

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP INCOME STATEMENTS
For the Three Months Ended December 31, 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	\$ 422,343	—	—	—	—	—	—	—	\$ 422,343
Services	413,318	—	—	—	—	—	—	—	413,318
	835,661	—	—	—	—	—	—	—	835,661
Operating expenses:									
Cost of license revenues	50,735	(483)	(21)	(8,375)	—	(28,465)	—	—	13,391
Cost of services revenues	89,616	(5,877)	(228)	(1,471)	—	—	—	—	82,040
Research and development	177,671	(47,143)	(3,299)	(627)	—	18,776	(2,821)	—	142,557
Sales and marketing	313,045	(23,545)	(1,496)	(1,664)	—	—	—	—	286,340
General and administrative	73,980	(9,453)	(342)	(38)	(325)	—	—	—	63,822
Operating income	130,614	86,501	5,386	12,175	325	9,689	2,821	—	247,511
Operating margin	15.6%	10.4%	0.6%	1.5%	—	1.2%	0.3%	—	29.6%
Investment income	2,604	—	—	—	—	—	—	—	2,604
Interest expense with EMC, net	(966)	—	—	—	—	—	—	—	(966)
Other expense, net	(7,205)	—	—	—	—	—	—	—	(7,205)
Income before income taxes	125,047	86,501	5,386	12,175	325	9,689	2,821	—	241,944
Income tax provision	5,167	—	—	—	—	—	—	38,383	43,550
Tax rate	4.1%	—	—	—	—	—	—	—	18.0%
Net income	\$ 119,880	86,501	5,386	12,175	325	9,689	2,821	(38,383)	\$ 198,394
Net income per weighted average share, basic for Class A and Class B (3)	\$ 0.29	\$ 0.21	\$ 0.01	\$ 0.03	\$ —	\$ 0.02	\$ 0.01	\$ (0.09)	\$ 0.48
Net income per weighted average share, diluted for Class A and Class B (4)	\$ 0.28	\$ 0.20	\$ 0.01	\$ 0.03	\$ —	\$ 0.02	\$ 0.01	\$ (0.09)	\$ 0.46

(1) For the fourth quarter of 2010, we capitalized \$18.8 million (including \$2.8 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$28.5 million for the fourth 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 414,919 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 427,883 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, 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	\$ 1,401,424	—	—	—	—	—	—	—	\$ 1,401,424
Services	1,455,919	—	—	—	—	—	—	—	1,455,919
	2,857,343	—	—	—	—	—	—	—	2,857,343
Operating expenses:									
Cost of license revenues	177,458	(1,653)	(84)	(23,785)	—	(99,522)	—	—	52,414
Cost of services revenues	316,257	(18,478)	(791)	(4,670)	—	—	—	—	292,318
Research and development	652,968	(164,435)	(9,101)	(2,354)	—	71,666	(10,924)	—	537,820
Sales and marketing	1,013,281	(73,146)	(4,633)	(3,797)	—	—	—	—	931,705
General and administrative	269,386	(33,979)	(1,689)	(152)	(3,499)	—	—	—	230,067
Operating income	427,993	291,691	16,298	34,758	3,499	27,856	10,924	—	813,019
Operating margin	15.0%	10.2%	0.6%	1.2%	0.1%	1.0%	0.4%	—	28.5%
Investment income	6,633	—	—	—	—	—	—	—	6,633
Interest expense with EMC, net	(4,069)	—	—	—	—	—	—	—	(4,069)
Other expense, net	(14,182)	—	—	—	—	—	—	—	(14,182)
Income before income taxes	416,375	291,691	16,298	34,758	3,499	27,856	10,924	—	801,401
Income tax provision	58,936	—	—	—	—	—	—	103,558	162,494
Tax rate	14.2%	—	—	—	—	—	—	—	20.3%
Net income	\$ 357,439	291,691	16,298	34,758	3,499	27,856	10,924	(103,558)	\$ 638,907
Net income per weighted average share, basic for Class A and Class B (3)	\$ 0.87	\$ 0.71	\$ 0.04	\$ 0.08	\$ 0.01	\$ 0.07	\$ 0.03	\$ (0.25)	\$ 1.56
Net income per weighted average share, diluted for Class A and Class B (4)	\$ 0.84	\$ 0.69	\$ 0.04	\$ 0.08	\$ —	\$ 0.07	\$ 0.03	\$ (0.24)	\$ 1.51

(1) For the year ended December 31, 2010, we capitalized \$71.7 million (including \$10.9 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$99.5 million for the year ended December 31, 2010.

(2) 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.

(3) Calculated based upon 409,805 basic weighted average shares for Class A and Class B.

(4) Calculated based upon 423,446 diluted weighted average shares for Class A and Class B.