

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS  
For the Three Months Ended June 30, 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	Gain on Sale of Terremark (2)	Tax Adjustment (3)	Non-GAAP, as adjusted
Revenues:										
License	\$ 464,806	—	—	—	—	—	—	—	—	\$ 464,806
Services	456,404	—	—	—	—	—	—	—	—	456,404
	921,210	—	—	—	—	—	—	—	—	921,210
Operating expenses:										
Cost of license revenues	48,928	(438)	(43)	(11,104)	—	(19,807)	—	—	—	17,536
Cost of services revenues	103,547	(5,740)	(502)	(1,242)	—	—	—	—	—	96,063
Research and development	189,241	(46,074)	(3,773)	(797)	—	29,594	(4,157)	—	—	164,034
Sales and marketing	314,560	(23,264)	(2,254)	(2,426)	—	—	—	—	—	286,616
General and administrative	78,042	(9,926)	(618)	(36)	(1,210)	—	—	—	—	66,252
Operating income	186,892	85,442	7,190	15,605	1,210	(9,787)	4,157	—	—	290,709
Operating margin	20.3%	9.3%	0.8%	1.7%	0.1%	-1.2%	0.6%	—	—	31.6%
Investment income	3,715	—	—	—	—	—	—	—	—	3,715
Interest expense with EMC, net	(972)	—	—	—	—	—	—	—	—	(972)
Other income, net	56,639	—	—	—	—	—	—	(56,000)	—	639
Income before income taxes	246,274	85,442	7,190	15,605	1,210	(9,787)	4,157	(56,000)	—	294,091
Income tax provision	26,116	—	—	—	—	—	—	—	32,702	58,818
Tax rate	10.6%	—	—	—	—	—	—	—	—	20.0%
Net income	\$ 220,158	85,442	7,190	15,605	1,210	(9,787)	4,157	(56,000)	(32,702)	\$ 235,273
Net income per weighted average share, basic for Class A and Class B (4)	\$ 0.52	\$ 0.20	\$ 0.02	\$ 0.04	\$ —	\$ (0.02)	\$ 0.01	\$ (0.13)	\$ (0.08)	\$ 0.56
Net income per weighted average share, diluted for Class A and Class B (5)	\$ 0.51	\$ 0.20	\$ 0.02	\$ 0.04	\$ —	\$ (0.02)	\$ 0.01	\$ (0.13)	\$ (0.08)	\$ 0.55

(1) For the second quarter of 2011, we capitalized \$29.6 million (including \$4.2 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$19.8 million for the second quarter of 2011.

(2) VMware realized a gain of \$56.0 million on the sale of its investment in Terremark Worldwide, Inc.

(3) 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.

(4) Calculated based upon 419,657 basic weighted-average shares for Class A and Class B.

(5) Calculated based upon 430,473 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS  
For the Six Months Ended June 30, 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	Gain on Sale of Terremark (2)	Tax Adjustment (3)	Non-GAAP, as adjusted
Revenues:										
License	\$ 883,805	—	—	—	—	—	—	—	—	\$ 883,805
Services	881,126	—	—	—	—	—	—	—	—	881,126
	1,764,931	—	—	—	—	—	—	—	—	1,764,931
Operating expenses:										
Cost of license revenues	104,946	(904)	(67)	(20,144)	—	(48,272)	—	—	—	35,559
Cost of services revenues	197,426	(11,328)	(879)	(2,484)	—	—	—	—	—	182,735
Research and development	358,404	(87,958)	(5,844)	(1,594)	—	61,898	(9,039)	—	—	315,867
Sales and marketing	617,484	(45,787)	(3,307)	(4,515)	—	—	—	—	—	563,875
General and administrative	146,277	(20,038)	(857)	(72)	(1,382)	—	—	—	—	123,928
Operating income	340,394	166,015	10,954	28,809	1,382	(13,626)	9,039	—	—	542,967
Operating margin	19.3%	9.4%	0.6%	1.6%	0.1%	-0.7%	0.5%	—	—	30.8%
Investment income	7,121	—	—	—	—	—	—	—	—	7,121
Interest expense with EMC, net	(1,931)	—	—	—	—	—	—	—	—	(1,931)
Other expense, net	56,804	—	—	—	—	—	—	(56,000)	—	804
Income before income taxes	402,388	166,015	10,954	28,809	1,382	(13,626)	9,039	(56,000)	—	548,961
Income tax provision	56,418	—	—	—	—	—	—	—	53,374	109,792
Tax rate	14.0%	—	—	—	—	—	—	—	—	20.0%
Net income	\$ 345,970	166,015	10,954	28,809	1,382	(13,626)	9,039	(56,000)	(53,374)	\$ 439,169
Net income per weighted average share, basic for Class A and Class B (4)	\$ 0.83	\$ 0.40	\$ 0.03	\$ 0.07	\$ —	\$ (0.03)	\$ 0.01	\$ (0.13)	\$ (0.13)	\$ 1.05
Net income per weighted average share, diluted for Class A and Class B (5)	\$ 0.80	\$ 0.39	\$ 0.03	\$ 0.07	\$ —	\$ (0.03)	\$ 0.01	\$ (0.13)	\$ (0.12)	\$ 1.02

(1) For the first half of 2011, we capitalized \$61.9 million (including \$9.0 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$48.3 million for the first half of 2011.

(2) VMware realized a gain of \$56.0 million on the sale of its investment in Terremark Worldwide, Inc.

(3) We calculate non-GAAP financial information for each fiscal quarter by adjusting 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. For the full fiscal year, the tax rate on non-GAAP income shown in the above table represents the weighted-average of the estimated tax rates that were applied to our quarterly non-GAAP financial results during the fiscal year. 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.

(4) Calculated based upon 418,557 basic weighted-average shares for Class A and Class B.

(5) Calculated based upon 429,984 diluted weighted-average shares for Class A and Class B.