

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Three Months Ended September 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	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:									
License	\$ 443,597	—	—	—	—	—	—	—	\$ 443,597
Services	498,266	—	—	—	—	—	—	—	498,266
	941,863	—	—	—	—	—	—	—	941,863
Operating expenses:									
Cost of license revenues	46,063	(367)	(26)	(12,743)	—	(14,427)	—	—	18,500
Cost of services revenues	106,678	(6,068)	(329)	(1,242)	—	—	—	—	99,039
Research and development	199,655	(46,663)	(2,394)	(797)	—	24,528	(3,389)	—	170,940
Sales and marketing	331,626	(24,763)	(1,403)	(2,832)	—	—	—	—	302,628
General and administrative	77,120	(10,518)	(340)	(36)	(844)	—	—	—	65,382
Operating income	180,721	88,379	4,492	17,650	844	(10,101)	3,389	—	285,374
Operating margin	19.2%	9.4%	0.5%	1.9%	0.1%	-1.1%	0.3%	—	30.3%
Investment income	4,351	—	—	—	—	—	—	—	4,351
Interest expense with EMC, net	(915)	—	—	—	—	—	—	—	(915)
Other income, net	(998)	—	—	—	—	—	—	—	(998)
Income before income taxes	183,159	88,379	4,492	17,650	844	(10,101)	3,389	—	287,812
Income tax provision	5,621	—	—	—	—	—	—	51,940	57,561
Tax rate	3.1%	—	—	—	—	—	—	—	20.0%
Net income	\$ 177,538	88,379	4,492	17,650	844	(10,101)	3,389	(51,940)	\$ 230,251
Net income per weighted average share,									
basic for Class A and Class B (3)	\$ 0.42	\$ 0.21	\$ 0.01	\$ 0.04	\$ —	\$ (0.02)	\$ 0.01	\$ (0.12)	\$ 0.55
Net income per weighted average share,									
diluted for Class A and Class B (4)	\$ 0.41	\$ 0.20	\$ 0.01	\$ 0.04	\$ —	\$ (0.02)	\$ 0.01	\$ (0.12)	\$ 0.53

(1) For the third quarter of 2011, we capitalized \$24.5 million (including \$3.4 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$14.4 million for the third 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 422,030 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 431,881 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Nine Months Ended September 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	\$ 1,327,402	—	—	—	—	—	—	—	—	\$ 1,327,402
Services	1,379,392	—	—	—	—	—	—	—	—	1,379,392
	2,706,794	—	—	—	—	—	—	—	—	2,706,794
Operating expenses:										
Cost of license revenues	151,009	(1,271)	(93)	(32,887)	—	(62,699)	—	—	—	54,059
Cost of services revenues	304,104	(17,396)	(1,208)	(3,726)	—	—	—	—	—	281,774
Research and development	558,059	(134,621)	(8,238)	(2,391)	—	86,426	(12,428)	—	—	486,807
Sales and marketing	949,110	(70,550)	(4,710)	(7,347)	—	—	—	—	—	866,503
General and administrative	223,397	(30,556)	(1,197)	(108)	(2,226)	—	—	—	—	189,310
Operating income	521,115	254,394	15,446	46,459	2,226	(23,727)	12,428	—	—	828,341
Operating margin	19.3%	9.4%	0.6%	1.7%	0.1%	-0.9%	0.4%	—	—	30.6%
Investment income	11,472	—	—	—	—	—	—	—	—	11,472
Interest expense with EMC, net	(2,846)	—	—	—	—	—	—	—	—	(2,846)
Other expense, net	55,806	—	—	—	—	—	—	(56,000)	—	(194)
Income before income taxes	585,547	254,394	15,446	46,459	2,226	(23,727)	12,428	(56,000)	—	836,773
Income tax provision	62,039	—	—	—	—	—	—	—	105,314	167,353
Tax rate	10.6%	—	—	—	—	—	—	—	—	20.0%
Net income	\$ 523,508	254,394	15,446	46,459	2,226	(23,727)	12,428	(56,000)	(105,314)	\$ 669,420
Net income per weighted average share, basic for Class A and Class B (4)	\$ 1.25	\$ 0.61	\$ 0.04	\$ 0.11	\$ —	\$ (0.06)	\$ 0.02	\$ (0.13)	\$ (0.25)	\$ 1.59
Net income per weighted average share, diluted for Class A and Class B (5)	\$ 1.21	\$ 0.59	\$ 0.04	\$ 0.11	\$ —	\$ (0.05)	\$ 0.02	\$ (0.13)	\$ (0.24)	\$ 1.55

(1) For the first nine months of 2011, we capitalized \$86.4 million (including \$12.4 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$62.7 million for the first nine months 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 420,247 basic weighted-average shares for Class A and Class B.

(5) Calculated based upon 431,846 diluted weighted-average shares for Class A and Class B.