

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Three Months Ended December 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)	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:								
License	\$ 513,767	—	—	—	—	—	—	\$ 513,767
Services	546,535	—	—	—	—	—	—	546,535
	1,060,302	—	—	—	—	—	—	1,060,302
Operating expenses:								
Cost of license revenues	56,389	(335)	(27)	(13,187)	—	(22,042)	—	20,798
Cost of services revenues	110,485	(5,993)	(160)	(1,241)	—	—	—	103,091
Research and development	216,992	(39,643)	(1,486)	(796)	—	—	—	175,067
Sales and marketing	385,236	(25,138)	(867)	(2,866)	—	—	—	356,365
General and administrative	77,144	(9,650)	(383)	(37)	(197)	—	—	66,877
Operating income	214,056	80,759	2,923	18,127	197	22,042	—	338,104
<i>Operating margin</i>	20.2%	7.6%	0.3%	1.7%	—	2.1%	—	31.9%
Investment income	4,685	—	—	—	—	—	—	4,685
Interest expense with EMC, net	(1,060)	—	—	—	—	—	—	(1,060)
Other expense, net	(8,815)	—	—	—	—	—	—	(8,815)
Income before income taxes	208,866	80,759	2,923	18,127	197	22,042	—	332,914
Income tax provision	8,438	—	—	—	—	—	58,145	66,583
<i>Tax rate</i>	4.0%	—	—	—	—	—	—	20.0%
Net income	\$ 200,428	80,759	2,923	18,127	197	22,042	(58,145)	\$ 266,331
Net income per weighted average share,								
basic for Class A and Class B (3)	\$ 0.47	\$ 0.19	\$ 0.01	\$ 0.04	\$ —	\$ 0.06	\$ (0.14)	\$ 0.63
Net income per weighted average share,								
diluted for Class A and Class B (4)	\$ 0.46	\$ 0.19	\$ 0.01	\$ 0.04	\$ —	\$ 0.05	\$ (0.13)	\$ 0.62

(1) For the fourth quarter of 2011, no costs were capitalized for the development of software products. Amortization expense from previously capitalized amounts was \$22.0 million for the fourth 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 adjusted 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, 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 422,873 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 431,375 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Year Ended December 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	Gain on Sale of Terremark (2)	Tax Adjustment (3)	Non-GAAP, as adjusted
Revenues:										
License	\$ 1,841,169	—	—	—	—	—	—	—	—	\$ 1,841,169
Services	1,925,927	—	—	—	—	—	—	—	—	1,925,927
	3,767,096	—	—	—	—	—	—	—	—	3,767,096
Operating expenses:										
Cost of license revenues	207,398	(1,606)	(120)	(46,074)	—	(84,741)	—	—	—	74,857
Cost of services revenues	414,589	(23,389)	(1,368)	(4,967)	—	—	—	—	—	384,865
Research and development	775,051	(174,264)	(9,724)	(3,187)	—	86,426	(12,428)	—	—	661,874
Sales and marketing	1,334,346	(95,688)	(5,577)	(10,213)	—	—	—	—	—	1,222,868
General and administrative	300,541	(40,206)	(1,580)	(145)	(2,423)	—	—	—	—	256,187
Operating income	735,171	335,153	18,369	64,586	2,423	(1,685)	12,428	—	—	1,166,445
Operating margin	19.5%	8.9%	0.5%	1.7%	0.1%	—	0.3%	—	—	31.0%
Investment income	16,157	—	—	—	—	—	—	—	—	16,157
Interest expense with EMC, net	(3,906)	—	—	—	—	—	—	—	—	(3,906)
Other income (expense), net	46,991	—	—	—	—	—	—	(56,000)	—	(9,009)
Income before income taxes	794,413	335,153	18,369	64,586	2,423	(1,685)	12,428	(56,000)	—	1,169,687
Income tax provision	70,477	—	—	—	—	—	—	—	163,459	233,936
Tax rate	8.9%	—	—	—	—	—	—	—	—	20.0%
Net income	\$ 723,936	335,153	18,369	64,586	2,423	(1,685)	12,428	(56,000)	(163,459)	\$ 935,751
Net income per weighted average share, basic for Class A and Class B (4)	\$ 1.72	\$ 0.80	\$ 0.04	\$ 0.15	\$ 0.01	\$ (0.01)	\$ 0.03	\$ (0.13)	\$ (0.39)	\$ 2.22
Net income per weighted average share, diluted for Class A and Class B (5)	\$ 1.68	\$ 0.78	\$ 0.04	\$ 0.15	\$ 0.01	\$ (0.01)	\$ 0.03	\$ (0.13)	\$ (0.38)	\$ 2.17

(1) For the year ended December 31, 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 \$84.7 million for the year ended December 31, 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 adjusted 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, 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 421,188 basic weighted-average shares for Class A and Class B.

(5) Calculated based upon 431,750 diluted weighted-average shares for Class A and Class B.