.
- (iv) Other Stock-Based or Cash-Based Awards.

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- (A) The Committee is authorized to grant Awards to Grantees in the form of Other Stock-Based Awards or Other Cash-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee shall determine the terms and conditions of such Awards, consistent with the terms of the Plan, at the date of grant or thereafter, including the Performance Goals and performance periods. Stock or other securities or property delivered pursuant to an Award in the nature of a purchase right granted under Section 6(iv) shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, Stock, other Awards, notes or other property, as the Committee shall determine, subject to any required corporate action.
 - (B) With respect to a Covered Employee, the maximum value of the aggregate payment that any Grantee may receive with respect to Other Cash-Based Awards pursuant to this Section 6(b)(iii) in respect of any annual performance period is \$5,000,000 and for any other performance period in excess of one year, such amount multiplied by a fraction, the numerator of which is the number of months in the performance period and the denominator of which is twelve. No payment shall be made to a Covered Employee prior to the certification by the Committee that the Performance Goals have been attained. The Committee may establish such other rules applicable to the Other Stock- or Cash-Based Awards to the extent not inconsistent with Section 162(m) of the Code.
 - (C) Payments earned in respect of any Cash-Based Award may be decreased or, with respect to any Grantee who is not a Covered Employee, increased in the sole discretion of the Committee based on such factors as it deems appropriate.

7. GENERAL PROVISIONS.

(a) Nontransferability, Deferrals and Settlements . Unless otherwise determined by the Committee or provided in an Award Term or set forth below, but in accordance with the Code and any applicable laws, Awards shall not be transferable by a Grantee except by will or the laws of descent and distribution and shall be exercisable during the lifetime of a Grantee only by such Grantee or his guardian or legal representative. Any Award shall be null and void and without effect upon any attempted assignment or transfer, except as herein provided, including without limitation any purported assignment, whether voluntary or by operation of law, pledge, hypothecation or other disposition, attachment, divorce, trustee process or similar process, whether legal or

equitable, upon such Award. The Committee may permit Grantees to elect to defer the issuance of shares of Stock or the settlement of Awards in cash under such rules and procedures as established under the Plan to the extent that such deferral complies with Section 409A of the Code and any regulations or guidance promulgated thereunder. Notwithstanding the foregoing but subject to applicable law, the Committee in its sole discretion may grant transferable NQSOs that, upon becoming fully vested and exercisable, may be transferred to a third-party pursuant to an auction process approved or established up by the Company.

(b) No Right to Continued Employment, etc. . Nothing in the Plan or in any Award granted or any Award Terms, promissory note or other agreement entered into pursuant hereto shall confer upon any Grantee the right to continue in the employ or service of the Company, any Subsidiary or any Affiliate or to be entitled to any remuneration or benefits not set forth in the Plan or the applicable Award Terms or to interfere with or limit in any way the right of the Company or any such Subsidiary or Affiliate to terminate such Grantee's employment or service.

(c) Cancellation and Rescission of Awards. . The following provisions of this Section 7(c) shall apply to Awards granted to (i) Grantees who are classified by the Company or a Subsidiary as an executive officer, senior officer, or officer (collectively, "Officers") of the Company or a Subsidiary, (ii) Grantees who are non-employee directors of the Company, and (iii) certain other Grantees designated by the Committee or the Board to be subject to the terms of this Section 7(c) (such designated Grantees together with Officers and non-employee directors are referred to collectively as "Senior Grantees"). The Committee or the Board, in its sole discretion, may cancel, rescind, forfeit, suspend or otherwise limit or restrict any unexpired Award at any time if the Senior Grantee engages in "Detrimental Activity" (as defined below). Furthermore, in the event a Senior Grantee engages in Detrimental Activity at any time prior to or during the six months after any exercise of an Award, lapse of a restriction under an Award or delivery of Common Stock pursuant to an Award, such exercise, lapse or delivery may be rescinded until the later of (i) two years after such exercise, lapse or delivery or (ii) two years after such Detrimental Activity. Upon such rescission, the Company at its sole option may require the Senior Grantee to (i) deliver and transfer to the Company the shares of Stock received by the Senior Grantee upon such exercise, lapse or delivery, (ii) pay to the Company an amount equal to any realized gain received by the Senior Grantee from such exercise, lapse or delivery, (iii) pay to the Company an amount equal to the market price (as of the exercise, lapse or delivery date) of the Stock acquired upon such exercise, lapse or delivery minus the respective price paid upon exercise, lapse or delivery, if applicable or (iv) pay the Company an amount equal to any cash awarded with respect to an Award. The Company shall be entitled to set-off any such amount owed to the Company against any amount owed to the Senior Grantee by the Company. Further, if the Company commences an action against such Senior Grantee (by way of claim or counterclaim and including declaratory claims), in which it is preliminarily or finally determined that such Senior Grantee engaged in Detrimental Activity or otherwise violated this Section 7(c), the Senior Grantee shall reimburse the Company for all costs and fees incurred in such action, including but not limited to, the Company's reasonable attorneys' fees. As used in this Section 6.7, "Detrimental Activity" shall include: (i) the

failure to comply with the terms of the Plan or Award Terms; (ii) the failure to comply with any term set forth in the Company's Key Employee Agreement (irrespective of whether the Senior Grantee is a party to the Key Employee Agreement); (iii) any activity that results in termination of the Senior Grantee's employment for Cause; (iv) a violation of any rule, policy, procedure or guideline of the Company; or (v) the Senior Grantee being convicted of, or entering a guilty plea with respect to a crime whether or not connected with the Company.

(d) Taxes. The Company or any Subsidiary or Affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any other payment to a Grantee, amounts of withholding and other taxes due in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Grantees to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Grantee's tax obligations; provided, however, that the amount of tax withholding to be satisfied by withholding Stock shall be limited to the minimum amount of taxes, including employment taxes, required to be withheld under applicable federal, state and local law.

(e) Stockholder Approval; Amendment and Termination. The Plan shall take effect on the Adoption Date, subject to the requisite approval of a majority of the stockholders of the Company, which approval must occur within twelve (12) months of the date that the Plan is adopted by the Board. If such approval has not been obtained within the twelve (12) month period, all Awards previously granted, exercised or purchased under the Plan shall be rescinded, canceled and become null and void. The Board may amend, alter or discontinue the Plan and outstanding Awards thereunder, but no amendment, alteration, or discontinuation shall be made that would impair the rights of a Grantee under any Award theretofore granted without such Grantee's consent, or that without the approval of the stockholders (as described below) would, except in the case of an adjustment as provided in Section 5, increase the total number of shares of Stock reserved for the purpose of the Plan. In addition, stockholder approval shall be required with respect to any amendment with respect to which shareholder approval is required under the Code, the rules of any stock exchange on which Stock is then listed or any other applicable law. Unless earlier terminated by the Board pursuant to the provisions of the Plan, the Plan shall terminate on the tenth anniversary of (i) its Adoption Date or (ii) the date the Plan is approved by a majority of the stockholders of the Company, whichever is earlier. No Awards shall be granted under the Plan after such termination date.

(f) No Rights to Awards; No Stockholder Rights. No Grantee shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Grantees. No Grantee shall have any right to payment or settlement under any Award unless and until the Committee or its designee shall have determined that payment or settlement is to be made. Except as provided specifically herein, a Grantee or a transferee of an Award shall have no rights as a stockholder with respect to any shares covered by the Award until the date of the issuance of such shares.

(g) Unfunded Status of Awards. The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments not yet made to a Grantee pursuant to an Award, nothing contained in the Plan or any Award shall give any such Grantee any rights that are greater than those of a general creditor of the Company.

(h) No Fractional Shares. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(i) Regulations and Other Approvals.

- (i) The obligation of the Company to sell or deliver Stock with respect to any Award granted under the Plan shall be subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.
- (ii) Each Award is subject to the requirement that, if at any time the Committee determines, in its absolute discretion, that the listing, registration or qualification of Stock issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Stock, no such Award shall be granted or payment made or Stock issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.
- (iii) In the event that the disposition of Stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended (the “Securities Act”), and is not otherwise exempt from such registration, such Stock shall be restricted against transfer to the extent required by the Securities Act or regulations thereunder, and the Committee may require a Grantee receiving Stock pursuant to the Plan, as a condition precedent to receipt of such Stock, to represent to the Company in writing that the Stock acquired by such Grantee is acquired for investment only and not with a view to distribution.

(j) Section 409A. This Plan is intended to comply and shall be administered in a manner that is intended to comply with Section 409A of the Code and shall be construed and interpreted in accordance with such intent. To the extent that an Award, issuance and/or payment is subject to Section 409A of the Code, it shall be awarded and/or issued or paid in a manner that will comply with Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. Any provision of this Plan that would cause an Award, issuance and/or payment to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Code Section 409A (which amendment may be retroactive to the extent permitted by applicable law).

(k) Governing Law. The Plan and all determinations made and actions taken pursuant hereto shall be governed by the laws of the State of Delaware without giving effect to the conflict of laws principles thereof. Notwithstanding anything to the contrary herein, the Committee, in order to conform with provisions of local laws and regulations in foreign countries in which the Company or its Subsidiaries operate, shall have sole discretion to (i) modify the terms and conditions of Awards made to Grantees employed outside the United States, (ii) establish sub-plans with modified exercise procedures and such other modifications as may be necessary or advisable under the circumstances presented by local laws and regulations,; and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan or any sub-plan established hereunder.

Schedule A

California “Blue Sky” Provisions

Notwithstanding any provision to the contrary in this Plan or any applicable Award Terms, Awards shall be subject to the terms and conditions set forth in this Schedule A (i) at any time prior to the first date upon which any security of the Company is listed (or approved for listing) upon notice of issuance on any securities exchange or designated (or approved for designation) upon notice of issuance as a national market security on an interdealer quotation system if such securities exchange or interdealer quotation system has been certified in accordance with the provisions of Section 25100(o) of the California Corporate Securities Law of 1968 and (ii) to the extent required by Section 25102(o) of the California Corporate Securities Law of 1968 and the regulations thereunder.

- (i) Exercise Price; Purchase Price. The exercise price per share of Stock purchasable under any NQSO shall be determined by the Committee, but in no event shall be less than 85% of the Fair Market Value of a share of Stock as of the grant date of such Award, provided that, in the case of an individual who owns more than 10% of the total combined voting power of all classes of stock of the Company or of any Subsidiary or parent corporation, such exercise price per share shall in no event be less than 110% of the Fair Market Value of a share of Stock as of the grant date.
- (ii) Exercise Period; Exercisability.
 - (A) Each NQSO shall be exercisable over an exercise period determined by the Committee, which shall in no event exceed ten years from the date of grant.
 - (B) Each Option shall be exercisable at such time and upon such conditions as the Committee may determine, provided that, each Option granted to individuals other than officers, directors or consultants of the Company shall be exercisable at the rate of at least 20% per year over no more than five years from the date of grant, subject to reasonable conditions such as continued employment.
 - (C) Upon termination of a Grantee’s employment or service with the Company and its Subsidiaries or Affiliates by reason of his or her death, disability or for any other reason (except for Cause), the Option shall be exercisable, to the extent Grantee is entitled to exercise on the date of such termination, for such period as provided in the applicable Award Term, provided that, in no event shall such exercise period be less than 30 days (or 6 months in the event of termination by reason of death or disability).

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- (iii) Repurchase Provisions. Any provisions regarding the repurchase of Stock by the Company upon a termination of a Grantee's employment shall be specified in the Award Terms in accordance with the following:
- (A) With respect to Options, (1) the repurchase of Stock by the Company must be for cash or cancellation of purchase money indebtedness within 90 days of Grantee's termination of employment or, in the case of Stock issued upon exercise of such Awards after the date of termination of employment, within 90 days after the exercise date, and (2) the repurchase price shall be either: (x) no less than the fair market value of the Stock at the date of termination (provided the repurchase right terminates upon the Company's securities becoming publicly traded) or (y) the original exercise price (provided that the right to repurchase at the original exercise price shall lapse at the rate of at least 20% of the Stock per year over 5 years from the date the applicable Award is granted).
- (B) In addition to the restrictions set forth in subparagraph (A), the Stock held by officers, directors, managers or consultants may be subject to additional or greater restrictions.
- (iv) Nontransferability. The Committee may provide that any NQSO may be transferable by a Grantee by will or the laws of descent and distribution or as permitted by Rule 701 of the Securities Act of 1933, as amended.
- (v) Financial Statements. The Company shall provide to each Grantee and to each individual who acquires Stock pursuant to the Plan, not less frequently than annually during the period such Grantee or purchaser has one or more Awards granted under the Plan outstanding, and, in the case of an individual who acquires Stock pursuant to the Plan, during the period such individual owns such Stock, copies of the Company's annual financial statements. The Company shall not be required to provide such statements to key employees of the Company whose duties in connection with the Company assure their access to equivalent information.

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- (vi) California Code of Regulations. The provisions of Sections 260.140.41, 260.140.42, 260.140.45 and 240.140.46 of Title 10 of the California Code of Regulations are incorporated herein by reference.

INSURANCE MATTERS AGREEMENT

This Insurance Matters Agreement is dated as of [], 2007 by and between VMware, Inc., a Delaware corporation (“VMware”), and EMC Corporation, a Massachusetts corporation (“EMC”). VMware and EMC are sometimes referred to herein separately as a “Party” and together as the “Parties”. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in Article I hereof.

RECITALS

WHEREAS , EMC is the beneficial owner of all the issued and outstanding common stock of VMware;

WHEREAS , the Parties currently contemplate that VMware will make an initial public offering (the “Offering”) of its Class A common stock pursuant to a Registration Statement on Form S-1 filed on April 26, 2007, as amended (the “Registration Statement”), under the Securities Act of 1933, as amended;

WHEREAS , EMC maintains insurance coverage under the EMC Insurance Policies (as defined below) for the VMware Entities (as defined below);

WHEREAS , following consummation of the Offering, VMware desires for EMC to continue to maintain insurance coverage for the VMware Entities under the EMC Insurance Policies, as more fully set forth in this Agreement; and

NOW, THEREFORE , in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto, for themselves and their respective successors and assigns, hereby covenant and agree as follows:

**ARTICLE I
DEFINITIONS**

Section 1.01 Definitions. (a) As used in this Agreement, the following terms shall have the following meanings, applicable both to the singular and the plural forms of the terms described:

“Agreement” means this Insurance Matters Agreement, together with the schedules and exhibits hereto, as the same may be amended and supplemented from time to time in accordance with the provisions hereof.

“Contract” means any contract, agreement, lease, license, sales order, purchase order, instrument or other commitment that is binding on any Person or any part of such Person’s property under applicable law.

“EMC Entities” means EMC and its Subsidiaries (other than the VMware Entities), and “EMC Entity” means any of EMC and its Subsidiaries (other than the VMware Entities) in place on the effective date of the Registration Statement and any entity which becomes a Subsidiary of EMC (other than any VMware Entity) after the date hereof.

“Insurance Policies” means insurance policies pursuant to which a Person makes a true risk transfer to an insurer.

“Insurance Proceeds” means those monies: (a) received by an insured from an insurance carrier; or (b) paid by an insurance carrier on behalf of the insured; or (c) from Insurance Policies.

“Insured VMware Liability” means any VMware Liability to the extent that (i) it is covered under the terms of the EMC Insurance Policies in effect prior to the end of the Insurance Transition Period, and (ii) VMware is not a named insured under, or otherwise entitled to the benefits of, such Insurance Policies.

“Liabilities” means all debts, liabilities, guarantees, assurances, commitments and obligations, whether fixed, contingent or absolute, asserted or unasserted, matured or unmatured, liquidated or unliquidated, accrued or not accrued, known or unknown, due or to become due, whenever or however arising (including, without limitation, whether arising out of any Contract or tort based on negligence or strict liability) and whether or not the same would be required by generally accepted principles and accounting policies to be reflected in financial statements or disclosed in the notes thereto.

“Master Transaction Agreement” means the Master Transaction Agreement between the Parties dated as of [_____, 2007].

“Offering Date” means [12:01 a.m.] New York City Time, on the date on which the Offering is consummated.

“Person” means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization, government (including any department or agency thereof) or other entity.

“Schedule I” means the first Schedule attached hereto which lists the Insurance Policies to be maintained by EMC on behalf of or for the VMware Entities and premium expenses and/or the methodology for calculating the premium expenses to be paid by VMware for insurance coverage under such Insurance Policies.

“Subsidiary” means, as to any Person, a corporation, limited liability company, joint venture, partnership, trust, association or other entity in which such Person: (1) beneficially owns, either directly or indirectly, more than fifty percent (50%) of (A) the total combined voting power of all classes of voting securities of such entity, (B) the total combined equity interests, or (C) the capital or profits interest, in the case of a partnership; or (2) otherwise has the power to vote, either directly or indirectly, sufficient securities to elect a majority of the board of directors or similar governing body.

“VMware Business” means the business of virtual infrastructure technology presently conducted by VMware, as more completely described in the Registration Statement, or following the Offering Date, such business that is then conducted by VMware and described in its periodic filings with the U.S. Securities and Exchange Commission.

“VMware Entities” means VMware, Inc. and its Subsidiaries from time to time, and “VMware Entity” means any one of the VMware Entities.

“VMware Liabilities” has the meaning set forth in the Master Transaction Agreement.

(b) Each of the following terms is defined in the Section set forth opposite such term:

<u>TERM</u>	<u>SECTION</u>
Action	3.01
EMC	Preamble
EMC Indemnified Person	2.08
EMC Insurance Policies	2.01(a)
Initial Term	4.01
Insurance Transition Period	2.01(a)
Offering	Preamble
Parties	Preamble
Party	Preamble
Registration Statement	Preamble
VMware Covered Parties	2.01(a)
VMware	Preamble

Section 1.02 Internal References. Unless the context indicates otherwise, references to Articles, Sections and paragraphs shall refer to the corresponding articles, sections and paragraphs in this Agreement and references to the parties shall mean the parties to this Agreement.

ARTICLE II INSURANCE MATTERS

Section 2.01 VMware Insurance Coverage During Transition Period.

(a) As of the Offering Date, EMC maintains insurance coverage under the Insurance Policies listed in Part (a) of Schedule I that cover and are for the benefit of, among others, the VMware Entities and their respective directors, officers and employees (collectively, the “VMware Covered Parties”). Throughout the period beginning on the Offering Date and ending upon the termination or expiration of this Agreement in accordance with its terms (the “Insurance Transition Period”), EMC shall continue to maintain Insurance Policies covering and for the benefit of the VMware Covered Parties which are comparable to those maintained

generally by EMC covering the VMware Covered Parties as of the Offering Date (each individually an “EMC Insurance Policy”; collectively, the “EMC Insurance Policies”).

(b) Except to the extent that EMC allocates a portion of its insurance costs to the VMware Entities, VMware shall promptly pay or reimburse EMC, as the case may be, for the VMware Covered Parties’ pro rata portion of the premium expenses, deductibles or retention amounts, and any other costs and expenses which EMC may incur in connection with the Insurance Policies covering and for the benefit of the VMware Covered Parties maintained by EMC pursuant to this Section 2.01, including but not limited to any subsequent premium adjustments. The VMware Covered Parties’ pro rata share of such costs and expenses shall be calculated as set forth in Part (b) of Schedule I. EMC shall provide to VMware no less than 180 days advance written notice of any premium increase or other material change to any EMC Insurance Policies. Upon any such notice, VMware shall have the right to decline to pay for coverage for any such EMC Insurance Policy and to decline to have any such costs allocated to the VMware Entities. Upon VMware notice of its exercise of such right, the parties shall promptly modify Schedule I and any other agreements accordingly to remove such obligation to pay or to bear such allocation.

Section 2.02 Cooperation; Payment of Insurance Proceeds to VMware; Agreement Not to Release Carriers . Subject to the provisions of Section 3.5 of the Master Transaction Agreement, each Party shall share such information as is reasonably necessary in order to permit the other Party to manage and conduct its insurance matters in an orderly fashion. EMC, at the request of VMware, shall cooperate with and use its reasonable best efforts to assist VMware in recovering Insurance Proceeds under the EMC Insurance Policies for claims relating to the VMware Business, the assets of VMware or VMware Liabilities, whether such claims arise under any Contract or agreement, by operation of law or otherwise, existing or arising from any past acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed before the Offering Date, on the Offering Date or during the Insurance Transition Period, and EMC shall promptly pay any such recovered Insurance Proceeds to VMware. Neither EMC nor VMware, nor any of their respective Subsidiaries, shall take any action which would intentionally jeopardize or otherwise interfere with the other Party’s ability to collect any proceeds payable pursuant to any Insurance Policy. Except as otherwise contemplated by this Agreement or any other agreement between the Parties, with effect from the Offering Date neither EMC nor VMware (and each Party shall ensure that no affiliate of such Party), without the consent of the other Party (such consent not to be unreasonably withheld), shall provide any insurance carrier with a release, or amend, modify or waive any rights under any such policy or agreement, if such release, amendment, modification or waiver would adversely affect any rights or potential rights of the other Party (or its Subsidiary) thereunder. However, nothing in this Section 2.02 shall (A) preclude any EMC Entity or any VMware Entity from presenting any claim or from exhausting any policy limit or (B) require any EMC Entity or any VMware Entity to pay any premium or other amount or to incur any Liability.

Section 2.03 VMware Insurance Coverage After the Insurance Transition Period . After the expiration of the Insurance Transition Period, VMware shall be responsible for obtaining and maintaining Insurance Policies in respect of the VMware Entities' risk of loss and such insurance arrangements shall be separate and apart from EMC's Insurance Policies; *provided that* nothing herein shall be deemed to be a relinquishment of any rights of a VMware Covered Party under any EMC Insurance Policies written on an occurrence basis arising prior to the termination of the Insurance Transition Period.

Section 2.04 Deductibles and Self-Insured Obligations . VMware shall reimburse EMC for all amounts necessary to exhaust or otherwise to satisfy all applicable self-insured retentions, amounts for fronted policies, deductibles and retrospective premium adjustments and similar amounts not covered by EMC Insurance Policies in connection with Insured VMware Liabilities to the extent that EMC is required to pay any such amounts.

Section 2.05 Procedures with Respect to Insured VMware Liabilities .

(a) VMware shall reimburse EMC for all amounts reasonably incurred by EMC in pursuing insurance recoveries from EMC Insurance Policies in respect of Insured VMware Liabilities covered by such policies.

(b) The defense of claims, suits or actions giving rise to potential or actual Insured VMware Liabilities shall be managed (in conjunction with EMC's insurers, as appropriate) by the Party that would have had responsibility for managing such claims, suits or actions had such Insured VMware Liabilities been VMware Liabilities.

Section 2.06 Cooperation . EMC and VMware shall cooperate with each other in all respects, and shall execute any additional documents which are reasonably necessary, to effectuate the provisions of this Article II.

Section 2.07 No Assignment or Waiver . This Agreement shall not be considered as an attempted assignment of any policy of insurance or as a contract of insurance and shall not be construed to waive any right or remedy of any EMC Entity in respect of any Insurance Policy or any other contract or policy of insurance.

Section 2.08 No Liability . VMware does hereby, for itself and as agent for each other VMware Entity, agree that no EMC Entity or their respective directors, officers, agents, and employees (each, an "EMC Indemnified Person") shall have any Liability whatsoever as a result of the insurance policies and practices of EMC and its Subsidiaries as in effect at any time prior to the end of the Insurance Transition Period, including as a result of the level or scope of any such insurance, the creditworthiness of any insurance carrier, the terms and conditions of any policy, or the adequacy or timeliness of any notice to any insurance carrier with respect to any claim or potential claim or otherwise, except for Liabilities resulting from any EMC Entity's or EMC Indemnified Person's breach, gross negligence, bad faith or willful misconduct.

Section 2.09 Additional or Alternate Insurance. Notwithstanding any other provision of this Agreement, during the Insurance Transition Period, EMC and VMware shall work together to evaluate insurance options and secure additional or alternate insurance for VMware and/or EMC if desired by and cost effective for VMware and EMC, as determined by the mutual consent of the Parties. Nothing in this Agreement shall be deemed to restrict any VMware Entity from acquiring at its own expense any other Insurance Policy in respect of any Liabilities or covering any period.

Section 2.10 Further Agreements. The Parties acknowledge that they intend to allocate financial obligations without violating any laws regarding insurance, self-insurance or other financial responsibility. If it is determined that any action undertaken pursuant to this Agreement or any related agreement is violative of any insurance, self-insurance or related financial responsibility law or regulation, the Parties agree to work together to do whatever is necessary to comply with such law or regulation while trying to accomplish, as much as possible, the allocation of financial obligations as intended in this Agreement or any such related agreement.

ARTICLE III INDEMNIFICATION

Section 3.01 EMC agrees to indemnify and hold harmless each VMware director, officer, agent and employee from and against any damages related to, and to reimburse each such individual for all reasonable expenses as they are incurred in connection with investigating, preparing, or defending, any Action arising out of or related to the breach, gross negligence, bad faith or willful misconduct of any EMC Indemnified Person in connection with this Agreement.

ARTICLE IV TERM AND TERMINATION

Section 4.01 Term. Except as otherwise provided in this Article IV or as otherwise agreed in writing by the Parties, (a) this Agreement shall have an initial term from [, 2007] through December, 31, 2007 (the "Initial Term"), and will be renewed automatically thereafter for successive six month terms unless either Party elects not to renew this Agreement by notice in writing to the other Party not less than one hundred and eighty (180) days prior to the end of any term, and (b) EMC's obligation to provide coverage to the VMware Entities under the EMC Insurance Policies, and VMware's obligation to pay or reimburse EMC, as the case may be, for premium expenses, deductibles or retention amounts, and any other costs and expenses which EMC may incur in connection with the insurance coverage shall cease as of the applicable date determined in accordance with this Article IV.

Section 4.02 Termination . Either Party may terminate this Agreement at any time if the other Party shall have failed to perform any of its material obligations under this Agreement, such Party shall have notified the other Party in writing of such failure, and such failure shall have continued for a period of at least thirty (30) days after receipt by the other Party of written notice of such failure, effective as of such 30th day.

Section 4.03 Effect of Termination . Other than as required by law, upon the effective date of the termination of this Agreement pursuant to Section 4.02, or upon termination of this Agreement in accordance with its terms, EMC shall have no further obligation to provide coverage under the EMC Insurance Policies in respect of the VMware Covered Parties and VMware shall have no obligation to pay for any premium expenses, deductibles or retention amounts, and any other costs and expenses which EMC may incur in connection with such Insurance Policies or to make any other payments hereunder; *provided that*, notwithstanding such termination, (i) except to the extent that EMC allocates a portion of its insurance costs to the VMware Entities, VMware shall remain liable to EMC for the VMware Covered Parties' pro rata portion of those premium expenses, deductibles or retention amounts owed, and any other costs and expenses which EMC has incurred in connection with EMC Insurance Policies that cover and are for the benefit of the VMware Covered Parties arising prior to the effective date of such termination; and (ii)] the provisions of Section 2.08, Article III, this Article IV and Article V shall survive any such termination indefinitely.

ARTICLE V MISCELLANEOUS

Section 5.01 Other Agreements . In the event there is any inconsistency between the provisions of this Agreement and the respective provisions of the Master Transaction Agreement, the provisions of this Agreement shall govern.

Section 5.02 No Agency . Nothing in this Agreement shall constitute or be deemed to constitute a partnership or joint venture between the Parties hereto or constitute or be deemed to constitute any Party the agent or employee of the other Party for any purpose whatsoever, and neither Party shall have authority or power to bind the other Party or to contract in the name of, or create a liability against, the other Party in any way or for any purpose.

Section 5.03 Force Majeure .

(a) For purposes of this Section 5.03, "Force Majeure" means an event beyond the control of either Party, which by its nature could not have been foreseen by such Party, or, if it could have been foreseen, was unavoidable, and includes without limitation, acts of God, storms, floods, riots, fires, sabotage, civil commotion or civil unrest, interference by civil or military authorities, acts of war (declared or undeclared) and failure of energy sources.

(b) Continued provision of insurance coverage for the benefit of the VMware Covered Parties pursuant to the EMC Insurance Policies may be suspended immediately to the extent caused by Force Majeure. The Party claiming suspension of such insurance coverage due to Force Majeure will give prompt notice to the other of the occurrence of the event giving rise to the suspension and of its nature and anticipated duration. The Parties shall cooperate with each other to find alternative means and methods for the provision of the suspended insurance coverage.

(c) Without limiting the generality of Section 2.08, neither Party shall be under any liability for failure to fulfill any obligation under this Agreement, so long as and to the extent to which the fulfillment of such obligation is prevented, frustrated, hindered, or delayed as a consequence of circumstances of Force Majeure.

Section 5.04 Entire Agreement. This Agreement (including the schedules constituting a part of this Agreement) and any other writing signed by the Parties that specifically references or is specifically related to this Agreement constitute the entire agreement among the Parties with respect to the subject matter hereof and supersede all prior agreements, understandings and negotiations, both written and oral, between the Parties with respect to the subject matter hereof. This Agreement is not intended to confer upon any Person other than the Parties hereto any rights or remedies hereunder.

Section 5.05 Information. Subject to applicable law and privileges, each Party hereto covenants with and agrees to provide to the other Party all information regarding itself and transactions under this Agreement that the other Party reasonably believes is required to comply with all applicable federal, state, county and local laws, ordinances, regulations and codes, including, but not limited to, securities laws and regulations.

Section 5.06 Notices. Any notice, instruction, direction or demand under the terms of this Agreement required to be in writing shall be duly given upon delivery, if delivered by hand, facsimile transmission, or mail (with postage prepaid), to the following addresses:

(a) If to EMC, to:

Office of the General Counsel
176 South Street
Hopkinton, MA 01748
Fax: (508) 497-6915

(b) If to VMware, to:

Legal Department
VMware, Inc.
3401 Hillview Avenue
Palo Alto, CA 94304
Fax: (650) 475-5101

or to such other addresses or telecopy numbers as may be specified by like notice to the other Party.

Section 5.07 Governing Law. This Agreement, including the validity hereof and the rights and obligations of the Parties hereunder, shall be construed in accordance with and shall be governed by the laws of The Commonwealth of Massachusetts applicable to contracts made and to be performed entirely in such Commonwealth (without giving effect to the conflicts of laws provisions thereof).

Section 5.08 Severability. If any terms or other provision of this Agreement or the Schedules or exhibits hereto shall be determined by a court, administrative agency or arbitrator to be invalid, illegal or unenforceable, such invalidity or unenforceability shall not render the entire Agreement invalid. Rather, this Agreement shall be construed as if not containing the particular invalid, illegal or unenforceable provision, and all other provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent permitted under applicable law.

Section 5.09 Amendment. This Agreement may only be amended by a written agreement executed by both Parties hereto.

Section 5.10 Counterparts. This Agreement may be executed in separate counterparts, each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same agreement.

Section 5.11 Authority. Each of the Parties represent to the other Party that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it have been duly authorized by all necessary corporate or other actions, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

[Signature Page Follows]

IN WITNESS WHEREOF , the Parties have caused this Agreement to be signed by their duly authorized representatives.

EMC CORPORATION

By: _____
Name:
Title:

VMWARE, INC.

By: _____
Name:
Title:

VMWARE, INC.
2007 EQUITY AND INCENTIVE PLAN

FORM OF
OPTION AGREEMENT

THIS OPTION AGREEMENT (this “Agreement”) dated as of [] (“Grant Date”), is between VMware, Inc., a Delaware corporation (the “Company”), and [] (the “Participant”), relating to options granted under the VMware, Inc. 2007 Equity and Incentive Plan (the “Plan”). Capitalized terms used in this Agreement without definition shall have the meaning ascribed to such terms in the Plan.

1. Grant of Equity Option, Equity Option Price and Term.

- (a) The Company grants to the Participant an option (the “Option”) to purchase [] shares of Stock, at a price of \$ [] per share, subject to the provisions of the Plan and the terms and conditions herein. The Option is not an incentive stock option within the meaning of Section 422 of the Code.
- (b) The term of this Option shall be a maximum period of six (6) years from the Grant Date (the “Option Period”). During the Option Period, the Option shall be exercisable as of the date set forth below according to the percentage set forth opposite such date, subject to the Participant’s continued employment with the Company, a Subsidiary or the Parent:

<u>Date</u>	<u>Cumulative Percentage Exercisable</u>

- (c) Notwithstanding the foregoing, unless otherwise determined by the Committee in its sole discretion, in the event the Participant incurs a termination of employment for any reason whatsoever such that the Participant is no longer employed by any of the Company, the Subsidiaries or the Parent, then the Option, to the extent not otherwise exercisable shall terminate and to the extent exercisable at the time of such termination, may be exercised for the lesser of ninety (90) days from the date of such termination of employment or the remainder of the Option Period, unless such termination is (i) for Cause, in which case the Option will terminate immediately or (ii) due to the Participant’s death or disability (as defined under the applicable long-term disability plan of the Company or a Subsidiary, or, if there is no such plan, as determined by the Committee), in which case the Option shall become 100% exercisable and may be exercised for three (3) years from the date of such termination of employment or if earlier, the remainder of the Option Period. The occurrence of any of the following, as reasonably determined by the Company in good faith, shall constitute “Cause,” provided that the Participant has been given notice by the

Company of the existence of Cause and, if the existence of Cause is curable, a reasonable opportunity to cure the existence of such Cause:

- (i) willful neglect, failure or refusal by the Participant to perform his or her employment duties (except resulting from the Participant's incapacity due to illness) as reasonably directed by his or her employer;
 - (ii) willful misconduct by the Participant in the performance of his or her employment duties;
 - (iii) the Participant's indictment for a felony (other than traffic related offense) or a misdemeanor involving moral turpitude; or
 - (iv) the Participant's commission of an act involving personal dishonesty that results in financial, reputational, or other harm to the Company and its affiliates and subsidiaries, including, but not limited to, an act constituting misappropriation or embezzlement of property.
- (d) Unless otherwise determined by the Committee, the Option granted hereunder is not transferable by the Participant except by will or the laws of descent and distribution.
- (e) The Company shall not be required to issue any fractional shares of Stock pursuant to this Option.

2. Exercise.

- (a) Unless otherwise determined by the Committee, the Option shall be exercisable during the Participant's lifetime only by the Participant (or his or her legal representative), and after the Participant's death only by the Participant's legal representative. The Option may only be exercised by the delivery to the Company of a properly completed written notice, in form specified by the Committee or its designee, which notice shall specify the number of shares of Stock to be purchased and the aggregate exercise price for such shares, together with payment in full of such aggregate exercise price. Payment shall be made in the manner permitted in Section 6(b)(i)(B) of the Plan or as authorized by the Committee pursuant to such section. The Option may not be exercised unless the Participant agrees to be bound by such documents as the Committee may reasonably require, including, if the Option is exercised prior to an IPO (as defined below), a stockholder's agreement. The Committee may deny any exercise permitted hereunder if the Committee determines, in its discretion, that such exercise could result in a violation of federal or state securities laws.
- (b) Upon the expiration of the Option Period, if the Option has not yet been exercised and if the Fair Market Value of a share of Stock on the expiration date of the Option Period is greater than the exercise price per share of the Option, then the Company shall effectuate an exercise of the Option whereby the Option is simultaneously exercised and shares of Stock thereby acquired are sold, pursuant to a brokerage or similar arrangement, to use some of the proceeds

from such sale as payment of the exercise price and applicable withholding taxes. Remaining shares of Stock upon such exercise shall then be issued to the Participant (or his or her legal representative).

3. Payment of Withholding Taxes. If the Company or any other Subsidiary is obligated to withhold an amount on account of any tax imposed as a result of the exercise of the Option, the Participant shall be required to pay such amount to the Company prior to delivery of shares of Stock.

4. Plan. The Option is granted pursuant to the Plan, and the Option and this Agreement are in all respects governed by the Plan (the terms of which are incorporated herein by reference) and subject to all of the terms and provisions thereof, except as otherwise set forth herein. The Participant shall be entitled to receive financial statements of the Company if and to the extent required in order to comply with applicable law.

5. Employment Rights. No provision of this Agreement or of the Option granted hereunder shall give the Participant any right to continue in the employ of the Company, a Subsidiary or the Parent, create any inference as to the length of employment of the Participant, affect the right of an employer to terminate the employment of the Participant, with or without Cause, or give the Participant any right to participate in any employee welfare or benefit plan or other program (other than the Plan).

6. Governing Law. This Agreement and the Option granted hereunder shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware (other than its laws respecting choice of law).

7. Waiver; Cumulative Rights. The failure or delay of either party to require performance by the other party of any provision hereof shall not affect its right to require performance of such provision unless and until such performance has been waived in writing. Each and every right hereunder is cumulative and may be exercised in part or in whole from time to time.

8. Notices. Any notice which either party hereto may be required or permitted to give the other shall be in writing and may be delivered personally or by mail, postage prepaid, addressed to the Company, at the address provided below, and the Participant at his address as shown on the Company's payroll records, or to such other address as the Participant, by notice to the Company, may designate in writing from time to time.

To the Company:

9. Complete Agreement. This Agreement, those documents expressly referred to herein, and the Plan embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

IN WITNESS WHEREOF , the Company has caused this Agreement to be duly executed by an officer thereunto duly authorized, and the Participant has hereunto set his hand, all as of the day and year first above written.

On Behalf of the Company:

Participant:

VMWARE, INC.
2007 EQUITY AND INCENTIVE PLAN
FORM OF
RESTRICTED STOCK UNIT AGREEMENT

I. NOTICE OF GRANT

Unless otherwise defined herein, the terms defined in the VMware, Inc. 2007 Equity and Incentive Plan (the “Plan”) will have the same defined meanings in this notice of grant (“Notice of Grant”) and Restricted Stock Unit agreement (“Agreement”).

Name: (“Participant”)

Address:

The Participant has been granted an Award of Restricted Stock Units (“RSUs”). Each RSU represents the right to receive one Share, subject to the terms and conditions of this Notice of Grant, the Plan and this Agreement, as follows:

Grant Number: _____

Date of Grant: _____

Vesting Commencement Date: _____

Number of RSUs: _____

Vesting Schedule:

[ADD SCHEDULE], subject to the Participant’s continuing employment with the Company, a Subsidiary or the Parent through each vesting date.

II. AGREEMENT

1. Grant of the RSUs. The Company has granted the Participant the number of RSUs set forth in the Notice of Grant. However, unless and until the RSUs will have vested, the Participant will have no right to the payment or receipt of any Stock subject thereto. Prior to actual payment or receipt of any Stock, the RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

2. Vesting of RSUs. Subject to Section 4, the Participant will vest in the RSUs in accordance with the vesting schedule set forth in the Notice of Grant; *provided, that*, in the event the Participant incurs a termination of employment for any reason other than due to the Participant's death or "disability" (as defined under the applicable long-term disability plan of the Company or any Subsidiary, or, if there is no such plan, as determined by the Board or the Committee (each, the "Administrator")), such that the Participant is no longer employed by the Company, any Subsidiary or the Parent, the Participant's right to vest in the RSUs and to receive the Stock related thereto will terminate effective as of the date that Participant ceases to be so employed and thereafter, the Participant will have no further rights to such unvested RSUs or the related Stock. In such case, any unvested RSUs held by the Participant immediately following such termination of employment shall be deemed reconveyed to the Company and the Company shall thereafter be the legal and beneficial owner of the unvested RSUs and shall have all the rights and interest in or related thereto without further action by the Participant. In the event that the Participant's employment is terminated by reason of death or disability, then any unvested portion of the RSUs shall automatically accelerate and the Participant shall become fully vested in the RSUs upon termination of employment by reason of death or disability. In all cases, the date of termination of employment shall be determined in the sole discretion of the Administrator.

3. Issuance of Stock. No Stock shall be issued to the Participant prior to the date on which the RSUs vest. After any RSUs vest and subject to the terms of this Agreement, including without limitation Section 6 hereof, the Company shall cause to be issued (either in book-entry form or otherwise) to the Participant or the Participant's beneficiaries, as the case may be, that number of shares of Stock corresponding to the number of such vested RSUs as soon as administratively practicable following vesting, but in no event shall the issuance of such shares be made subsequent to March 15th of the year following the year in which the shares vested. No fractional shares of Stock shall be issued under this Agreement. Notwithstanding any provision in the Plan to the contrary, the RSUs shall be settled only in shares of Stock.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the RSUs at any time, subject to the terms of the Plan. If so accelerated, such RSUs will be considered as having vested as of the date specified by the Administrator.

5. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement will, if the Participant is then deceased, be made to the administrator or executor of the Participant's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

6. Taxes.

(a) Generally. The Participant is ultimately liable and responsible for all taxes owed in connection with the RSU, regardless of any action the Company or any of its Subsidiaries takes with respect to any tax withholding obligations that arise in connection with the RSU. Neither the Company, the Parent nor any of Subsidiaries makes any representation or undertaking regarding the treatment of any tax withholding in connection with the grant or vesting of the RSU or the subsequent sale of Stock issuable pursuant to the RSU. The Company, the Parent and the Subsidiaries do not commit and are under no obligation to structure the RSU to reduce or eliminate the Participant's tax liability.

(b) Payment of Withholding Taxes. Notwithstanding any contrary provision of this Agreement, no Stock will be issued to the Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by the Participant with respect to the payment of any taxes which the Company determines must be withheld with respect to the RSUs. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may satisfy such tax withholding obligations, in whole or in part, by withholding otherwise deliverable Stock having an aggregate Fair Market Value sufficient to (but not exceeding) the minimum amount required to be withheld and/or by the sale of shares of Stock to generate sufficient cash proceeds to satisfy any such tax withholding obligation. The Participant hereby authorizes the Administrator to take any steps as may be necessary to effect any such sale and agrees to pay any costs associated therewith, including without limitation any applicable broker's fees. In addition, and to the maximum extent permitted by law, the Company may exercise the right to retain, without notice, from salary or other amounts payable to the Participant, cash having a value sufficient to satisfy any tax withholding obligations that cannot be satisfied by the withholding and/or sale of otherwise deliverable shares of Stock.

7. Changes in Stock. In the event that any extraordinary dividend or other extraordinary distribution (whether in the form of cash, Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of Stock or other securities of the Company, or other similar corporate transaction or event affecting the Stock occurs such that an adjustment or change is determined by the Administrator (in its sole discretion) to be necessary or appropriate, the Administrator shall proportionately adjust this Award in accordance with the terms of the Plan, including adjustments in the number and kind of shares of Stock or other property the Participant would have received upon vesting of the RSUs; *provided, however*, that the number of shares of Stock into which the RSUs may be converted shall always be a whole number.

8. Rights as Stockholder. Neither the Participant nor any person claiming under or through the Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Stock deliverable hereunder unless and until certificates representing such Stock (which may be in book entry form) will have been issued and recorded on the records of the Company or its transfer agents or registrars, and delivered to the Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the Participant will have all the rights of a stockholder of the Company with respect to voting such Stock and receipt of dividends and distributions on such Stock.

9. No Effect on Employment. The transactions contemplated hereunder and the vesting schedule set forth in the Notice of Grant do not: (i) constitute an express or implied promise of continued employment for any period of time, (ii) interfere with right of the Company, the Parent or any Subsidiary right to terminate the Participant's employment at any time in accordance with applicable law, or (iii) entitle the Participant to pay additional rights under the Plan or under any other welfare or benefit plan of the Company, the Parent or any Subsidiary.

10. Black Out Periods. The Participant acknowledges that, to the extent the vesting of any RSUs occurs during a "blackout" period wherein certain employees, including the Participant, are precluded from selling Stock, the Administrator retains the right, in its sole discretion, to defer the delivery of the Stock pursuant to the RSU; *provided, however*, that the Administrator shall not exercise its right to defer the Participant's receipt of such Stock if such shares of Stock are specifically covered by a Rule 10b5-1 trading plan of the Participant which causes such shares to be exempt from any applicable blackout period then in effect. In the event the receipt of any shares of Stock is deferred hereunder due to the existence of a regularly scheduled blackout period, such shares shall be issued to the Participant on the first day following the termination of such regularly scheduled blackout period; provided, however, that in no event shall the issuance of such shares be deferred subsequent to March 15th of the year following the year in which the shares otherwise would have been issued. In the event the receipt of any shares of Stock is deferred hereunder due to the existence of a special blackout period, such shares shall be issued to the Participant on the first day following the termination of such special blackout period as determined by the Company's General Counsel or his or her delegatee; *provided, however*, that in no event shall the issuance of such shares be deferred subsequent to March 15th of the year following the year in which such shares otherwise would have been issued. Notwithstanding the foregoing, any deferred shares of Stock shall be issued promptly to the Participant prior to the termination of the blackout period in the event the Participant ceases to be subject to the blackout period. The Participant hereby represents that he or she accepts the effect of any such deferral under relevant federal, state and local tax laws or otherwise.

11. Award is Not Transferable. Except to the limited extent provided in Section 5 above, this Award of RSUs and the rights and privileges conferred hereby will not be

transferred, assigned, pledged or hypothecated in any way by the Participant (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Participant has been issued the Stock. Upon any attempt by the Participant to transfer, assign, pledge, hypothecate or otherwise dispose of this Award, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this Award and the rights and privileges conferred hereby immediately will become null and void. The terms of this Agreement shall be binding upon the Participant's executors, administrators, heirs, successors and any permitted transferees.

12. Entire Agreement. This Agreement, subject to the terms and conditions of the Plan and the Notice of Grant, represents the entire agreement between the parties with respect to the RSUs.

13. Binding Agreement. Subject to the limitation on the transferability of this Award contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

14. Additional Conditions to Issuance of Certificates for Stock. The Company shall not be required to issue any certificate or certificates for Stock hereunder prior to fulfillment of all the following conditions: (a) the admission of such Stock to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Stock under any state, federal or foreign law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator shall, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any state, federal or foreign governmental agency, which the Administrator shall, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of vesting of the RSUs as the Administrator may establish from time to time for reasons of administrative convenience.

15. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

16. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Participant, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

17. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

18. Definitions. In the event that the term “Cause” is not defined in an employment agreement entered into by the Participant, the occurrence of any of the following, as reasonably determined by the Company or the Administrator in good faith, shall constitute “Cause,” provided that the Participant has been given notice by the Company of the existence of Cause and, if the existence of Cause is curable, a reasonable opportunity to cure the existence of such Cause:

(i) willful neglect, failure or refusal by the Participant to perform his or her employment duties (except resulting from the Participant’s incapacity due to illness) as reasonably directed by his or her employer;

(ii) willful misconduct by the Participant in the performance of his or her employment duties;

(iii) the Participant’s indictment for a felony (other than traffic related offense) or a misdemeanor involving moral turpitude; or

(iv) the Participant’s commission of an act involving personal dishonesty that results in financial, reputational, or other harm to the Company and its affiliates and subsidiaries, including, but not limited to, an act constituting misappropriation or embezzlement of property.

19. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

20. Notice of Governing Law. This Agreement will be governed by the internal substantive laws, but not the choice of law rules of the State of Delaware.

21. Waiver; Cumulative Rights. The failure or delay of either party to require performance by the other party of any provision hereof shall not affect its right to require performance of such provision unless and until such performance has been waived in writing. Each and every right hereunder is cumulative and may be exercised in part or in whole from time to time.

22. Notices. Any notice which either party hereto may be required or permitted to give the other shall be in writing and may be delivered personally or by mail, postage prepaid, addressed to the Company, at the address provided below, and the Participant at his or her address as shown on the Company’s, Parent’s or any Subsidiary’s payroll records, or to such other address as the Participant, by notice to the Company, may designate in writing from time to time.

To the Company:

By the Participant’s signature and the signature of the Company’s representative below, the Participant and the Company agree that this Award of Restricted Stock Units is granted under and governed by the terms and conditions of the Plan and the Agreement. The Participant acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, which are incorporated herein by reference.

PARTICIPANT

VMWARE, INC.

Signature

By

Print Name

Title

Date: _____, 2007

Date: _____, 2007

VMWARE, INC.
2007 EMPLOYEE STOCK PURCHASE PLAN

Section 1. Purpose of Plan

The VMware, Inc. 2007 Employee Stock Purchase Plan (the “Plan”) is intended to provide a method by which eligible employees of VMware, Inc. (“VMware”) and its subsidiaries (collectively, the “Company”) may use voluntary, systematic payroll deductions to purchase VMware’s class A common stock, \$.01 par value, (“stock”) and thereby acquire an interest in the future of VMware. For purposes of the Plan, a subsidiary is any corporation in which VMware owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock unless the Board of Directors of VMware (the “Board of Directors”) determines that employees of a particular subsidiary shall not be eligible.

Section 2. Options to Purchase Stock

Under the Plan, no more than 6,400,000 shares of stock are available for purchase (subject to adjustment as provided in Section 16) pursuant to the exercise of options (“options”) granted under the Plan to employees of the Company (“employees”). The stock to be delivered upon exercise of options under the Plan may be either shares of the Company’s authorized but unissued stock, or shares of reacquired stock, as the Board of Directors shall determine.

Section 3. Eligible Employees

Except as otherwise provided in Section 20, each employee who has completed three months or more of continuous service in the employ of the Company shall be eligible to participate in the Plan . Notwithstanding any other provision herein, individuals who are not contemporaneously classified as employees of VMware or an eligible subsidiary for purposes of VMware’s or the applicable eligible subsidiary’s payroll system are not considered to be eligible employees and shall not be eligible to participate in the Plan. In the event any such individuals are reclassified as employees of VMware or an eligible subsidiary for any purpose, including, without limitation, common law or statutory employees, by any action of any third party, including, without limitation, any government agency, or as a result of any private lawsuit, action or administrative proceeding, such individuals shall, notwithstanding such reclassification, remain ineligible for participation. Notwithstanding the foregoing, the exclusive means for individuals who are not contemporaneously classified as employees of VMware or an eligible subsidiary on the applicable payroll system to become eligible to participate in this Plan is through an amendment to this Plan, duly executed by VMware, which specifically renders such individuals eligible to participate herein.

Section 4. Method of Participation

Generally

The periods January 1 to June 30 and July 1 to December 31 of each year shall be option periods. Each person who will be an eligible employee on the first day of any option period may elect to participate in the Plan by executing and delivering, at least one business day prior to such day, a payroll deduction authorization in accordance with Section 5. Such employee shall thereby become a participant ("participant") on the first day of such option period and shall remain a participant until his or her participation is terminated as provided in the Plan.

First Option Period

The first option period under the Plan will commence on the day on which VMware's Form S-1 Registration Statement is declared effective by the Securities and Exchange Commission and will end on December 31, 2007. Any individual who is an eligible employee immediately prior to the first option period shall be automatically enrolled in the first option period at an amount equal to 2% of his or her compensation. A participant in the first option period shall make payment for the purchase of shares by (A) making a lump sum cash payment to the Company via check on or prior to December 31, 2007 for the amount of the purchase price for the shares being purchased (after which date an participant wishing to continue participation in the Plan must participate on a payroll deduction basis unless the participant withdraws from the Plan under Section 10), or (B) electing, after the effective date of the Form S-8 for the issuance of stock under the Plan, to have amounts directly withheld from the participant's compensation pursuant to Section 5 (which percentage need not equal the amount specified above).

To the extent that a participant purchases shares in respect of the first option period by delivering a check to the Company, such delivery and purchase shall operate, unless the participant withdraws from the Plan pursuant to Section 10, as an election by the participant to continue participating in the Plan on the payroll deduction basis described in Section 5 and the Company shall withhold from the participant's compensation beginning with the next option period at a contribution rate equal to the ratio that the aggregate purchase price paid for shares purchased bears to the participant's total compensation during the first option period (which rate shall not exceed the percentage specified in Section 5).

Section 5. Payroll Deductions

The payroll deduction authorization shall request withholding, at a rate of not less than 2% nor more than 15% from the participant's compensation (subject to a maximum of \$7,500 per option period), by means of substantially equal payroll deductions over the option period; provided, however, that in the event any amount remaining in a participant's withholding account at the end of an option period (which would be equal to

a fractional share) is rolled over to the opening balance in a participant's withholding account for the next option period pursuant to Section 8 below (a "rollover"), such amount will be applied to the last payroll deduction for the next option period, thereby reducing the amount of that payroll deduction; further provided that the maximum of \$7,500 per option period shall be reduced by the amount of any rollover. For purposes of the Plan, "compensation" shall mean all cash compensation paid to the participant by the Company.

A participant may only elect to change the withholding rate of his or her payroll deduction authorization by written notice delivered to the Company at least one business day prior to the first day of the option period as to which the change is to be effective; provided, however, that the Company shall provide each participant with one opportunity to change the level of his or her withholding rate during the first option period after the commencement of such period as contemplated by Section 4. Following delivery to the Company of any payroll deduction authorization or any election to change the withholding rate of a payroll deduction authorization, appropriate payroll deductions or changes thereto shall commence as soon as reasonably practicable. All amounts withheld in accordance with a participant's payroll deduction authorization shall be credited to a withholding account for such participant.

Subject to the maximum \$7,500 per option period contribution, the Company shall permit each participant to contribute, by means of a one-time cash contribution, the amount of the payroll deductions that are returned to the participant from the EMC Corporation 1989 Employee Stock Purchase Plan as a result of the participant's participation in this Plan. Such contribution shall be credited to the participant's withholding account, but no contribution may be made unless the Form S-8 registration statement with respect to the issuance of stock under this Plan is effective.

Section 6. Grant of Options

Each person who is a participant on the first day of an option period shall as of such day be granted an option for such period. Such option shall be for the number of shares of stock to be determined by dividing (a) the balance in the participant's withholding account on the last day of the option period by (b) the purchase price per share of the stock determined under Section 7, and eliminating any fractional share from the quotient. In the event that the number of shares then available under the Plan is otherwise insufficient, the Company shall reduce on a substantially proportionate basis the number of shares of stock receivable by each participant upon exercise of his or her option for an option period and shall return the balance in a participant's withholding account to such participant.

Section 7. Purchase Price

The purchase price of stock issued pursuant to the exercise of an option shall be 85% of the fair market value of the stock at (a) the time of grant of the option or (b) the time at

which the option is deemed exercised, whichever is less. "Fair market value" shall mean the closing sales price per share of the stock on the principal securities exchange on which the stock is traded or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported; if the stock is not listed for trading on a national securities exchange, the fair market value of the stock shall be determined in good faith by the Board of Directors. For purposes of the first option period under the Plan, the fair market value of the stock at the time of the grant of the option will be the initial public offering price of the stock as set forth in VMware's Form S-1 Registration Statement.

Section 8. Exercise of Options

If an employee is a participant in the Plan on the last business day of an option period, he or she shall be deemed to have exercised the option granted to him or her for that period. Upon such exercise, the Company shall apply the balance of the participant's withholding account to the purchase of the number of whole shares of stock determined under Section 6, and as soon as practicable thereafter shall issue and deliver certificates for said shares to the participant. The balance, if any, of the participant's withholding account in excess of the total purchase price of the whole shares so issued shall be applied to the opening balance in his or her withholding account for the next option period. No fractional shares shall be issued hereunder.

Notwithstanding anything herein to the contrary, the Company shall not be obligated to deliver any shares unless and until, in the opinion of the Company's counsel, all requirements of applicable federal and state laws and regulations (including any requirements as to legends) have been complied with, nor, if the outstanding stock is at the time listed on any securities exchange, unless and until the shares to be delivered have been listed (or authorized to be added to the list upon official notice of issuance) upon such exchange, nor unless or until all other legal matters in connection with the issuance and delivery of shares have been approved by the Company's counsel.

Section 9. Interest

No interest will be payable on withholding accounts.

Section 10. Cancellation and Withdrawal

On or prior to June 15 or December 15, as the case may be with respect to any applicable option period, a participant who holds an option under the Plan may cancel all (but not less than all) of his or her option by written notice delivered to the Company, in such form as the Company may prescribe. Any participant who delivers such written notice shall be deemed to have canceled his or her option, terminated his or her payroll deduction authorization with respect to the Plan and terminated his or her participation in the Plan, in each case, as of the date of such written notice. In the event that any June 15 or December 15, as the case may be with respect to the applicable option period, shall be

a Saturday, Sunday or day on which banks in the State of Delaware are required or permitted to close, a participant may cancel his or her option by written notice given on or prior to the last business day immediately preceding such date. Following delivery of any such notice, any balance in the participant's withholding account will be returned to such participant as soon as reasonably practicable. Any participant who has delivered such notice may elect to participate in the Plan in any future option period in accordance with the provisions of Section 4. With respect to the first option period, any participant who has not previously authorized payroll deductions shall be considered to have withdrawn from such period if he or she fails to make payment as contemplated by Section 4.

Section 11. Termination of Employment

Except as otherwise provided in Section 12, upon the termination of a participant's employment with the Company for any reason whatsoever, he or she shall cease to be a participant, and any option held by him or her under the Plan shall be deemed cancelled, the balance of his or her withholding account shall be returned to him or her, and he or she shall have no further rights under the Plan. For purposes of this Section 11, a participant's employment will not be considered terminated in the case of sick leave or other bona fide leave of absence approved for purposes of this Plan by the Company or a subsidiary or in the case of a transfer to the employment of a subsidiary or to the employment of the Company.

Section 12. Death or Retirement of Participant

In the event a participant holds any option hereunder at the time his or her employment with the Company is terminated (1) by his or her retirement with the consent of the Company, and such retirement is within three months of the time such option becomes exercisable, or (2) by his or her death, whenever occurring, then such participant (or his or her legal representative), may, by a writing delivered to the Company on or before the date such option is exercisable, elect either (a) to cancel any such option and receive in cash the balance in his or her withholding account, or (b) to have the balance in his or her withholding account applied as of the last day of the option period to the exercise of his or her option pursuant to Section 8, and have the balance, if any, in such account in excess of the total purchase price of the whole shares so issued returned in cash. In the event such participant (or his or her legal representative) does not file a written election as provided above, any outstanding option shall be treated as if an election had been filed pursuant to subparagraph 12(a) above.

Section 13. Participant's Rights Not Transferable, etc.

All participants granted options under the Plan shall have the same rights and privileges. Each participant's rights and privileges under any option granted under the Plan shall be exercisable during his or her lifetime only by him or her, and shall not be sold, pledged, assigned, or otherwise transferred in any manner whatsoever except by will

or the laws of descent and distribution. In the event any participant violates the terms of this Section, any options held by him or her may be terminated by the Company and, upon return to the participant of the balance of his or her withholding account, all his or her rights under the Plan shall terminate.

Section 14. Employment Rights

Neither the adoption of the Plan nor any of the provisions of the Plan shall confer upon any participant any right to continued employment with the Company or a subsidiary or affect in any way the right of the Company to terminate the employment of such participant at any time.

Section 15. Rights as a Shareholder

A participant shall have the rights of a shareholder only as to stock actually acquired by him or her under the Plan.

Section 16. Change in Capitalization

In the event of a stock dividend, stock split or combination of shares, recapitalization, merger in which the Company is the surviving corporation or other change in the Company's capital stock, the number and kind of shares of stock or securities of the Company to be subject to the Plan and to options then outstanding or to be granted hereunder, the maximum number of shares or securities which may be delivered under the Plan, the option price and other relevant provisions shall be appropriately adjusted by the Board of Directors, whose determination shall be binding on all persons. In the event of a consolidation or merger in which the Company is not the surviving corporation or in the event of the sale or transfer of substantially all the Company's assets (other than by the grant of a mortgage or security interest), all outstanding options shall thereupon terminate, provided that prior to the effective date of any such merger, consolidation or sale of assets, the Board of Directors shall either (a) return the balance in all withholding accounts and cancel all outstanding options, or (b) accelerate the exercise date provided for in Section 8, or (c) if there is a surviving or acquiring corporation, arrange to have that corporation or an affiliate of that corporation grant to the participants replacement options having equivalent terms and conditions as determined by the Board of Directors.

Section 17. Administration of Plan

The Plan will be administered by the Board of Directors. The Board of Directors will have authority, not inconsistent with the express provisions of the Plan, to take all action necessary or appropriate hereunder, to interpret its provisions, and to decide all questions and resolve all disputes which may arise in connection therewith. Such determinations of the Board of Directors shall be conclusive and shall bind all parties.

The Board may, in its discretion, delegate its powers with respect to the Plan to an Employee Benefit Plan Committee or any other committee (the “Committee”), in which event all references to the Board of Directors hereunder, including without limitation the references in Section 17, shall be deemed to refer to the Committee. A majority of the members of any such Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under the Plan may be made without notice or meeting of the Committee by a writing signed by all of the Committee members.

Section 18. Amendment and Termination of Plan

The Board of Directors may at any time or times amend the Plan or amend any outstanding option or options for the purpose of satisfying the requirements of any changes in applicable laws or regulations or for any other purpose which may at the time be permitted by law, provided that (except to the extent explicitly required or permitted herein) no such amendment will, without the approval of the shareholders of the Company, (a) increase the maximum number of shares available under the Plan, (b) reduce the option price of outstanding options or reduce the price at which options may be granted, (c) change the conditions for eligibility under the Plan, or (d) amend the provisions of this Section 18 of the Plan, and no such amendment will adversely affect the rights of any participant (without his or her consent) under any option theretofore granted.

The Plan may be terminated at any time by the Board of Directors, but no such termination shall adversely affect the rights and privileges of holders of the outstanding options.

Section 19. Approval of Shareholders

The Plan shall be subject to the approval of the shareholders of the Company, which approval shall be secured within twelve months after the date the Plan is adopted by the Board of Directors. Notwithstanding any other provisions of the Plan, no option shall be exercised prior to the date of such approval.

Section 20. Limitations

Notwithstanding any other provision of the Plan:

(a) An employee shall not be eligible to receive an option pursuant to the Plan if, immediately after the grant of such option to him or her, he or she would (in accordance with the provisions of Sections 423 and 424(d) of the Internal Revenue Code of 1986, as amended (the “Code”)) own or be deemed to own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation, as defined in Section 424 of the Code Internal Revenue Code of 1986, as amended (the “Code”).

(b) No employee shall be granted an option under this Plan that would permit his or her rights to purchase shares of stock under all employee stock purchase plans (as defined in Section 423 of the Code) of VMware or any subsidiary or parent corporation to accrue at a rate which exceeds \$25,000 in fair market value of such stock (determined at the time the option is granted) for each calendar year during which any such option granted to such employee is outstanding at any time, as provided in Section 423 of the Code.

(c) No employee shall be granted an option under this Plan that would permit him or her to withhold more than \$7,500 in each option period or \$15,000 per calendar year, less the amount of any rollover.

(d) No employee whose customary employment is 20 hours or less per week shall be eligible to participate in the Plan.

(e) No independent contractor shall be eligible to participate in the Plan.

Section 21. Jurisdiction and Governing Law.

The Company and each participant in the Plan submit to the exclusive jurisdiction and venue of the federal or state courts of Delaware to resolve issues that may arise out of or relate to the Plan or the same subject matter. The Plan shall be governed by the laws of Delaware, excluding its conflicts or choice of law rules or principles that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.

VMWARE

June 24, 1999

Thomas J. Jurewicz
962 Florence Lane
Menlo Park, CA 94025

Dear Tom:

I am pleased to offer you a position with VMware, Inc. (the "Company") as Vice President of Finance and Operations, commencing on August 1, or sooner, if possible. You will report to Diane Greene, President. Your monthly salary of \$11,250 will be paid semi-monthly in accordance with the Company's normal payroll procedures. As a Company employee, you are also eligible to receive health care and related benefits for all regular full-time employees.

We will recommend to the Board of Directors of the Company that, at the next Board meeting, you be granted an [incentive] stock option entitling you to purchase up to 175,000 shares of Common Stock of the Company at the then current fair market value as determined by the Board at that meeting. Such options shall be subject to the terms and conditions of the Company's Stock Option Plan and Stock Option Agreement, including vesting requirements.

You should be aware that your employment with the Company is for no specified period and constitutes at will employment. As a result, you are free to resign at any time, for any reason or for no reason. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice. In the highly unlikely event that your employment with the Company is terminated without cause, you will be given 3 months salary as severance.

You agree that, during the term of your employment with the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company.

As a VMware employee, you will be expected to abide by company rules and regulations. You will be expected to sign and comply with a Employment, Confidential Information, Invention Assignment Agreement which requires, among other provisions, the assignment of patent rights to any invention made during your employment at VMware and non-disclosure of proprietary information.

June 24, 1999

To indicate your acceptance of the Company's offer, please sign and date this letter in the space provided below and return it to me. A duplicate original is enclosed for your records. This letter may not be modified or amended except by a written agreement, signed by an officer of the Company and by you.

We are looking forward to having you join VMware.

Sincerely,

/s/ V.J. Richey

V.J. Richey
Human Resources
VMware, Inc.

ACCEPTED AND AGREED TO this
28th day of June, 1999

/s/ Thomas J. Jurewicz

[employee name]

Enclosures: Duplicate Original Letter

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Amended Registration Statement on Form S-1/A of our report dated April 17, 2007 relating to the financial statements and financial statement schedule of VMware, Inc. which appears in such Amended Registration Statement. We also consent to the reference to us under the heading “Experts” in such Amended Registration Statement.

San Jose, CA
June 10, 2007