

# Technology Research: VMware

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## Keeps Gettin' Better – 1Q10 Preview

- 1Q10 results on Tuesday, April 20th after the market close**

We are modeling total revenue and EPS of \$595m and \$0.27, generally inline with consensus. In terms of license revenue, we are at \$280m (up 9% y/y), inline with consensus at \$278m and compares to guidance for license revenue to rise in the single digits y/y. Total revenue was guided to fall within a range of \$580-600m.

- Expect results at the high end of guidance**

Given the strength in server shipments in the December quarter (OEM revenue is recognized in arrears), as well as our checks that indicate VMware's business continued to gain momentum throughout the quarter, we expect the company to post license and total revenue results above the high end of its guidance range and for EPS to have upside of \$0.01 to \$0.02.

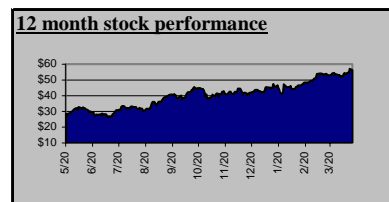
- Look for estimates to rise post earnings**

Given our expectations of upside to 1Q10 license forecasts coupled with what we view as a strong backlog entering the June quarter, we view consensus expectations of \$281m for 2Q10 (+1% q/q) as also conservative. In addition, the June quarter should benefit from the continued traction of server shipments in 1Q as well as from the vSphere Essentials promotion that runs from 3/18 through 6/15.

- Valuation: Maintain Buy rating, \$62 price target**

We believe it is possible that CY10 license growth expectations will move above 20% post the 1Q10 EPS call versus the current street forecast of 13%. While there is a risk that expectations could end up getting too aggressive prior to Tuesday night, we believe the 1-2 year growth opportunity is above current market forecasts and as such believe many would use weakness to buy the dips. As such, given our view that this remains one of the best growth trends in software, we remain positive on the shares and would continue to be long into the print. At \$56, VMware trades at 48x our FY10 EPS of \$1.17 and 19x our CY10E CFO/share of \$3.00.

<b>Ticker:</b>	<b>VMW</b>
<b>Price:</b>	<b>\$56.43</b>
<b>Price Target:</b>	<b>\$62.00</b>
<b>Rating:</b>	<b>Buy</b>
<b>Risk Rating:</b>	<b>Medium</b>
Market cap (\$m):	\$22,284
52-week high	\$58.39
52-week low	\$25.07
Shares outstanding (m):	403
Float (%):	67%
3m average volume (m):	2.0
<i>Source: ISI</i>	



<b>Short interest</b>		
	<b>Current</b>	<b>12m Average</b>
# Shares Short	6.0	8.5
% of shares o/s	1.5%	2.1%
% of float	8.4%	13.6%
Coverage Ratio	3.2	4.5
<i>Source: FactSet</i>		

<b>Valuation</b>		
	<b>FY10</b>	<b>FY11</b>
P/ Earnings	48.3x	43.4x
EV/Operating EF	43.9x	39.7x
FCF Yield	5.2%	5.7%
Dividend Yield	N/A	N/A
<i>Source: ISI</i>		

<b>Financial Metrics</b>								
	<b>FY08A</b>	<b>FY09A</b>	<b>FY10E</b>	<b>FY11E</b>	<b>FY12E</b>	<b>EPS Estimates</b>	<b>ISI</b>	<b>Consensus</b>
Revenue	\$1,881.0	\$2,023.9	\$2,549.7	\$2,915.9	\$3,271.4	F1Q10E	\$0.27	\$0.27
YoY Growth	41.9%	7.6%	26.0%	14.4%	12.2%	F2Q10E	\$0.28	\$0.28
EPS	\$1.05	\$1.00	\$1.17	\$1.30	\$1.45	F3Q10E	\$0.30	\$0.29
YoY Growth	28.5%	-4.7%	16.7%	11.2%	11.5%	F4Q10E	\$0.32	\$0.34
Operating CF	\$800.1	\$985.6	\$1,273.7	\$1,433.9	\$1,560.8	<b>FY10E</b>	<b>\$1.17</b>	<b>\$1.19</b>
YoY Growth	45%	23.2%	29.2%	12.6%	8.9%	<b>FY11E</b>	<b>\$1.30</b>	<b>\$1.38</b>
<i>Source: ISI</i>						<i>Source: ISI and FactSet</i>		

\*See the last page for an important disclosure regarding these stocks and this report.

VMware will report 1Q10 results on Tuesday, April 20<sup>th</sup> after the market close. We are modeling total revenue and EPS of \$595m and \$0.27, generally inline with consensus. In terms of license revenue, we are at \$280m (up 9% y/y, down 8% q/q), inline with consensus at \$278m. This compares to management's guidance for license revenue to rise in the single digits y/y and for total revenue to fall within a range of \$580-600m. Given the strength in server shipments in the December quarter (OEM revenue is recognized in arrears), as well as our checks that indicate VMware's business continued to gain momentum throughout the quarter, we expect the company to post results above the high end of its range and for EPS to have upside of \$0.01 to \$0.02.

Given our view of upside to March quarter license forecasts, we view consensus expectations of \$281m for 2Q10 (or 1% q/q license revenue growth) as also conservative based on our field checks that point to a strong pipeline exiting the March quarter which was driven by companies continuing to perform server assessments and server virtualization projects. Our checks also suggest that the June quarter should benefit from the continued traction of server shipments in 1Q. As well, we believe F2Q should benefit from the vSphere Essentials promotion, which began on 3/18 and continues through 6/15, which offers up to 50% off the list price of \$995. Given our expectations for strong March quarter license results together with our checks pointing to server virtualization as one of the top IT spending trends, we expect consensus estimates to rise post the call. We are modeling June quarter license revenue to increase 5% q/q to \$294m versus consensus of up 1% q/q growth (\$281m), which compares to down ~4% q/q over the past two June quarters (adjusting for the two \$20m ELAs signed in 1Q09). We would also note that consensus is modeling total F2Q revenue to rise about 3% q/q (ISI: +4% q/q) in 2Q10, which compares to down 3% in 2Q09 and up 4% in 2Q08. Normalizing 2Q09 for the two ELAs would result in an average historical sequential increase for total revenue of 3% q/q.

Given our views for Street FY10 estimates to move higher post the earnings call, we performed an upside scenario analysis for license revenue. If 1Q10 license revenue comes in at \$290m, and assuming q/q growth of 5%, 3% and 15% for the remainder of the year, FY10 license revenue would be \$1.27b (up 23% y/y). This compares to ISI at 18% y/y growth and consensus at 13% y/y. Holding our other assumptions constant, we estimate this scenario would result in an FY10 operating margin of just over 26%, (ISI: 24.9%, Cons: 25.1%), versus guidance of ~25%. In terms of EPS, this scenario would be \$1.26, versus ISI at \$1.17 and consensus at \$1.19. Not only do we think FY10 sales and EPS estimates will move higher post the call, but we also expect FY11 forecasts to move up. For example, using our current q/q seasonality for FY11 would result in license revenue of \$1.45b (up 14% y/y), which compares to our estimate of consensus at \$1.29b (+10%) and ISI at \$1.35b. FY11 operating margins could be in the 27.5% to 28.5% range in our view, versus consensus at 25.9%. As such, FY11 EPS could come in at \$1.43 to \$1.48. (ISI: \$1.30, Cons: \$1.38). We note that our FY11 EPS estimate assumes a 25% tax rate, versus consensus at 22%, and which results in a differential of about \$0.05. VMW guided the FY10 tax rate to 22%.

Based on our outlook for consensus June quarter and FY10 license revenue forecasts to move higher post the call, we recommend investors be long the stock heading into the print. In addition, our field checks continue to point to server virtualization as a top priority project with VMware benefiting from both a stable pricing as well as a benign competitive environment. While there is risk that expectations could end up getting too aggressive prior to Tuesday night, we believe the 1-2 year growth opportunity is above current market forecasts and as such believe many would use weakness to buy the dips. We continue to view consensus FY10 license revenue growth of 13% as overly conservative (ISI: up 18% y/y) and wouldn't be surprised to see expectations go above 20% for FY10. At \$56, VMware trades at 48x our FY10 EPS of \$1.17 and 19x our CY10E CFO/share of \$3.00.

The table below compares ISI and consensus FY10 estimates.

**Table 1: ISI Estimates Versus Consensus (\$'s in millions except per share data)**

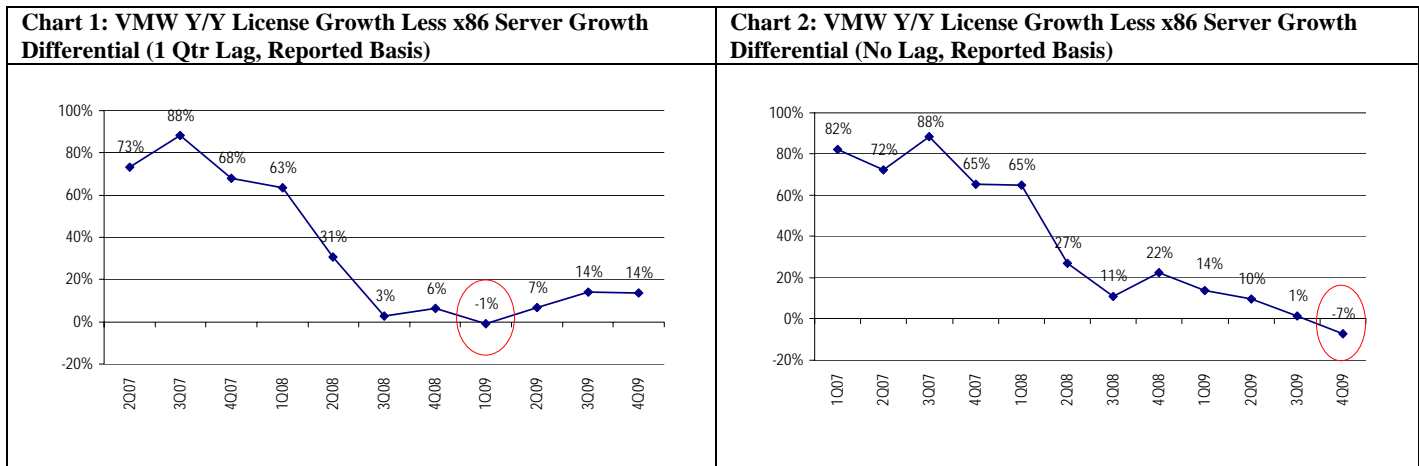
VMware (ISI vs. Consensus)	CY-1Q09A	CY-2Q09A	CY-3Q09A	CY-4Q09A	CY-2009A	CY-1Q10E	CY-2Q10E	CY-3Q10E	CY-4Q10E	CY-2010E
Consensus License Revs	\$257	\$228	\$240	\$304	\$1,029	\$278	\$281	\$283	\$331	\$1,167
Consensus Q/Q - YoY Growth	-18.4%	-11.3%	5.4%	26.6%	-12.6%	-8.6%	1.1%	0.7%	16.9%	13.4%
ISI License Revs	\$257	\$228	\$240	\$304	\$1,029	\$280	\$294	\$303	\$336	\$1,212
ISI Q/Q - YoY Growth	-18.4%	-11.3%	5.4%	-3.4%	-12.6%	-8.0%	5.0%	3.0%	11.0%	17.8%
Consensus Total Revs	\$470	\$456	\$490	\$608	\$2,024	\$591	\$606	\$625	\$701	\$2,523
Consensus Q/Q - YoY Lic Rev Growth	-8.6%	-3.1%	7.5%	24.2%	7.6%	-2.2%	2.5%	3.2%	12.1%	24.7%
ISI Total Revs	\$470	\$456	\$490	\$608	\$2,024	\$595	\$621	\$642	\$692	\$2,550
ISI Q/Q - YoY Growth	-8.6%	-3.1%	7.5%	24.2%	7.6%	-2.2%	4.4%	3.4%	7.7%	26.0%
Consensus EPS (excluding ESO expense)	\$0.25	\$0.20	\$0.24	\$0.31	\$1.00	\$0.27	\$0.28	\$0.29	\$0.34	\$1.19
ISI EPS (excluding ESO expense)	\$0.25	\$0.20	\$0.24	\$0.31	\$1.00	\$0.27	\$0.28	\$0.30	\$0.32	\$1.17
Consensus Op Margin	25.7%	21.1%	22.2%	25.9%	23.9%	24.4%	24.3%	24.8%	26.6%	25.1%
ISI Op Margin	25.7%	21.1%	22.2%	25.9%	23.9%	24.0%	24.0%	25.5%	26.0%	24.9%

Source: Company data, FactSet, ISI estimates

## Expect March License Revenue To Have Upside

We are modeling Mar09 license revenue of \$280m (up 9% y/y, down 8% q/q), which is inline with our estimate of consensus at \$278m, and compares to management's guidance for license revenue to increase in the single digits y/y. Given the strength in server shipments in the December quarter (VMware recognizes OEM revenue in arrears), as well as our checks that indicate VMware's business gained traction throughout the quarter, we expect the company to post results above the high end of its guidance.

In terms of comparing the y/y growth differential between license revenue and x86 server shipments, we think a comparison should be based on a 1 quarter lag (i.e. compare VMware's Mar10 quarter license revenue growth less Dec09 quarter x86 server shipment growth) given the company recognizes OEM revenue in arrears. On this basis, the trough over the prior three years occurred in the 1Q09 quarter at a differential of about 100bps (server shipments down 12%, license revenue down 13%). Not accounting for a 1 quarter lag, the trough thus far would have been in 4Q09 with a differential of about 700bps.

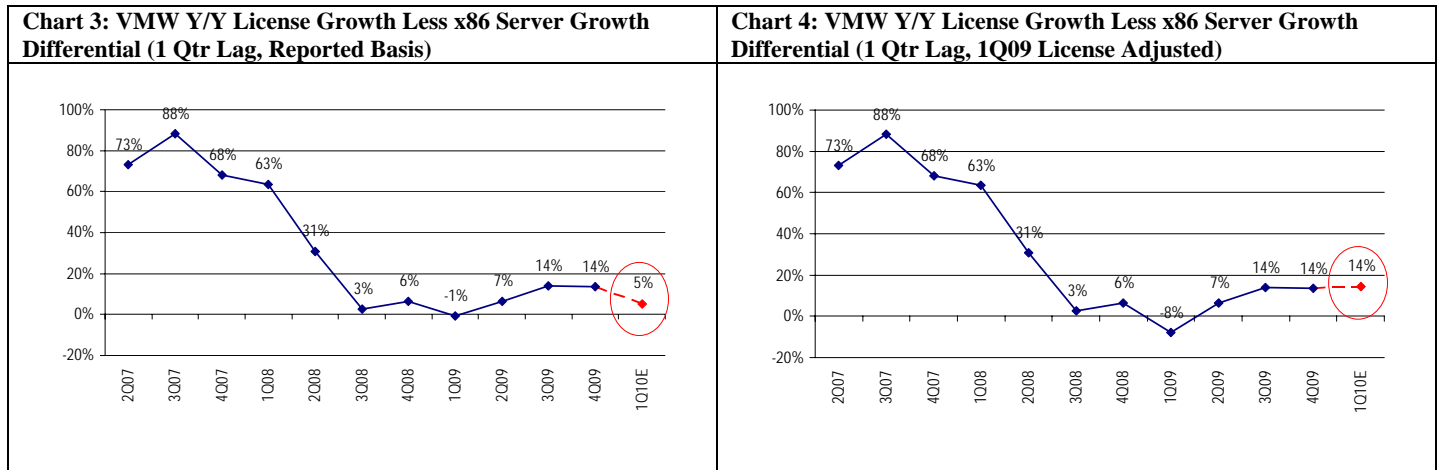


Source: Company data, IDC.

We would note, though, that 1Q09 benefited from two large ELA deals valued at \$20m in total revenue each. Adjusting 1Q09 for the 2 large ELAs (or assuming about \$20m in related license revenue in the quarter), the differential in 1Q09 would be about -800bps on a one-quarter lag basis (versus -100bps on a reported basis in Chart 1 above).

For the Mar10 quarter, we compared IDC's estimate for x86 server shipment growth in the Dec09 quarter versus our estimate for VMware's license revenue growth in the Mar09 quarter (i.e. one quarter lag with

license revenue growth of 9% y/y and server shipment growth of 4%), which results in a +500bps differential (Chart 3). Excluding the ELA deals in 1Q09 would result in a +14 percentage point differential in 1Q10, inline with the prior two quarters (Chart 4). As such, in our view our estimate for 9% y/y growth in 1Q appears conservative given the improved spending environment. In fact, overall, we believe the company is likely to post license revenue growth above the high end of guidance which called for single digit y/y growth.



Source: Company data, IDC, ISI estimates

## June Quarter License Estimates Look Conservative

We view the Street's forecast for 1% sequential license revenue growth in the Jun10 quarter as overly conservative based on several fronts.

- Our checks point to a strong pipeline exiting the March quarter driven by companies continuing to perform server assessments and server virtualization projects.
- The June quarter should benefit from continued traction of server shipments in the March quarter (OEM revenue recognized in arrears).
- F2Q should benefit from the vSphere Essentials promotion. Beginning on 3/18 and running through 6/15, the promotion offers up to 50% off the list price of \$995. Given the SKU is targeted at the SMB space, we would not expect the promotion to provide a tailwind as large as the benefit provided by the Enterprise Plus promotion in the Dec09 quarter. However, given that penetration with SMBs is likely low (~single digits), these customers offer a growth area as smaller companies tend to implement virtualization quickly and virtualize all at once or in large phases. We view the promotion as providing a benefit as it will be in place for nearly the entire Jun10 quarter.

As such, we expect consensus estimates calling for 1% q/q license revenue growth in June to move higher post the call. We are modeling a 5% q/q increase to \$294m (consensus \$281m), which compares to down ~4% q/q over the past two June quarters (adjusting for the two \$20m ELAs signed in the Mar09 quarter). Given we expect upside to 1Q10 license revenue expectations, the impact of positive seasonal seasonality (versus essentially flat growth from the Street) means even more pronounced upside to current street license expectations. We would also note that consensus is modeling total F2Q revenue to rise 3% q/q (ISI: +4% q/q) in the Jun10 quarter, which compares to down 3% in Jun09 and up 4% in Jun08. Normalizing Jun09 for the two ELAs would result in an average historical sequential increase for total revenue of about 3% q/q.

## FY10 License Revenue Upside Scenario

Given our views for Street FY10 estimates to move higher post the earnings call, we performed an upside scenario analysis for license revenue. The table below compares our current quarterly estimates against consensus as well as three upside scenarios, each with a different assumed Mar10 quarter license revenue. Scenario 1 assumes \$290m, Scenario 2 is at \$295m and Scenario 3 is at \$300m. Assuming the same q/q growth of 5%, 3% and 15% for the remainder of FY10 for each of the upside scenarios results in total revenue of \$1.27b (up 23% y/y) for Scenario 1, \$1.29b (up 25% y/y) for Scenario 2, and \$1.31b (up 28% y/y) for Scenario 3. This compares to our current forecast for 18% y/y growth and consensus at up 13% y/y. Based on our checks we view scenario 1 as the minimum likely threshold for the company.

Table 2: FY10 License Revenue Upside Scenarios					
2010 License Revenue	Mar	Jun	Sep	Dec	FY10
ISI	\$280	\$294	\$303	\$336	\$1,213
Y/Y	9%	29%	26%	10%	18%
Est. Consensus	\$278	\$281	\$283	\$331	\$1,167
Y/Y	8%	23%	18%	9%	13%
Upside Scenario 1	\$290	\$305	\$314	\$361	\$1,269
Y/Y	13%	34%	31%	19%	23%
Upside Scenario 2	\$295	\$310	\$319	\$367	\$1,291
Y/Y	15%	36%	33%	21%	25%
Upside Scenario 3	\$300	\$315	\$324	\$373	\$1,313
Y/Y	17%	38%	35%	23%	28%
<b>2010 Q/Q Seasonality</b>					
ISI	-8%	5%	3%	11%	
Est. Consensus	-9%	1%	1%	17%	
Upside Scenario 1	-5%	5%	3%	15%	
Upside Scenario 2	-3%	5%	3%	15%	
Upside Scenario 3	-1%	5%	3%	15%	
<b>Historical Q/Q Seasonality</b>					
2009	-25%	-4%	5%	27%	
2008	3%	-3%	0%	10%	
2007	5%	20%	3%	35%	
2007-2009 Avg	-6%	4%	3%	24%	
2007-2008 Avg	4%	8%	2%	23%	

Source: Company data, FactSet, ISI estimates. Sep07 quarter adjusted for ~\$40m benefit from deferred license revenue. Mar09 quarter adjusted for \$20m in license revenue related to 2 ELA deals.

Holding our other assumptions constant, Scenario 1 would result in an FY10 operating margin of 26.3%, or about 140bps higher than our estimate of 24.9% and 120bps higher than the Street. This compares to management's guidance of about 25% in FY10. In terms of EPS, Scenario 1 would be \$1.26, versus ISI at \$1.17 and the Street at \$1.19.

FY10	Scenario 1	Scenario 2	Scenario 3	ISI	Consensus
Op Margin	26.3%	26.8%	27.3%	24.9%	25.1%
EPS	\$1.26	\$1.30	\$1.33	\$1.17	\$1.19

Source: FactSet, ISI estimates.

Using our current q/q seasonality for FY11 would result in total license revenue of \$1.45b (up 14% y/y) for Scenario 1, which compares to our estimate of consensus at \$1.29b (up 10% y/y) and ISI's forecast of \$1.35b (up 11% y/y). In terms of FY11 operating margins, Scenario 1 license revenue in our view could lead to a likely range of 27.5% to 28.5%, versus our estimate of 25.9% which is inline with consensus. In terms of FY11 EPS, this would result in a range of \$1.43 to \$1.48, versus consensus at \$1.38 and ISI at \$1.30. We note that our FY11 EPS estimate assumes a 25% tax rate, versus consensus at 22%, which results in a differential of about \$0.05. Management guided the FY10 tax rate to 22%.

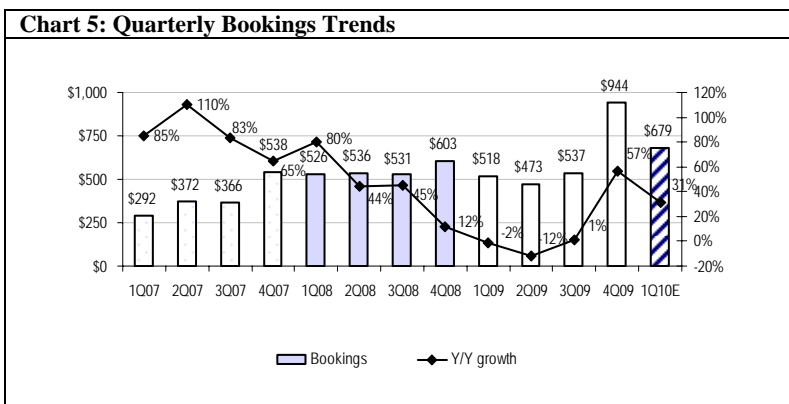
FY11	Low	Middle	High	ISI	Consensus
Op Margin	27.5%	28.0%	28.5%	25.9%	25.9%
Assumed tax rate	25.0%	25.0%	25.0%	25.0%	22.0%
EPS	\$1.43	\$1.45	\$1.48	\$1.30	\$1.38

Source: FactSet, ISI. ISI EPS and scenarios assume a 25% tax rate, vs 22% for consensus.

## Bookings To Post Seasonal Moderation

We are modeling bookings (revenue plus change in deferred from the cash flow statement) of \$679m, up 31% y/y and down 28% q/q, which compares to \$518m (-2% y/y, -14% q/q) in the Mar09 quarter and -2% q/q in the Mar08 quarter. Given the strength in deferreds in the Dec09 quarter (up 34% q/q, versus up 11% and up 29% in the prior two December quarters) driven by the Enterprise Plus promotion and the sale of multiple years of maintenance, we are modeling a sequential decline larger than the Mar09 quarter. In addition, given the quarter will benefit from only about 2 weeks of the vSphere Essentials promotion, we would not expect a meaningful in-period tailwind to deferreds.

However, we would not be surprised if deferreds continued to benefit from ELA signings in the quarter. In the Dec09 quarter, about 20% of total bookings were related to ELAs, the first quarter to return to the 20% level since Dec08 (at 23%). Based on our checks for the quarter, we believe the ELA contribution to bookings in the Mar10 quarter could also come in close to the 20% level once again (versus our estimate of 18% last year). As such, this would represent total ELA signings of roughly \$136m in the Mar10 quarter, versus ~\$93m last year (when the company signed 2 ELAs of \$20m each). As such, given approximately 50% of ELA's get booked as license revenue in the quarter that they are signed, this would imply a \$68m contribution, versus \$94m in 4Q09 and \$47m in 1Q09.



Source: Company data, ISI estimates

## Valuation

At \$56, VMware trades at 48x our CY10 EPS estimate of \$1.17 and 19x our CY10 CFO forecast of \$3.00. Our 12-month price target is derived from our three-pronged valuation approach, which includes a DCF, EV/Bookings, and P/E analysis. Based on an EV to CY10 bookings multiple of 8x, we derive a valuation of \$59. For our price to estimated CY10 earnings analysis, we have calculated a share price of \$58 based on a 50x multiple. Finally, our DCF assumes a discount rate of 9% and a terminal FCF multiple of 16x, suggesting fair value of \$68. This suggests a FCF perpetuity growth rate of about 3%.

# 8 Financials

**Figure 1: Income Statement (\$ in millions, except per share data)**

	Total FY08A	1QA Mar-09	2QA Jun-09	3QA Sep-09	4QA Dec-09	Total FY09A	1QE Mar-10	2QE Jun-10	3QE Sep-10	4QE Dec-10	Total FY10E
<b>Net Revenue</b>	<b>\$1,881</b>	<b>\$470</b>	<b>\$456</b>	<b>\$490</b>	<b>\$608</b>	<b>\$2,024</b>	<b>\$595</b>	<b>\$621</b>	<b>\$642</b>	<b>\$692</b>	<b>\$2,550</b>
sequential growth %		-8.6%	-3.1%	7.5%	24.2%		-2.2%	4.4%	3.4%	7.7%	
year over year growth %	41.9%	7.3%	-0.1%	3.7%	18.2%	7.6%	26.5%	36.3%	31.2%	13.7%	26.0%
Cost of revenue	226	58	57	62	72	249	74	78	80	83	315
<b>Gross Margin</b>	<b>\$1,655</b>	<b>\$413</b>	<b>\$399</b>	<b>\$428</b>	<b>\$536</b>	<b>\$1,775</b>	<b>\$520</b>	<b>\$543</b>	<b>\$562</b>	<b>\$609</b>	<b>\$2,234</b>
Gross Margin %	88.0%	87.7%	87.5%	87.4%	88.2%	87.7%	87.5%	87.5%	87.5%	88.0%	87.6%
<b>R&amp;D</b>	<b>433</b>	<b>111</b>	<b>109</b>	<b>108</b>	<b>113</b>	<b>442</b>	<b>119</b>	<b>130</b>	<b>132</b>	<b>142</b>	<b>523</b>
% of revenues	23.0%	23.7%	24.0%	22.0%	18.7%	21.8%	20.0%	21.0%	20.5%	20.5%	20.5%
sequential growth %		-6.3%	-1.8%	-1.5%	5.4%		4.8%	9.6%	1.0%	7.7%	
year over year growth %	48.0%	9.6%	4.3%	0.0%	-4.5%	2.1%	7.0%	19.3%	22.4%	24.9%	18.4%
<b>Sales and Marketing</b>	<b>599</b>	<b>140</b>	<b>154</b>	<b>169</b>	<b>213</b>	<b>676</b>	<b>205</b>	<b>211</b>	<b>212</b>	<b>228</b>	<b>857</b>
% of revenues	31.9%	29.7%	33.7%	34.5%	35.1%	33.4%	34.5%	34.0%	33.0%	33.0%	33.6%
sequential growth %		-14.8%	9.8%	10.0%	26.2%		-3.8%	2.9%	0.4%	7.7%	
year over year growth %	42.1%	2.2%	6.0%	9.8%	30.0%	12.7%	46.8%	37.5%	25.5%	7.0%	26.8%
<b>General and Administrative</b>	<b>154</b>	<b>40</b>	<b>40</b>	<b>43</b>	<b>52</b>	<b>175</b>	<b>54</b>	<b>53</b>	<b>55</b>	<b>59</b>	<b>220</b>
% of revenues	8.2%	8.6%	8.7%	8.7%	8.5%	8.6%	9.0%	8.5%	8.5%	8.5%	8.6%
sequential growth %		-5.0%	-2.3%	8.1%	21.6%		3.1%	-1.4%	3.4%	7.7%	
year over year growth %	30.6%	9.2%	14.9%	7.3%	21.9%	13.5%	32.4%	33.6%	27.9%	13.2%	25.9%
<b>Total operating expenses</b>	<b>1,186</b>	<b>292</b>	<b>302</b>	<b>319</b>	<b>379</b>	<b>1,292</b>	<b>378</b>	<b>394</b>	<b>398</b>	<b>429</b>	<b>1,599</b>
sequential growth %		-10.4%	3.7%	5.6%	18.6%		-0.2%	4.4%	1.0%	7.7%	
year over year growth %	42.6%	5.9%	6.5%	6.0%	16.3%	8.9%	29.6%	30.4%	24.8%	13.3%	23.8%
<b>Operating income</b>	<b>\$469</b>	<b>\$121</b>	<b>\$96</b>	<b>\$109</b>	<b>\$158</b>	<b>\$484</b>	<b>\$143</b>	<b>\$149</b>	<b>\$164</b>	<b>\$180</b>	<b>\$635</b>
sequential growth %		-10.3%	-20.4%	12.9%	44.9%		-9.4%	4.4%	9.9%	9.8%	
year over year growth %	38.2%	13.7%	-14.3%	-5.4%	16.8%	3.2%	18.0%	54.7%	50.6%	14.1%	31.4%
<b>Operating Margin %</b>	<b>24.9%</b>	<b>25.7%</b>	<b>21.1%</b>	<b>22.2%</b>	<b>25.9%</b>	<b>23.9%</b>	<b>24.0%</b>	<b>24.0%</b>	<b>25.5%</b>	<b>26.0%</b>	<b>24.9%</b>
Other Income (Expenses)	7	(1.4)	0.9	2.8	(3.9)	(2)	-	-	-	-	-
<b>Income before taxes</b>	<b>\$475</b>	<b>\$120</b>	<b>\$97</b>	<b>\$112</b>	<b>\$154</b>	<b>\$482</b>	<b>\$143</b>	<b>\$149</b>	<b>\$164</b>	<b>\$180</b>	<b>\$635</b>
Provision for income taxes	60	20	18	16	27	81	31	33	36	40	140
<b>Effective tax rate</b>	<b>12.6%</b>	<b>16.6%</b>	<b>18.2%</b>	<b>14.7%</b>	<b>17.6%</b>	<b>16.8%</b>	<b>22.0%</b>	<b>22.0%</b>	<b>22.0%</b>	<b>22.0%</b>	<b>22.0%</b>
<b>Net income (ex Comp)</b>	<b>\$416</b>	<b>\$100</b>	<b>\$80</b>	<b>\$95</b>	<b>\$127</b>	<b>\$401</b>	<b>\$111</b>	<b>\$116</b>	<b>\$128</b>	<b>\$140</b>	<b>\$496</b>
Option Expense (after tax)	143	\$36	35	26	52	150	36	35	26	52	150
<b>Net income (w Comp)</b>	<b>\$273</b>	<b>\$64</b>	<b>\$44</b>	<b>\$69</b>	<b>\$74</b>	<b>\$251</b>	<b>\$75</b>	<b>\$81</b>	<b>\$101</b>	<b>\$88</b>	<b>\$346</b>
net margin %	14.5%	13.6%	9.7%	14.0%	12.2%	12.4%	12.7%	13.0%	15.8%	12.7%	13.6%
Basic shares outstanding	385	390	392	396	401	395	409	415	421	427	418
<b>Basic EPS (w Comp)</b>	<b>\$0.71</b>	<b>\$0.16</b>	<b>\$0.11</b>	<b>\$0.17</b>	<b>\$0.19</b>	<b>\$0.64</b>	<b>\$0.18</b>	<b>\$0.20</b>	<b>\$0.24</b>	<b>\$0.21</b>	<b>\$0.83</b>
year over year growth %	12.7%	14.9%	-26.3%	-1.0%	-21.6%	-10.2%	12.7%	72.7%	38.9%	11.1%	30.1%
Diluted shares outstanding	395.3	391	396	403	411	400	415	421	427	433	424
<b>Diluted EPS (w Comp)</b>	<b>\$0.69</b>	<b>\$0.16</b>	<b>\$0.11</b>	<b>\$0.17</b>	<b>\$0.18</b>	<b>\$0.63</b>	<b>\$0.18</b>	<b>\$0.19</b>	<b>\$0.24</b>	<b>\$0.20</b>	<b>\$0.81</b>
year over year growth %	16.4%	19.6%	-24.0%	-1.0%	-23.3%	-9.4%	11.5%	72.0%	39.2%	12.4%	30.1%
<b>Diluted EPS (ex Comp)</b>	<b>\$1.05</b>	<b>\$0.25</b>	<b>\$0.20</b>	<b>\$0.24</b>	<b>\$0.31</b>	<b>\$1.00</b>	<b>\$0.27</b>	<b>\$0.28</b>	<b>\$0.30</b>	<b>\$0.32</b>	<b>\$1.17</b>

Source: Company data, ISI estimates

**Figure 2: Revenue Detail**

	Total FY08A	1QA Mar-09	2QA Jun-09	3QA Sep-09	4QA Dec-09	Total FY09A	1QE Mar-10	2QE Jun-10	3QE Sep-10	4QE Dec-10	Total FY10E
<b>License</b>	<b>\$1,178</b>	<b>\$257</b>	<b>\$228</b>	<b>\$240</b>	<b>\$304</b>	<b>\$1,029</b>	<b>\$280</b>	<b>\$294</b>	<b>\$303</b>	<b>\$336</b>	<b>\$1,212</b>
% of total revenue	63%	55%	50%	49%	50%	51%	47%	47%	47%	49%	48%
% chg QoQ		-18%	-11%	5%	27%		-8%	5%	3%	11%	
% chg yr to yr	30%	-13%	-20%	-16%	-3%	-13%	9%	29%	26%	10%	18%
<b>Services</b>	<b>\$703</b>	<b>\$213</b>	<b>\$228</b>	<b>\$249</b>	<b>\$304</b>	<b>\$994</b>	<b>\$315</b>	<b>\$327</b>	<b>\$340</b>	<b>\$356</b>	<b>\$1,337</b>
% of total revenue	37%	45%	50%	51%	50%	49%	53%	53%	53%	51%	52%
% chg QoQ		7%	7%	10%	22%		4%	4%	4%	5%	
% chg yr to yr	67%	48%	32%	33%	52%	41%	48%	44%	36%	17%	34%
<b>Pro forma Revenue</b>	<b>\$1,881</b>	<b>\$470</b>	<b>\$456</b>	<b>\$490</b>	<b>\$608</b>	<b>\$2,024</b>	<b>\$595</b>	<b>\$621</b>	<b>\$642</b>	<b>\$692</b>	<b>\$2,550</b>
% chg QoQ		-8.6%	-3.1%	7.5%	24.2%		-2.2%	4.4%	3.4%	7.7%	
% chg yr to yr	41.9%	7.3%	-0.1%	3.7%	18.2%	7.6%	26.5%	36.3%	31.2%	13.7%	26.0%

Source: Company data, ISI estimates

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Buy Low Risk ETR >+10%	Buy Medium Risk ETR >+15%	Buy High Risk ETR >+20%
Hold Low Risk ETR 0% to +10%	Hold Medium Risk ETR -5% to +15%	Hold High Risk ETR -10% to +20%
Sell Low Risk ETR ->0%	Sell Medium Risk ETR ->5%	Sell High Risk ETR ->10%

**RISK RATING:**

Based on the stock's beta: Low: less than 0.75; Medium: 0.75 to 1.25; High: greater than 1.25