

Morgan Stanley & Co. Incorporated **Adam Holt**
Adam.Holt@morganstanley.com
+1 (1)415 576 2320

Munish Jain
Munish.Jain@morganstanley.com
+1 (1)415 576 8728

Keith Weiss, CFA
Keith.Weiss@morganstanley.com
+1 (1)212 761 4149

Kelvin Wu
Kelvin.K.Wu@morganstanley.com
+1 (1)212 761 2322

Industry View
In-Line

May 20, 2010

Software

Nearing the Inflection: Sizing Desktop Virt. at \$1.5B

Conclusion: While we have been cautious on the pace of desktop virtualization (DV), our recent field work suggests we are nearing a sustainable acceleration in DV. Key drivers are the PC refresh, the Win 7 cycle, improved ROI cases and enhancements in DV tech. Using field data, we've built a detailed industry model, which conservatively points to a \$1.5B DV market by 2014, 80% of which will accrue to CTXS and VMW. We think this rev. is largely incremental to cons. for VMW and CTXS, and we are upgrading VMW to an OW and CTXS to EW. VMW offers more potential for upside and faster growth, while the secular & improved core story at CTXS should drive better stock performance from here.

Total addressable market of \$1.5B by 2014, a 67% CAGR. We based our key variables for estimating TAM — pricing, penetration, and share — on recent customer conversations and CIO data, so our model is founded in actual field ests. We identify large enterprises, govt, and education as the target segments, leaving SMB penetration as upside, and est. penetration of ~13% (47M PCs) to be virtualized by 2014, out of an estimated total installed base of 370M. We assume pricing declines 8%/year and that VMW and CTXS maintain 80% share through 2014. We have been intentionally conservative with our ests., particularly for penetration.

CTXS will likely lead the market: Given an early lead with the ICA protocol, and broader desktop story than VMW, we believe CTXS will likely hold the lion's share of the market at 48% in 2014 vs. 36% for VMW. This implies a \$735M rev. opportunity for CTXS in 2014, and \$300-500M of potential rev. upside over the next 4 years.

VMW a solid number 2: VMW will also be a dominant player, and we believe VMW's View product is evolving and the gap with XenDesktop will close over time. While some of the desktop rev. is in CTXS cons., and cannibalizes XenApp, it's largely accretive to VMW, and could add \$1B to \$1.5B to cons. over the next 4 years.

Recent Reports

Title	Date
VMware: Upgrading on Stronger and More Sustainable Growth Adam Holt / Munish Jain / Keith Weiss, CFA / Kelvin Wu	May 20, 2010
Citrix: Increased Conviction in the Story; Upgrading to EW Adam Holt / Munish Jain / Keith Weiss, CFA / Kelvin Wu	May 20, 2010
CIO Survey: Moving to the Cloud Mary Meeker / Scott Devitt / Simon Flannery / Adam Frisch / Adam Holt / Katy Huberty, CFA	May 20, 2010

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

Investment Case

Summary & Conclusions

While we have been cautious on the pace of desktop virtualization (DV) adoption over the last year, our recent field work suggests we are nearing a sustainable acceleration in DV. Key drivers are the PC refresh, the Win 7 cycle, improved ROI cases and enhancements in DV technology. CTXS has sold 1.5M XenDesktop licenses in the last two quarters, for example, the CTXS pipeline has accelerated, and our checks suggest that VMW View is seeing similar traction. In our customer surveys, the pace of adoption and levels of interest in DV have inflected up in just the last 3 quarters and we think CY11 should be the first year that the industry really scales.

We have gathered data from Morgan Stanley IT, hundreds of CIOs, VMW and CTXS resellers, and management, and have taken these inputs together to size the virtual desktop market. Unlike an academic exercise, our model looks much like those at companies and vendors. Based on our analysis, we conservatively arrive at a market size estimate of \$1.5B in 2014, growing at 67% CAGR. Our analysis yields 13% penetration of enterprise PCs by 2014, using new PCs as a proxy for replacement. As we think a substantial portion of installed base PCs will be virtualized (vs. net new) our penetration assumptions may materially understate the opportunity.

We believe both CTXS and VMW will continue to be the major players in this market with total market share of over 80%, but CTXS will likely have a relatively higher share as its product is ahead of the competition and offers broader functionality beyond virtual desktop infrastructure (VDI) — though at somewhat premium pricing.

Our analysis suggests that both CTXS and VMW may be underestimating this element of growth and it will likely be a source of upside. We estimate this upside to be as much as \$0.09 for CTXS and \$0.14 for VMW in CY11, and hundreds of millions of incremental revenue to consensus over the next 4 years. We have incorporated part of this upside in to our CTXS and VMW estimates, and upgraded both stocks. CTXS goes from Underweight to Equal-weight and VMW goes from Equal-weight to Overweight in separate notes.

A brief primer on Desktop Virtualization / VDI

Desktop Virtualization (DV) is a concept that separates a personal desktop environment (operating system and desktop applications) from the physical device on which this environment runs. Virtual Desktop Infrastructure (VDI) is the most popular flavor of DV where the operating system runs in a virtual machine on a server that is hosted in a data center. Users connect to the operating system over the network using the client-server model. A typical VDI deployment may have 20-25 instances of virtual machines running Windows per physical server. Users would use their existing desktop or thin clients to connect to the Windows instance on the server. CTXS and VMW are the primary vendors in this market with their XenDesktop and View products, respectively.

Cloud Adoption Accelerating - Why Now?

Concurrent with this report, we are publishing fresh CIO data, and some updated thinking on the evolution to cloud services like desktop virtualization, which appear to be accelerating. At a high level, we see four developments that are accelerating adoption of cloud services.

1) Quality of home based computing has been evolving at a faster pace than enterprise computing for years and cloud-based connectivity has become so pervasive that enterprises are finally being forced to play catch up. Note the relative adoption of consumer products / services related to the likes of wireless connectivity (like WiFi), VoIP (like Skype), video-over IP (like YouTube and Skype), cloud-based collaboration and connectivity (like Facebook and Hotmail), commerce (like Amazon.com), and payments (like PayPal).

2) Wireless device (smartphone / tablet) adoption has empowered consumers to expect (and demand) cloud-based, high-speed wireless connectivity 24x7. Net, consumers are pushing their employers to improve their technology infrastructure so it can be as effective / efficient as their personal technology. Consumers (employees) are also increasingly asking that their corporate systems connect with their home PCs (which in the U.S. are 10% Mac / 90% Microsoft versus 1% Mac / 99% Microsoft in large corporations).

3) Recession-related technology spending delays from 2007 to 2009, in effect, allowed cloud-based services to evolve / develop / mature to levels that are more 'enterprise-ready'. For example, note that when the recession began in CQ4:07, Facebook had 98M global users, per comScore, and when the recession began to abate in CQ2:09, Facebook had 340M users. Over this period, SFSF has grown its user base from ~3M to 5.4M, while CRM has added ~640K net new subscribers. Additionally, we believe that the downturn permanently changed the buying behavior of organizations towards smaller purchases and a greater desire to outsource.

4) Cloud-based security concerns have abated somewhat as enterprises realize the difference in risk profile between internal and external environments is lower than they once believed. Virtualized data centers have conditioned CIOs to understand how to manage the risk of applications and data that are spread across heterogeneous systems and even across different data centers.

Desktop virtualization gaining momentum

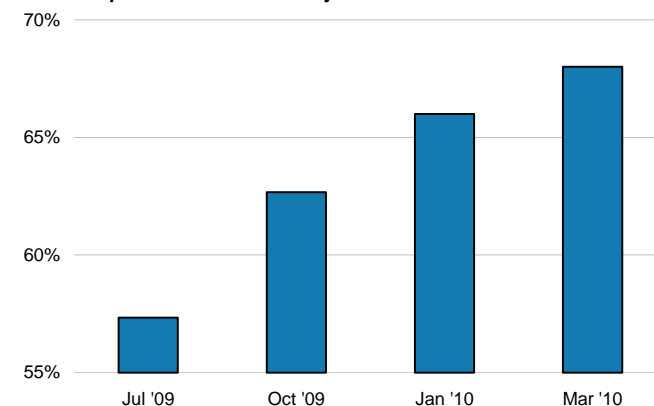
Against the backdrop of broad based CIO interest in cloud based services, spending on desktop virtualization has grown rapidly over the past 12 months. According to our March '10 CIO survey results, 68% of respondents had desktop virtualization projects planned in 2010, up from 57% in our July '09 survey (Exhibit 1).

In addition, CIOs continue to move ahead with DV projects — 18% of CIOs reported having projects in progress in March, up from 12% in our January survey. Projects in progress were split equally between pilot projects and actual deployments. In terms of sales growth, both VMW and CTXS saw 100%+ YoY growth in desktop virtualization revenues in 2009. In the case of VMW, we expect desktop revenue growth to accelerate in 2010.

Exhibit 1

CIO Interest in Desktop Virtualization has Increased Steadily over the Past Year

% of Respondents with VDI Projects Planned in 2010



Source: Morgan Stanley CIO Surveys

Drivers for desktop virtualization

Our CIO surveys and conversations with customers and partners indicate that adoption of desktop virtualization has been slow, but this is beginning to accelerate, driven by:

- stabilizing IT spending
- a PC refresh cycle
- a Windows 7 upgrade cycle
- improvements in technology in VMW View 4 and CTXS XenDesktop 4
- customers going live from pilots, serving as both touch points for deeper customer penetration and

Today, customers are moving to desktop virtualization primarily for strategic reasons. We think that the cost savings will be largely outside of direct desktop expenditures, in areas like management, energy, offline backup and personnel.

Other drivers identified in our customer conversations are:

- Tighter control and security of enterprise data
- Simplified PC management and lower operating expense
- Lower capex in the long term due to longer hardware refresh cycles
- Faster and better support from IT helpdesk

Early adopters include verticals like financial services, healthcare, and education. However, interest level and pilot projects have been gaining momentum from all verticals, as is evident from our CIO surveys. We believe DV solutions make

sense for large enterprises with over 500 users, at least in the near-term, until the technology evolves to make DV cheaper for small and mid-size businesses — the lower end of the market is largely upside to our forecasts.

Huge opportunity of over \$1.5B in 2014 with 67% CAGR

Our bottoms up analysis suggest that the desktop virtualization market can grow at 67% CAGR from ~\$120M in 2009 to \$1.5B in 2014. We expect VMW and CTXS to remain the key players in this market, with total market share of over 80% or \$1.2B (at the mid-point) – implying a large opportunity for each company in 2014.

Exhibit 2

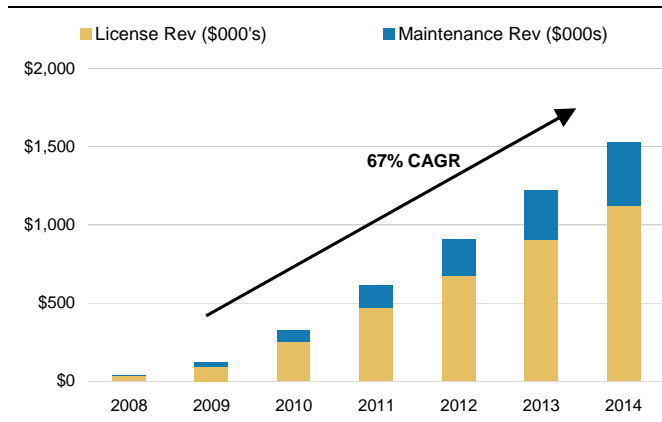
Sensitivity Analysis of Market Opportunity in 2014 Based on Penetration and ASP

		2014 Penetration of New PCs		
		20%	25%	30%
ASP	0%	\$1,714,212	\$2,138,961	\$2,563,710
	-8%	\$1,228,050	\$1,532,337	\$1,836,624
	-15%	\$894,830	\$1,116,551	\$1,338,273

Source: Morgan Stanley Research Estimates

Exhibit 3

Desktop Virtualization Market to Grow at 67% CAGR to ~\$1.5B in 2014



Source: Morgan Stanley Research Estimates

Key assumptions in our model include:

1) Target market of 370M PCs in 2014

Our checks suggest that desktop virtualization is more suitable for larger organizations with over 500 employees as a) there is some IT capability required and b) economics don't yet work for smaller businesses. We believe until technology improvements drive cost down, we will not see much traction in small and mid-size businesses — and the target market for desktop virtualization will be limited to larger deployments at large enterprises, governments, and educational institutions. We believe that by the end of 2009 this segment had around 275M PCs or 43% of roughly 640M corporate PCs worldwide. Assuming this category grows in line with Gartner's estimate of total installed base, our analysis implies ~370M PCs at all large enterprises, government, and education in 2014 (Exhibit 4).

2) Virtualization penetration of installed PCs reaches double digits

We estimate over 12% of the PC installed base to be virtualized by 2014 (Exhibit 6). This estimate is based on our conversations with partners and customers, and our virtualization and CIO surveys that point to increased momentum towards desktop virtualization.

- Our recent CIO deep dive survey data from 50 CIOs lends support to our thesis with 28% of CIOs planning to virtualize at least 20% of their PCs by next year, a 10-fold increase from 2% currently.
- On a weighted average basis, our survey data implies 15% penetration next year, up from 7% currently.

We also look at the penetration of virtualization in new PCs shipped, as a PC refresh / purchase is a major decision point for many CIOs to adopt virtualization. We estimate that only 25% of new PCs will need to be virtualized by 2014 to meet our penetration level of total installed base in 2014. We are not capturing "installed base" migrations, which could be a material positive swing factor above our ests., as we expect some installed base migrations. One major customer that we spoke to, with over 90K PCs, suggested that they plan to virtualize 100% of all new PCs by next year.

Exhibit 4

PC Installed Base by Segments

	2008	2009	2010	2011	2012	2013	2014
Education	68,968	73,762	77,417	81,667	86,439	92,190	99,343
Government	60,037	64,210	67,391	71,091	75,245	80,251	86,478
Large Businesses (>500 empl)	127,965	136,861	143,642	151,527	160,381	171,052	184,324
Medium Businesses (1-499 empl)	99,011	105,894	111,140	117,242	124,093	132,349	142,618
SMB (<100 empl)	239,830	256,502	269,210	283,989	300,583	320,582	345,456
Consumer / Home users	532,973	604,212	681,874	771,527	873,970	986,246	1,111,254
Total	1,128,784	1,241,441	1,350,673	1,477,042	1,620,711	1,782,671	1,969,473

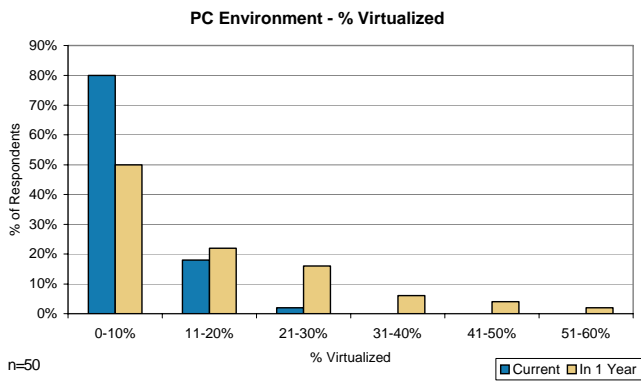
Large Enterprise + Govt + Education

Installed PCs (Large Ent/Gov't/Edu)	256,970	274,833	288,449	304,285	322,065	343,493	370,145
-------------------------------------	---------	---------	---------	---------	---------	---------	---------

Source: Gartner, IDC, Morgan Stanley Research Estimates

Exhibit 5

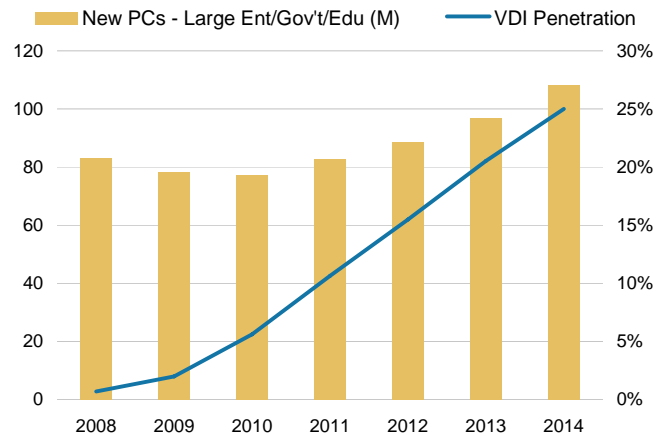
28% CIOs Plan to Virtualize At least 20% PCs by Next Year vs. 2% Currently, a 10-Fold Increase



Source: CIO Deep Dive survey, April 2010, Morgan Stanley Research Estimates

Exhibit 7

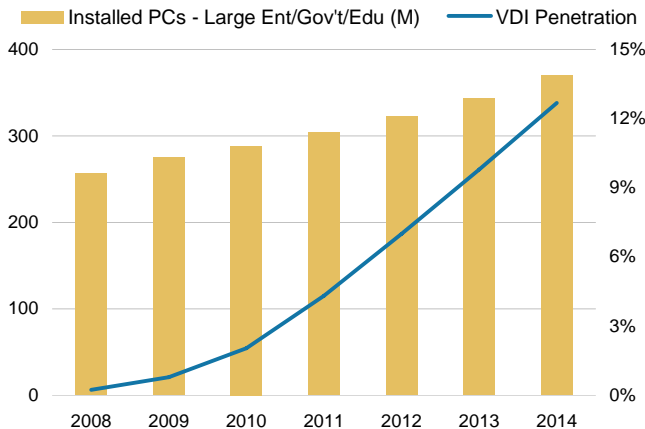
25% New PCs May Get Virtualized By 2014



Source: Morgan Stanley Research Estimates

Exhibit 6

DV Penetration of Installed PCs in Large Enterprises May Reach Over 12% by 2014



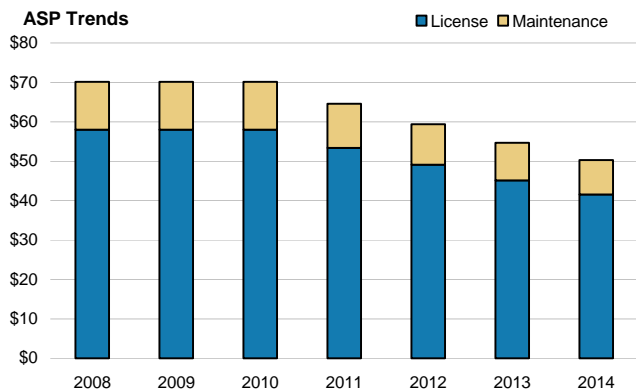
Source: Morgan Stanley Research Estimates

3) Increased competition will keep ASPs under pressure

Despite high list prices of over \$150-\$200 for XenDesktop and View, our checks suggest that huge discounts are offered to close deals at an ASP in the \$60-\$80 range. While some of the CTXS price pressure is likely temporal due to the trade up promotions, as competition intensifies and both CTXS and VMW fight for market share we believe ASPs are likely to remain under pressure. We expect both companies to continue to enhance their products and push premium SKUs, but technology improvements and competing solutions from open source providers like RHT will drive ASPs down over time.

Exhibit 8

Expecting ASP for Industry to Decline Over Time



Source: Morgan Stanley Research Estimates

4) VDI and other desktop virtualization technologies mature as they gain critical mass

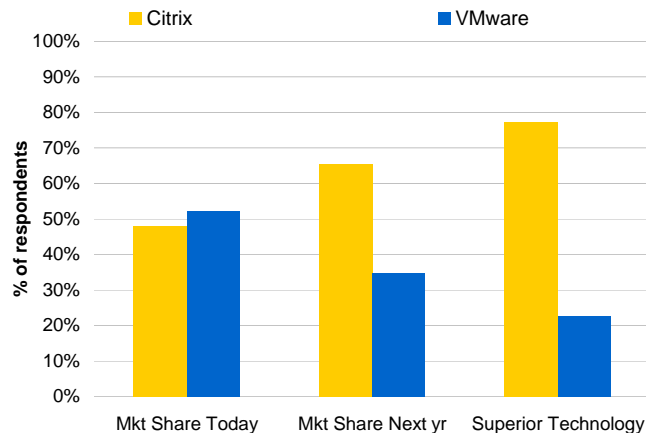
We believe VDI and other virtualization technologies like virtual workspace solutions (MokaFive, RingCube) and desktop virtualization management (Virtual Computer, Neocleus) are in early phases of technology adoption. Over time, these technologies will evolve and lead to robust scalable products that should drive costs down, making it affordable for all segments including SMB, which should only help accelerate the pace of adoption and increase the total market size.

5) VMW and CTXS are likely to have largest market share

CTXS and VMW are the two major competitors in the desktop virtualization market today, and we believe they will continue to dominate this market. Our field data supports this conclusion and we believe these two vendors will maintain 80% share of the market in total. Further, we would not be surprised to see new companies entering this market, but their offerings are likely to be limited and solve niche problems. While VMW has a larger market share today, our checks suggest that CTXS will grow share over time. Our survey and conversations with partners and customers suggest that XenDesktop is a superior product with better traction in the market and likely to have a higher share this year (Exhibit 9). CTXS offers broader functionality beyond traditional VDI at a premium pricing that will help it maintain higher market share over the next several years.

Exhibit 9

CTXS Led VMW in Market Share and Products



Source: MS Survey Jan 2010, Morgan Stanley Research

Where we could be wrong?

Our estimates make a number of assumptions and we would not be surprised if one or more of them turned out to be wrong. These include:

- Total installed PC base growth is slower than expected as PCs / notebooks are cannibalized by new form factors (mobile, iPads, etc).
- Increase in SaaS based applications and cloud computing may lead to new usage models within enterprises that may shift the focus away from full desktop functionality to thin clients.
- Technology improvements may drive costs lower sooner than expected, leading to faster adoption by small and mid-size business. This can result in a much larger market size than our estimate of \$1.5B.

Desktop virtualization holds upside for CTXS and VMW

Our bottoms up analysis suggests a huge potential for both CTXS and VMW that is incremental to our estimates for CY11 and beyond.

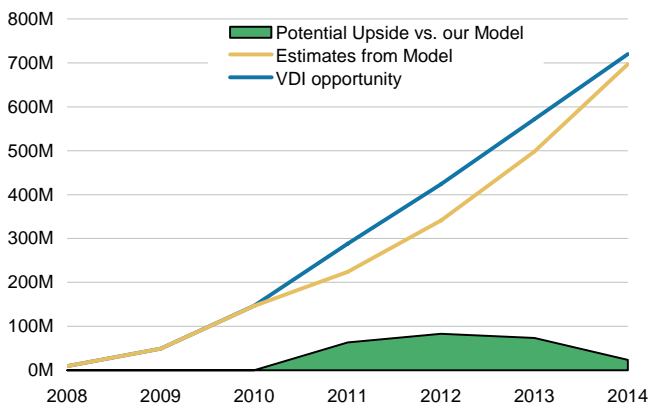
1. Our Citrix estimates may be conservative.

Based on our bottoms up DV model and 48% market share for CTXS, we believe XenDesktop estimates in our model are likely conservative. CTXS numbers do reflect some DV growth, and the cannibalization of XenApp will also mute the aggregate growth rate vs. VMW. Still, this potential upside could be as much as 20-30% of our XenDesktop estimate in 2011, which would imply upside of \$0.09-0.13 to our prior \$2.10 EPS estimate.

Exhibit 10

DV Bottoms Up Model Suggest Upside To Our XenDesktop Estimates

CTXS - Desktop Virt Opportunity May Hold Upside



Source: Morgan Stanley Research Estimates

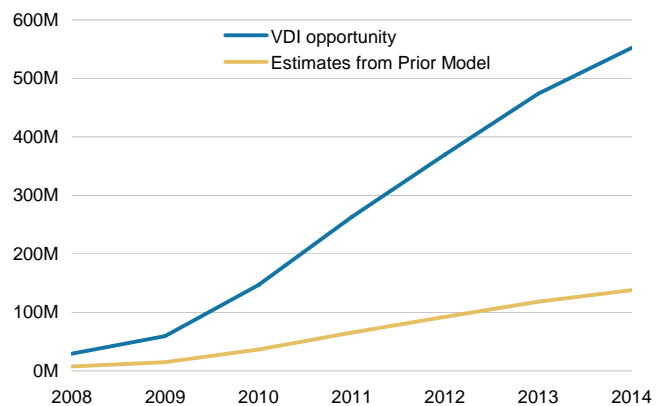
2. DV holds material upside for VMW

We believe DV has been an underestimated element of growth for VMW, which is not fully reflected in our prior estimates of \$3.1B / \$1.61 in 2011 and \$3.6B / \$1.96 in 2012. We believe investors' expectations call for far less revenue contribution from DV than implied from our bottoms up analysis, or the expectations for the core business are far too low. We believe this upside could be as much as ~75% of our estimated market opportunity or \$180-250M in CY11 and \$250-300M in CY12, implying EPS upside of ~\$0.15 in CY11 and ~\$0.20 in CY12.

Exhibit 11

Investors' Expectations for VMW's DV Revenue are Likely Well Below Our Bottoms Up Estimates

VMW - Desktop Virt Opportunity May Hold Upside



Source: Morgan Stanley Research Estimates

May 20, 2010

Software

Exhibit 12

Desktop Virtualization Market and Vendor Shares from 2010-2014

(in '000s)	2008	2009	2010	2011	2012	2013	2014
Installed PCs (Large Ent/Gov't/Edu)	256,970	274,833	288,449	304,285	322,065	343,493	370,145
Increase in installed base	26,539	17,864	13,616	15,835	17,781	21,428	26,651
%PC's retiring	22%	22%	22%	22%	22%	22%	22%
# PCs retiring	56,533	60,463	63,459	66,943	70,854	75,569	81,432
Total # new PCs	83,073	78,327	77,075	82,778	88,635	96,997	108,083
% new PCs virtualized	0.7%	2.0%	5.6%	10.6%	15.5%	20.5%	25.0%
# VDI Licenses	582	1,567	4,316	8,811	13,733	19,921	27,021
YoY %change		169%	176%	104%	56%	45%	36%
VDI Installed Base	582	2,148	5,883	13,127	22,544	33,654	46,942
VDI Penetration - % of installed PCs	0.2%	0.8%	2.0%	4.3%	7.0%	9.8%	12.7%
ASP - License (\$/unit)	\$58	\$58	\$58	\$53	\$49	\$45	\$42
ASP - Maintenance (\$/unit)	21%	\$12	\$12	\$11	\$10	\$9	\$9
ASP - Total	\$70	\$70	\$70	\$65	\$59	\$55	\$50
License Rev (\$000's)	\$33,728	\$90,859	\$250,339	\$470,148	\$674,174	\$899,720	\$1,122,736
Maintenance Rev (\$000s)	\$7,083	\$26,163	\$71,652	\$147,097	\$232,409	\$319,191	\$409,600
Total Revenue	\$40,810	\$117,023	\$321,991	\$617,244	\$906,583	\$1,218,911	\$1,532,337
YoY %change		187%	175%	92%	47%	34%	26%

Vendor Revenue & Mkt Share

CTXS Rev	9,550	\$48,900	\$146,506	\$287,790	\$423,827	\$571,365	\$735,522
%share	23.4%	41.8%	45.5%	46.6%	46.8%	46.9%	48.0%
YoY %change		412%	200%	96%	47%	35%	29%
VMW Rev	\$29,500	\$59,580	\$146,506	\$263,100	\$369,432	\$473,852	\$551,641
%share	72.3%	50.9%	45.5%	42.6%	40.8%	38.9%	36.0%
YoY %change		102%	146%	80%	40%	28%	16%
Others	\$1,760	\$8,543	\$28,979	\$66,354	\$113,323	\$173,695	\$245,174
%share	4.3%	7.3%	9.0%	10.8%	12.5%	14.3%	16.0%

Source: Morgan Stanley Research Estimates

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. Incorporated, and/or Morgan Stanley C.T.V.M. S.A. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. Incorporated, Morgan Stanley C.T.V.M. S.A. and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Adam Holt.

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

The following analyst or strategist (or a household member) owns securities (or related derivatives) in a company that he or she covers or recommends in Morgan Stanley Research: Munish Jain - Symantec (common or preferred stock). Morgan Stanley policy prohibits research analysts, strategists and research associates from investing in securities in their sub industry as defined by the Global Industry Classification Standard ("GICS," which was developed by and is the exclusive property of MSCI and S&P). Analysts may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

As of April 30, 2010, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Adobe Systems, Autodesk, McAfee, NetSuite, Salesforce.com, Symantec, VMware Inc, Websense Inc..

As of April 30, 2010, Morgan Stanley held a net long or short position of US\$1 million or more of the debt securities of the following issuers covered in Morgan Stanley Research (including where guarantor of the securities): Adobe Systems, Autodesk, Intuit, McAfee, Microsoft, Oracle Corporation, Symantec, VMware Inc.

Within the last 12 months, Morgan Stanley managed or co-managed a public offering (or 144A offering) of securities of Adobe Systems, Fortinet Inc., Oracle Corporation, SolarWinds, Inc., SuccessFactors.

Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Adobe Systems, ArcSight Inc, Autodesk, Fortinet Inc., Intuit, McAfee, Microsoft, Oracle Corporation, Red Hat, Inc., SolarWinds, Inc., SuccessFactors, Symantec.

In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Adobe Systems, ArcSight Inc, Autodesk, Check Point Software Technologies Ltd., Citrix Systems Inc, DemandTec, Fortinet Inc., Guidance Software Inc., Intuit, McAfee, Microsoft, NetSuite, Oracle Corporation, Red Hat, Inc., RightNow Technologies, Inc., Salesforce.com, SolarWinds, Inc., Sourcefire, SuccessFactors, Symantec, Taleo Corporation, VMware Inc, Websense Inc..

Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Microsoft, Oracle Corporation.

Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Adobe Systems, ArcSight Inc, Autodesk, Check Point Software Technologies Ltd., Citrix Systems Inc, DemandTec, Fortinet Inc., Guidance Software Inc., Intuit, McAfee, Microsoft, NetSuite, Oracle Corporation, Red Hat, Inc., RightNow Technologies, Inc., Salesforce.com, SolarWinds, Inc., Sourcefire, SuccessFactors, Symantec, Taleo Corporation, VMware Inc, Websense Inc..

Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Adobe Systems, Autodesk, Citrix Systems Inc, Intuit, Microsoft, Oracle Corporation, Red Hat, Inc., Symantec, Websense Inc..

Within the last 12 months, Morgan Stanley has either provided or is providing non-securities related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: RightNow Technologies, Inc..

Within the last 12 months, an affiliate of Morgan Stanley & Co. Incorporated has received compensation for products and services other than investment banking services from RightNow Technologies, Inc..

Morgan Stanley & Co. Incorporated makes a market in the securities of Adobe Systems, ArcSight Inc, Autodesk, Check Point Software Technologies Ltd., Citrix Systems Inc, DemandTec, Fortinet Inc., Guidance Software Inc., Intuit, McAfee, Microsoft, Oracle Corporation, Red Hat, Inc., RightNow Technologies, Inc., Salesforce.com, SolarWinds, Inc., Sourcefire, SuccessFactors, Symantec, Taleo Corporation, VMware Inc, Websense Inc..

The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report. Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of April 30, 2010)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

May 20, 2010
Software

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1065	42%	328	42%	31%
Equal-weight/Hold	1118	44%	357	46%	32%
Not-Rated/Hold	14	1%	4	1%	29%
Underweight/Sell	366	14%	88	11%	24%
Total	2,563		777		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies or topics that are the subject of Morgan Stanley Research. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports.

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC, Morgan Stanley and Citigroup Global Markets Inc. or any of their affiliates, are available on the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

For a discussion, if applicable, of the valuation methods and the risks related to any price targets, please refer to the latest relevant published research on these stocks.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

The fixed income research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

May 20, 2010
Software

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley MUFG Securities, Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by the Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Services Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Software

Company (Ticker)	Rating (as of)	Price* (05/19/2010)
Adam Holt		
Adobe Systems (ADBE.O)	O (10/29/2009)	\$32.88
Citrix Systems Inc (CTXS.O)	E (05/20/2010)	\$44.75
Fortinet Inc. (FTNT.O)	O (01/06/2010)	\$16.53
Guidance Software Inc. (GUID.O)	U (10/02/2008)	\$5.79
Intuit (INTU.O)	O (05/03/2010)	\$35.57
McAfee (MFE.N)	E (05/17/2010)	\$32.45
Microsoft (MSFT.O)	O (04/24/2009)	\$28.24
NetSuite (N.N)	E (01/14/2010)	\$14.67
Oracle Corporation (ORCL.O)	O (06/23/2008)	\$23.19
Red Hat, Inc. (RHT.N)	E (12/19/2008)	\$29.36
Salesforce.com (CRM.N)	E (08/12/2009)	\$81.6
SolarWinds, Inc. (SWI.N)	O (06/29/2009)	\$19.27
Sourcefire (FIRE.O)	E (01/14/2010)	\$18.2
SuccessFactors (SFSF.O)	E (12/16/2008)	\$21.25
Symantec (SYMC.O)	E (05/07/2009)	\$15.63
Taleo Corporation (TLEO.O)	O (01/14/2010)	\$24.69
VMware Inc (VMW.N)	O (05/20/2010)	\$58.82
Keith Weiss, CFA		
ArcSight Inc (ARST.O)	O (03/26/2008)	\$21.63
Autodesk (ADSK.O)	U (09/08/2009)	\$30.35
Check Point Software Technologies Ltd. (CHKP.O)	E (04/15/2010)	\$32.02
DemandTec (DMAN.O)	U (01/08/2010)	\$5.95
RightNow Technologies, Inc. (RNOW.O)	E (04/06/2006)	\$15.5
Websense Inc. (WBSN.O)	O (01/29/2010)	\$22.03

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.