

VMWARE, INC.
Form 10-Q
August 05, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

For transition period from to

Commission File Number 001-33622

VMWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

94-3292913
(I.R.S. Employer

Edgar Filing: VMWARE, INC. - Form 10-Q

incorporation or organization)

Identification Number)

3401 Hillview Avenue

Palo Alto, CA

(Address of principal executive offices)

(650) 427-5000

94304
(Zip Code)

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of July 30, 2010, the number of shares of common stock, par value \$.01 per share, of the registrant outstanding was 411,814,050, of which 111,814,050 shares were Class A common stock and 300,000,000 were Class B common stock.

Table of Contents

TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2010 and 2009</u>	3
<u>Consolidated Statements of Income for the Three and Six Months Ended June 30, 2010 and 2009</u>	4
<u>Consolidated Balance Sheets at June 30, 2010 and December 31, 2009</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	34
Item 4. <u>Controls and Procedures</u>	35
<u>PART II OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	36
Item 1A. <u>Risk Factors</u>	36
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
Item 3. <u>Defaults Upon Senior Securities</u>	56
Item 4. <u>Removed and Reserved</u>	56
Item 5. <u>Other Information</u>	56
Item 6. <u>Exhibits</u>	56
<u>SIGNATURES</u>	57
<u>EXHIBIT INDEX</u>	58
VMware, VMworld, VMware vSphere, VMware Fusion, VMmark, GSX Server, P2V, Multipleworlds, VMware vCloud, ESX, VMsafe, vMotion, Covalent, SpringSource, Hyperic and Hyperic HQ are registered trademarks or trademarks of VMware, Inc. in the United States and/or other jurisdictions. All other marks and names mentioned herein may be trademarks of their respective companies.	

Table of Contents**PART I****FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****VMware, Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Cash flows from operating activities:				
Net income	\$ 74,538	\$ 32,535	\$ 152,959	\$ 102,470
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	58,556	44,927	112,344	86,310
Stock-based compensation, excluding amounts capitalized	67,836	51,456	131,533	101,271
Excess tax benefits from stock-based compensation	(64,583)	(4,243)	(88,501)	(4,473)
Other	4,442	141	5,859	634
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(77,543)	6,530	107,688	80,691
Other assets	(23,406)	(9,313)	(24,251)	896
Due to/from EMC, net	(23,474)	5,973	2,302	(9,411)
Accounts payable	9,207	(8,925)	6,560	(28,382)
Accrued expenses	78,098	26,316	26,896	13,888
Income taxes receivable from EMC	2,508	87,899	2,508	87,899
Income taxes payable	16,759	733	31,124	21,110
Deferred income taxes, net	(126)	(7,755)	(4,347)	(14,599)
Deferred revenue	93,311	17,046	108,401	64,255
Net cash provided by operating activities	216,123	243,320	571,075	502,559
Cash flows from investing activities:				
Additions to property and equipment	(28,996)	(29,843)	(60,108)	(65,668)
Capitalized software development costs	(19,310)	(14,745)	(41,171)	(44,680)
Purchases of available-for-sale securities	(660,051)		(660,051)	
Purchase of strategic investments		(25,000)		(25,745)
Business acquisitions, net of cash acquired	(60,600)		(167,150)	
Transfer of net assets under common control	(175,000)		(175,000)	
Decrease in restricted cash	17,054	549	206	549
Net cash used in investing activities	(926,903)	(69,039)	(1,103,274)	(135,544)
Cash flows from financing activities:				
Proceeds from issuance of common stock	106,132	77,103	215,907	81,606

Edgar Filing: VMWARE, INC. - Form 10-Q

Repurchase of common stock	(113,152)		(144,500)	
Excess tax benefits from stock-based compensation	64,583	4,243	88,501	4,473
Shares repurchased for tax withholdings on vesting of restricted stock	(34,677)	(11,449)	(45,583)	(18,246)
Net cash provided by financing activities	22,886	69,897	114,325	67,833
Net increase (decrease) in cash and cash equivalents	(687,894)	244,178	(417,874)	434,848
Cash and cash equivalents at beginning of the period	2,756,481	2,031,482	2,486,461	1,840,812
Cash and cash equivalents at end of the period	\$ 2,068,587	\$ 2,275,660	\$ 2,068,587	\$ 2,275,660
Non-cash items:				
Changes in capital additions, accrued but not paid	\$ 3,902	\$ (6,520)	\$ 1,835	\$ (16,477)

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
License	\$ 323,665	\$ 227,962	\$ 635,842	\$ 484,965
Services	350,239	227,713	671,595	441,020
	673,904	455,675	1,307,437	925,985
Operating expenses (1):				
Cost of license revenues	40,269	27,853	80,390	48,212
Cost of services revenues	77,883	53,293	146,412	107,937
Research and development	161,756	121,380	299,868	226,781
Sales and marketing	231,662	167,421	448,491	321,565
General and administrative	61,153	47,729	128,909	96,588
Operating income	101,181	37,999	203,367	124,902
Investment income	995	2,496	1,680	5,558
Interest expense with EMC, net	(957)	(1,999)	(1,858)	(4,673)
Other income (expense), net	(4,275)	375	(8,606)	(1,449)
Income before income taxes	96,944	38,871	194,583	124,338
Income tax provision	22,406	6,336	41,624	21,868
Net income	\$ 74,538	\$ 32,535	\$ 152,959	\$ 102,470
Net income per weighted-average share, basic for Class A and Class B	\$ 0.18	\$ 0.08	\$ 0.38	\$ 0.26
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.18	\$ 0.08	\$ 0.37	\$ 0.26
Weighted-average shares, basic for Class A and Class B	407,931	391,841	405,089	390,855
Weighted-average shares, diluted for Class A and Class B	422,333	395,826	418,476	393,178

(1) Includes stock-based compensation as follows: