

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Year Ended December 31, 2012
(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	\$ 2,086,990	—	—	—	—	—	—	\$ 2,086,990
Services	2,518,057	—	—	—	—	—	—	2,518,057
Total Revenues	4,605,047	—	—	—	—	—	—	4,605,047
Operating expenses:								
Cost of license revenues	237,027	(2,072)	(60)	(71,605)	—	(70,608)	—	92,682
Cost of services revenues	484,296	(28,220)	(1,040)	(4,392)	—	—	—	450,644
Research and development	999,214	(210,377)	(6,327)	(3,718)	—	—	—	778,792
Sales and marketing	1,644,849	(149,879)	(4,847)	(12,243)	—	—	—	1,477,880
General and administrative	367,718	(48,107)	(1,622)	—	(3,896)	—	—	314,093
Operating income	871,943	438,655	13,896	91,958	3,896	70,608	—	1,490,956
Operating margin	18.9%	9.5%	0.3%	2.0%	0.2%	1.5%	—	32.4%
Investment income	26,557	—	—	—	—	—	—	26,557
Interest expense with EMC, net	(4,654)	—	—	—	—	—	—	(4,654)
Other expense, net	(732)	—	—	—	—	—	—	(732)
Income before income taxes	893,114	438,655	13,896	91,958	3,896	70,608	—	1,512,127
Income tax provision	147,412	—	—	—	—	—	129,126	276,538
Tax rate	16.5%	—	—	—	—	—	—	18.3%
Net income	\$ 745,702	438,655	13,896	91,958	3,896	70,608	(129,126)	\$ 1,235,589
Net income per weighted average share,								
basic for Class A and Class B (3)	\$ 1.75	\$ 1.03	\$ 0.03	\$ 0.22	\$ 0.01	\$ 0.17	\$ (0.31)	\$ 2.90
Net income per weighted average share,								
diluted for Class A and Class B (4)	\$ 1.72	\$ 1.01	\$ 0.03	\$ 0.21	\$ 0.01	\$ 0.16	\$ (0.29)	\$ 2.85

(1) For the year ended December 31, 2012, no costs were capitalized for the development of software products. Amortization expense from previously capitalized amounts was \$70.6 million.

(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 426,658 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 433,974 diluted weighted-average shares for Class A and Class B.