

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Three Months Ended March 31, 2011
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Tax on Employee Stock Transactions	Intangible Amortization	Acquisition Related Items	Capitalized Software Development Costs (1)	Stock-Based Compensation Included in Capitalized Software Development	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:									
License	\$ 418,999	—	—	—	—	—	—	—	\$ 418,999
Services	424,722	—	—	—	—	—	—	—	424,722
	843,721	—	—	—	—	—	—	—	843,721
Operating expenses:									
Cost of license revenues	56,018	(466)	(24)	(9,040)	—	(28,465)	—	—	18,023
Cost of services revenues	93,879	(5,588)	(377)	(1,242)	—	—	—	—	86,672
Research and development	169,163	(41,884)	(2,071)	(797)	—	32,304	(4,882)	—	151,833
Sales and marketing	302,924	(22,523)	(1,053)	(2,089)	—	—	—	—	277,259
General and administrative	68,235	(10,112)	(239)	(36)	(172)	—	—	—	57,676
Operating income	153,502	80,573	3,764	13,204	172	(3,839)	4,882	—	252,258
<i>Operating margin</i>	<i>18.2%</i>	<i>9.5%</i>	<i>0.4%</i>	<i>1.6%</i>	—	<i>-0.4%</i>	<i>0.6%</i>	—	<i>29.9%</i>
Investment income	3,406	—	—	—	—	—	—	—	3,406
Interest expense with EMC, net	(959)	—	—	—	—	—	—	—	(959)
Other income, net	165	—	—	—	—	—	—	—	165
Income before income taxes	156,114	80,573	3,764	13,204	172	(3,839)	4,882	—	254,870
Income tax provision	30,302	—	—	—	—	—	—	20,672	50,974
<i>Tax rate</i>	<i>19.4%</i>	—	—	—	—	—	—	—	<i>20.0%</i>
Net income	\$ 125,812	80,573	3,764	13,204	172	(3,839)	4,882	(20,672)	\$ 203,896
Net income per weighted average share,									
basic for Class A and Class B (3)	\$ 0.30	\$ 0.19	\$ 0.01	\$ 0.03	\$ —	\$ (0.01)	\$ 0.01	\$ (0.04)	\$ 0.49
Net income per weighted average share,									
diluted for Class A and Class B (4)	\$ 0.29	\$ 0.19	\$ 0.01	\$ 0.03	\$ —	\$ (0.01)	\$ 0.01	\$ (0.04)	\$ 0.48

(1) For the first quarter of 2011, we capitalized \$32.3 million (including \$4.9 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$28.5 million for the first quarter of 2011.

(2) Non-GAAP financial information for the quarter is adjusted for a tax rate equal to our annual estimated tax rate on non-GAAP income. This rate is based on our estimated annual GAAP income tax rate forecast, adjusted to account for items excluded from GAAP income in calculating the non-GAAP financial measures presented above. Our estimated tax rate on non-GAAP income is determined annually and may be re-calculated during the year to take into account events or trends that we believe materially impact the estimated annual rate including, but not limited to, significant changes resulting from tax legislation, tax audit closures, material changes in the geographic mix of revenues and expenses and other significant events. Due to the differences in the tax treatment of items excluded from non-GAAP earnings, as well as the methodology applied to our estimated annual tax rates as described above, our estimated tax rate on non-GAAP income may differ from our GAAP tax rate and from our actual tax liabilities.

(3) Calculated based upon 417,444 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 429,247 diluted weighted-average shares for Class A and Class B.