

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Three Months Ended September 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	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:									
License	\$ 343,239	—	—	—	—	—	—	—	\$ 343,239
Services	371,006	—	—	—	—	—	—	—	371,006
	714,245	—	—	—	—	—	—	—	714,245
Operating expenses:									
Cost of license revenues	46,333	(395)	(26)	(6,688)	—	(26,140)	—	—	13,084
Cost of services revenues	80,229	(4,387)	(386)	(1,471)	—	—	—	—	73,985
Research and development	175,429	(43,124)	(3,100)	(627)	—	8,255	(1,232)	—	135,601
Sales and marketing	251,745	(18,102)	(2,076)	(1,095)	—	—	—	—	230,472
General and administrative	66,497	(7,649)	(771)	(38)	(1,035)	—	—	—	57,004
Operating income	94,012	73,657	6,359	9,919	1,035	17,885	1,232	—	204,099
<i>Operating margin</i>	<i>13.2%</i>	<i>10.3%</i>	<i>0.9%</i>	<i>1.4%</i>	<i>0.1%</i>	<i>2.5%</i>	<i>0.2%</i>	—	<i>28.6%</i>
Investment income	2,349	—	—	—	—	—	—	—	2,349
Interest expense with EMC, net	(1,245)	—	—	—	—	—	—	—	(1,245)
Other income, net	1,629	—	—	—	—	—	—	—	1,629
Income before income taxes	96,745	73,657	6,359	9,919	1,035	17,885	1,232	—	206,832
Income tax provision	12,145	—	—	—	—	—	—	29,221	41,366
<i>Tax rate</i>	<i>12.6%</i>	—	—	—	—	—	—	—	<i>20.0%</i>
Net income	\$ 84,600	73,657	6,359	9,919	1,035	17,885	1,232	(29,221)	\$ 165,466
Net income per weighted average share,									
basic for Class A and Class B (3)	\$ 0.21	\$ 0.18	\$ 0.02	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.00	\$ (0.07)	\$ 0.40
Net income per weighted average share,									
diluted for Class A and Class B (4)	\$ 0.20	\$ 0.18	\$ 0.02	\$ 0.02	\$ 0.00	\$ 0.04	\$ 0.00	\$ (0.07)	\$ 0.39

(1) For the third quarter of 2010, VMware capitalized \$8.3 million (including \$1.2 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$26.1 million for the third 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 411,755 basic weighted average shares for Class A and Class B.

(4) Calculated based upon 426,581 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, 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	Tax Adjustment (2)	Non-GAAP, as adjusted
Revenues:									
License	\$ 979,081	—	—	—	—	—	—	—	\$ 979,081
Services	1,042,601	—	—	—	—	—	—	—	1,042,601
	<u>2,021,682</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,021,682</u>
Operating expenses:									
Cost of license revenues	126,723	(1,170)	(63)	(15,410)	—	(71,057)	—	—	39,023
Cost of services revenues	226,641	(12,601)	(563)	(3,199)	—	—	—	—	210,278
Research and development	475,297	(117,292)	(5,802)	(1,727)	—	52,890	(8,103)	—	395,263
Sales and marketing	700,236	(49,601)	(3,137)	(2,133)	—	—	—	—	645,365
General and administrative	195,406	(24,526)	(1,347)	(114)	(3,174)	—	—	—	166,245
Operating income	<u>297,379</u>	<u>205,190</u>	<u>10,912</u>	<u>22,583</u>	<u>3,174</u>	<u>18,167</u>	<u>8,103</u>	<u>—</u>	<u>565,508</u>
Operating margin	14.7%	10.1%	0.5%	1.1%	0.2%	0.9%	0.4%	—	28.0%
Investment income	4,029	—	—	—	—	—	—	—	4,029
Interest expense with EMC, net	(3,103)	—	—	—	—	—	—	—	(3,103)
Other expense, net	(6,977)	—	—	—	—	—	—	—	(6,977)
Income before income taxes	<u>291,328</u>	<u>205,190</u>	<u>10,912</u>	<u>22,583</u>	<u>3,174</u>	<u>18,167</u>	<u>8,103</u>	<u>—</u>	<u>559,457</u>
Income tax provision	53,769	—	—	—	—	—	—	65,175	118,944
Tax rate	18.5%	—	—	—	—	—	—	—	21.3%
Net income	<u>\$ 237,559</u>	<u>205,190</u>	<u>10,912</u>	<u>22,583</u>	<u>3,174</u>	<u>18,167</u>	<u>8,103</u>	<u>(65,175)</u>	<u>\$ 440,513</u>
Net income per weighted average share, basic for Class A and Class B (3)	\$ 0.58	\$ 0.50	\$ 0.03	\$ 0.06	\$ 0.01	\$ 0.04	\$ 0.02	\$ (0.16)	\$ 1.08
Net income per weighted average share, diluted for Class A and Class B (4)	\$ 0.56	\$ 0.49	\$ 0.03	\$ 0.05	\$ 0.00	\$ 0.04	\$ 0.02	\$ (0.15)	\$ 1.04

(1) For the first nine months of 2010, VMware capitalized \$52.9 million (including \$8.1 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$71.1 million for the first nine months 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 recalculated 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 408,082 basic weighted average shares for Class A and Class B.

(4) Calculated based upon 421,949 diluted weighted average shares for Class A and Class B.