

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Year Ended December 31, 2006
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	IPR&D and Intangible Amortization	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non-GAAP, as adjusted
Revenues:						
License	\$ 491,902	—	—	—	—	\$ 491,902
Services	212,002	—	—	—	—	212,002
	<u>703,904</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>703,904</u>
Operating expenses:						
Cost of license revenues	59,202	(99)	(21,840)	(22,299)	—	14,964
Cost of services revenues	64,180	(2,384)	—	—	—	61,796
Research and development	151,954	(26,342)	(3,700)	43,012	(10,489)	154,435
Sales and marketing	238,327	(12,020)	(2,188)	—	—	224,119
General and administrative	69,602	(10,381)	(1,494)	—	—	57,727
Operating income	<u>120,639</u>	<u>51,226</u>	<u>29,222</u>	<u>(20,713)</u>	<u>10,489</u>	<u>190,863</u>
Investment income	2,497	—	—	—	—	2,497
Interest income with EMC, net	293	—	—	—	—	293
Other expense, net	(882)	—	—	—	—	(882)
Income before income taxes	<u>122,547</u>	<u>51,226</u>	<u>29,222</u>	<u>(20,713)</u>	<u>10,489</u>	<u>192,771</u>
Income tax provision	36,832	13,457	9,698	(7,871)	2,758	54,874
Quarterly tax rate	30.1%					28.5%
Cumulative effect of change in accounting principle						
	175	—	—	—	—	175
Net income	<u>\$ 85,890</u>	<u>37,769</u>	<u>19,524</u>	<u>(12,842)</u>	<u>7,731</u>	<u>\$ 138,072</u>
Net income per weighted average share, basic for Class A and Class B (2)						
	\$ 0.26	\$ 0.11	\$ 0.06	\$ (0.04)	\$ 0.02	\$ 0.42
Net income per weighted average share, diluted for Class A and Class B (2)						
	\$ 0.26	\$ 0.11	\$ 0.06	\$ (0.04)	\$ 0.02	\$ 0.42

(1) For the year ended December 31, 2006, VMware capitalized \$43.0 million (including \$10.5 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$22.3 million for the year ended December 31, 2006.

(2) Calculated based upon 332,500 basic and diluted weighted average shares for Class A and Class B.