

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Three Months Ended June 30, 2010
(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 Costs	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:									
License	\$ 323,665	—	—	—	—	—	—	—	\$ 323,665
Services	350,239	—	—	—	—	—	—	—	350,239
	673,904	—	—	—	—	—	—	—	673,904
Operating expenses:									
Cost of license revenues	40,269	(390)	(25)	(5,611)	—	(21,236)	—	—	13,007
Cost of services revenues	77,883	(4,057)	(122)	(1,471)	—	—	—	—	72,233
Research and development	161,756	(39,445)	(1,719)	(627)	—	18,594	(2,691)	—	135,868
Sales and marketing	231,662	(15,452)	(724)	(598)	—	—	—	—	214,888
General and administrative	61,153	(8,492)	(365)	(38)	(900)	—	—	—	51,358
Operating income	101,181	67,836	2,955	8,345	900	2,642	2,691	—	186,550
Operating margin	15.0%	10.1%	0.4%	1.2%	0.2%	0.4%	0.4%	0.0%	27.7%
Investment income	995	—	—	—	—	—	—	—	995
Interest expense with EMC, net	(957)	—	—	—	—	—	—	—	(957)
Other expense, net	(4,275)	—	—	—	—	—	—	—	(4,275)
Income before income taxes	96,944	67,836	2,955	8,345	900	2,642	2,691	—	182,313
Income tax provision	22,406	—	—	—	—	—	—	17,703	40,109
Tax rate	23.1%	—	—	—	—	—	—	—	22.0%
Net income	\$ 74,538	67,836	2,955	8,345	900	2,642	2,691	(17,703)	\$ 142,204
Net income per weighted average share, basic for Class A and Class B (3)	\$ 0.18	\$ 0.17	\$ 0.01	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.35
Net income per weighted average share, diluted for Class A and Class B (4)	\$ 0.18	\$ 0.16	\$ 0.01	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.34

(1) For the second quarter of 2010, VMware capitalized \$18.6 million (including \$2.7 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$21.2 million for the second quarter of 2010.

(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 407,931 basic weighted average shares for Class A and Class B.

(4) Calculated based upon 422,333 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, 2010
(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 Costs	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:									
License	\$ 635,842	—	—	—	—	—	—	—	\$ 635,842
Services	671,595	—	—	—	—	—	—	—	671,595
	1,307,437	—	—	—	—	—	—	—	1,307,437
Operating expenses:									
Cost of license revenues	80,390	(775)	(37)	(8,722)	—	(44,917)	—	—	25,939
Cost of services revenues	146,412	(8,214)	(177)	(1,728)	—	—	—	—	136,293
Research and development	299,868	(74,168)	(2,702)	(1,100)	—	44,635	(6,871)	—	259,662
Sales and marketing	448,491	(31,499)	(1,061)	(1,038)	—	—	—	—	414,893
General and administrative	128,909	(16,877)	(576)	(76)	(2,139)	—	—	—	109,241
Operating income	203,367	131,533	4,553	12,664	2,139	282	6,871	—	361,409
Operating margin	15.6%	10.1%	0.3%	1.0%	0.1%	0.0%	0.5%	0.0%	27.6%
Investment income	1,680	—	—	—	—	—	—	—	1,680
Interest expense with EMC, net	(1,858)	—	—	—	—	—	—	—	(1,858)
Other expense, net	(8,606)	—	—	—	—	—	—	—	(8,606)
Income before income taxes	194,583	131,533	4,553	12,664	2,139	282	6,871	—	352,625
Income tax provision	41,624	—	—	—	—	—	—	35,954	77,578
Tax rate	21.4%	—	—	—	—	—	—	—	22.0%
Net income	\$ 152,959	131,533	4,553	12,664	2,139	282	6,871	(35,954)	\$ 275,047
Net income per weighted average share, basic for Class A and Class B (3)	\$ 0.38	\$ 0.32	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.00	\$ 0.02	\$ (0.09)	\$ 0.68
Net income per weighted average share, diluted for Class A and Class B (4)	\$ 0.37	\$ 0.31	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.00	\$ 0.02	\$ (0.09)	\$ 0.66

(1) For the first half of 2010, VMware capitalized \$44.6 million (including \$6.9 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$44.9 million for the first half of 2010.

(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 405,089 basic weighted average shares for Class A and Class B.

(4) Calculated based upon 418,476 diluted weighted average shares for Class A and Class B.