

VMware, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Three Months Ended		For the Year Ended	
	December 31,		December 31,	
	2011	2010	2011	2010
Operating activities:				
Net income	\$ 200,428	\$ 119,880	\$ 723,936	\$ 357,439
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	86,228	77,090	315,871	260,551
Stock-based compensation, excluding amounts capitalized	80,759	86,501	335,153	291,691
Excess tax benefits from stock-based compensation	(26,811)	(56,253)	(224,503)	(223,457)
Gain on sale of Terremark investment	—	—	(56,000)	—
Other	10,626	6,963	21,420	13,083
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(336,123)	(236,362)	(263,366)	(77,121)
Other assets	15,576	3,999	(75,879)	(79,431)
Due to/from EMC, net	(61,310)	(44,439)	(18,370)	(28,508)
Accounts payable	(3,960)	4,292	(16,513)	8,881
Accrued expenses	100,353	92,353	115,025	120,880
Income taxes receivable from EMC	23,018	—	269,258	2,508
Income taxes payable	27,261	46,618	79,183	89,439
Deferred income taxes, net	(28,936)	(48,513)	(19,663)	(56,948)
Unearned revenue	474,300	354,486	840,081	495,382
Net cash provided by operating activities	561,409	406,615	2,025,633	1,174,389
Investing activities:				
Additions to property and equipment	(52,911)	(40,450)	(230,091)	(131,695)
Purchase of leasehold interest	—	—	(151,083)	—
Capitalized software development costs	—	(15,955)	(73,998)	(64,149)
Purchases of available-for-sale securities	(584,397)	(477,201)	(2,667,888)	(2,101,907)
Sales of available-for-sale securities	208,058	265,033	816,351	389,251
Maturities of available-for-sale securities	249,706	96,160	974,413	127,054
Sale of strategic investments	—	—	78,513	2,648
Business acquisitions, net of cash acquired	—	—	(303,610)	(292,970)
Transfer of net assets under common control	—	(10,580)	(22,393)	(185,580)
Other investing	(815)	(4,800)	(31,187)	(4,594)
Net cash used in investing activities	(180,359)	(187,793)	(1,610,973)	(2,261,942)
Financing activities:				
Proceeds from issuance of common stock	52,332	75,460	337,618	431,306
Repurchase of common stock	(35,287)	(52,587)	(526,203)	(338,527)
Excess tax benefits from stock-based compensation	26,811	56,253	224,503	223,457
Shares repurchased for tax withholdings on vesting of restricted stock	(18,979)	(16,063)	(123,787)	(86,179)
Net cash provided by (used in) financing activities	24,877	63,063	(87,869)	230,057
Net increase (decrease) in cash and cash equivalents	405,927	281,885	326,791	(857,496)
Cash and cash equivalents at beginning of the period	1,549,829	1,347,080	1,628,965	2,486,461
Cash and cash equivalents at end of the period	\$ 1,955,756	\$ 1,628,965	\$ 1,955,756	\$ 1,628,965

VMware, Inc.

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(unaudited)

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2011	2010	2011	2010
Revenues:				
License	\$ 513,767	\$ 422,343	\$ 1,841,169	\$ 1,401,424
Services	546,535	413,318	1,925,927	1,455,919
	<u>1,060,302</u>	<u>835,661</u>	<u>3,767,096</u>	<u>2,857,343</u>
Operating expenses (1):				
Cost of license revenues	56,389	50,735	207,398	177,458
Cost of services revenues	110,485	89,616	414,589	316,257
Research and development	216,992	177,671	775,051	652,968
Sales and marketing	385,236	313,045	1,334,346	1,013,281
General and administrative	77,144	73,980	300,541	269,386
Operating income	<u>214,056</u>	<u>130,614</u>	<u>735,171</u>	<u>427,993</u>
Investment income	4,685	2,604	16,157	6,633
Interest expense with EMC	(1,060)	(966)	(3,906)	(4,069)
Other income (expense), net	<u>(8,815)</u>	<u>(7,205)</u>	<u>46,991</u>	<u>(14,182)</u>
Income before income taxes	208,866	125,047	794,413	416,375
Income tax provision	8,438	5,167	70,477	58,936
Net income	<u>\$ 200,428</u>	<u>\$ 119,880</u>	<u>\$ 723,936</u>	<u>\$ 357,439</u>
Net income per weighted-average share, basic for Class A and Class B	\$ 0.47	\$ 0.29	\$ 1.72	\$ 0.87
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.46	\$ 0.28	\$ 1.68	\$ 0.84
Weighted-average shares, basic for Class A and Class B	422,873	414,919	421,188	409,805
Weighted-average shares, diluted for Class A and Class B	431,375	427,883	431,750	423,446
(1) Includes stock-based compensation as follows:				
Cost of license revenues	\$ 335	\$ 483	\$ 1,606	\$ 1,653
Cost of services revenues	5,993	5,877	23,389	18,478
Research and development	39,643	47,143	174,264	164,435
Sales and marketing	25,138	23,545	95,688	73,146
General and administrative	9,650	9,453	40,206	33,979

VMware, Inc.

CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	December 31, 2011	December 31, 2010
	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,955,756	\$ 1,628,965
Short-term investments	2,556,450	1,694,675
Accounts receivable, net of allowance for doubtful accounts of \$3,794 and \$4,519	882,857	614,726
Due from EMC, net	73,799	55,481
Deferred tax asset	128,471	100,689
Other current assets	80,439	203,119
Total current assets	<u>5,677,772</u>	<u>4,297,655</u>
Property and equipment, net	525,490	419,065
Capitalized software development costs, net and other	154,236	151,945
Deferred tax asset	156,855	149,126
Intangible assets, net	407,375	210,928
Goodwill	1,759,080	1,568,600
Total assets	<u>\$ 8,680,808</u>	<u>\$ 6,797,319</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 49,747	\$ 58,913
Accrued expenses and other	587,650	459,813
Unearned revenues	1,764,109	1,270,426
Total current liabilities	<u>2,401,506</u>	<u>1,789,152</u>
Note payable to EMC	450,000	450,000
Unearned revenues	944,309	589,668
Other liabilities	114,711	160,056
Total liabilities	<u>3,910,526</u>	<u>2,988,876</u>
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 123,610 and 116,701 shares	1,236	1,167
Class B convertible common stock, par value \$.01; authorized 1,000,000 shares; issued and outstanding 300,000 shares	3,000	3,000
Additional paid-in capital	3,212,264	2,955,971
Accumulated other comprehensive income	1,176	19,635
Retained earnings	1,552,606	828,670
Total stockholders' equity	<u>4,770,282</u>	<u>3,808,443</u>
Total liabilities and stockholders' equity	<u>\$ 8,680,808</u>	<u>\$ 6,797,319</u>

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended December 31, 2011
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition Related Items and Other	Capitalized Software Development Costs (1)	Tax Adjustment (2)	Non-GAAP, as adjusted
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>	<i>20.2%</i>	<i>7.6%</i>	<i>0.3%</i>	<i>1.7%</i>	<i>—</i>	<i>2.1%</i>	<i>—</i>	<i>31.9%</i>
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>	<i>4.0%</i>							<i>20.0%</i>
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 DATA
For the Three Months Ended December 31, 2010
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition Related Items and Other	Capitalized Software Development Costs (1)	Stock-Based Compensation Included in Capitalized Software Development	Tax Adjustment (2)	Non-GAAP, as adjusted
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%
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 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 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 DATA
For the Year Ended December 31, 2011
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition Related Items and Other	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
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%
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) 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.

(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.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Year Ended December 31, 2010
(in thousands, except per share amounts)
(unaudited)

GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition Related Items and Other	Capitalized Software Development Costs (1)	Stock-Based Compensation Included in Capitalized Software Development	Tax Adjustment (2)	Non-GAAP, as adjusted	
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%	
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							\$ 162,494	
Tax rate	14.2%							20.3%	
Net income	\$ 357,439	291,691	16,298	34,758	3,499	27,856	10,924	\$ 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) 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 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.

VMware, Inc.

REVENUE BY TYPE
(in thousands)
(unaudited)

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2011	2010	2011	2010
Revenues:				
License	\$ 513,767	\$ 422,343	\$ 1,841,169	\$ 1,401,424
Services:				
Software maintenance	463,489	345,260	1,640,397	1,217,064
Professional services	83,046	68,058	285,530	238,855
Total services	<u>546,535</u>	<u>413,318</u>	<u>1,925,927</u>	<u>1,455,919</u>
	<u>\$ 1,060,302</u>	<u>\$ 835,661</u>	<u>\$ 3,767,096</u>	<u>\$ 2,857,343</u>
Percentage of revenues:				
License	48.5%	50.5%	48.9%	49.0%
Services:				
Software maintenance	43.7%	41.3%	43.5%	42.6%
Professional services	7.8%	8.2%	7.6%	8.4%
Total services	<u>51.5%</u>	<u>49.5%</u>	<u>51.1%</u>	<u>51.0%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

VMware, Inc.

**RECONCILIATION OF GAAP CASH FLOWS FROM OPERATING ACTIVITIES
TO FREE CASH FLOWS**

(A NON-GAAP FINANCIAL MEASURE)

For the Three Months Ended December 31, 2011 and 2010

(in thousands)

(unaudited)

	For the Three Months Ended	
	December 31,	
	2011	2010
GAAP cash flows from operating activities	\$ 561,409	\$ 406,615
Capitalized software development costs	—	(15,955)
Excess tax benefits from stock-based compensation	26,811	56,253
Capital expenditures	(52,911)	(40,450)
Free cash flows	<u>\$ 535,309</u>	<u>\$ 406,463</u>

VMware, Inc.

**RECONCILIATION OF GAAP CASH FLOWS FROM OPERATING ACTIVITIES
TO FREE CASH FLOWS**

(A NON-GAAP FINANCIAL MEASURE)

For the Year Ended December 31, 2011 and 2010

(in thousands)

(unaudited)

	For the Year Ended December 31,	
	2011	2010
GAAP cash flows from operating activities	\$ 2,025,633	\$ 1,174,389
Capitalized software development costs	(73,998)	(64,149)
Excess tax benefits from stock-based compensation	224,503	223,457
Capital expenditures	(230,091)	(131,695)
Free cash flows	<u>\$ 1,946,047</u>	<u>\$ 1,202,002</u>