

VMware, Inc.

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

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,691,372	\$ 1,231,168
Accounts receivable, less allowance for doubtful accounts of \$2,351 and \$1,603	287,943	283,824
Deferred tax asset, current portion	44,004	54,386
Income taxes receivable, net	82,228	—
Other current assets	49,120	33,956
Total current assets	<u>2,154,667</u>	<u>1,603,334</u>
Property and equipment, net	370,613	276,983
Other assets, net	97,665	71,695
Deferred tax asset, net of current portion	56,980	72,249
Intangible assets, net	48,513	32,073
Goodwill	730,276	639,366
Total assets	<u>\$ 3,458,714</u>	<u>\$ 2,695,700</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 80,263	\$ 61,503
Accrued expenses	160,129	173,610
Due to EMC, net	36,249	2,759
Income taxes payable, current portion	—	68,823
Deferred revenue, current portion	482,366	363,317
Total current liabilities	<u>759,007</u>	<u>670,012</u>
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	297,997	189,479
Deferred tax liability	42,026	27,327
Income taxes payable, net of current portion	28,419	18,265
Total liabilities	<u>1,577,449</u>	<u>1,355,083</u>
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 89,452 and 82,924 shares	895	829
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	1,756,638	1,352,788
Retained earnings (accumulated deficit)	120,732	(16,000)
Total stockholders' equity	<u>1,881,265</u>	<u>1,340,617</u>
Total liabilities and stockholders' equity	<u>\$ 3,458,714</u>	<u>\$ 2,695,700</u>

VMware, Inc.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
License	\$ 285,086	\$ 247,481	\$ 863,299	\$ 621,086
Services	187,035	110,335	503,125	292,250
	<u>472,121</u>	<u>357,816</u>	<u>1,366,424</u>	<u>913,336</u>
Operating expenses:				
Cost of license revenues	21,535	19,158	66,033	60,546
Cost of services revenues	52,919	39,493	166,122	90,946
Research and development	85,315	67,840	318,698	194,379
Sales and marketing	167,914	125,736	475,478	311,432
General and administrative	43,418	39,839	129,682	97,166
Operating income	<u>101,020</u>	<u>65,750</u>	<u>210,411</u>	<u>158,867</u>
Investment income	7,654	7,300	21,968	11,718
Interest expense with EMC, net	(3,823)	(6,743)	(13,221)	(13,261)
Other expense, net	(1,321)	(19)	(497)	(106)
Income before income taxes	<u>103,530</u>	<u>66,288</u>	<u>218,661</u>	<u>157,218</u>
Income tax provision	20,242	1,610	39,982	17,236
Net income	<u>\$ 83,288</u>	<u>\$ 64,678</u>	<u>\$ 178,679</u>	<u>\$ 139,982</u>
Net income per weighted-average share, basic for Class A and Class B	0.21	0.18	0.47	0.41
Net income per weighted-average share, diluted for Class A and Class B	0.21	0.18	0.45	0.41
Weighted-average shares, basic for Class A and Class B	387,621	356,431	383,876	340,565
Weighted-average shares, diluted for Class A and Class B	394,232	368,567	397,093	344,736

VMware, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Cash flows from operating activities:</b>				
Net income	\$ 83,288	\$ 64,678	\$ 178,679	\$ 139,982
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	40,644	27,643	117,537	72,462
Stock-based compensation, excluding amounts capitalized	35,317	31,737	119,550	59,354
Excess tax benefits from stock-based compensation	(5,844)	—	(85,271)	—
Other adjustments	1,242	(528)	2,300	(394)
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	20,803	37,062	(3,483)	30,972
Other assets	(2,369)	5,994	(15,650)	(2,666)
Due to/from EMC, net	2,904	15,644	43,190	(74,436)
Accounts payable	10,880	8,578	(250)	20,959
Accrued expenses	(21,309)	(667)	(25,265)	10,801
Income taxes payable/receivable	28,013	22,888	(68,995)	60,397
Deferred income taxes, net	(8,876)	(22,446)	37,843	(45,074)
Deferred revenue	58,812	7,750	227,134	116,505
Net cash provided by operating activities	243,505	198,333	527,319	388,862
<b>Cash flows from investing activities:</b>				
Additions to property and equipment	(32,664)	(42,375)	(133,585)	(91,294)
Purchase of headquarters facilities from EMC	—	(132,564)	—	(132,564)
Capitalized software development costs	(37,961)	(22,314)	(53,895)	(32,858)
Purchase of long-term investment	—	—	(1,750)	—
Business acquisitions, net of cash acquired	(57,363)	(54,108)	(90,652)	(75,518)
Decrease (increase) in restricted cash	—	555	896	(5,139)
Net cash used in investing activities	(127,988)	(250,806)	(278,986)	(337,373)
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of common stock	34,090	1,256,293	167,417	1,256,293
Excess tax benefits from stock-based compensation	5,844	—	85,271	—
Shares repurchased for tax withholdings on vesting of restricted stock	(4,339)	—	(40,817)	—
Repayment of note payable to EMC	—	(350,000)	—	(350,000)
Net cash provided by financing activities	35,595	906,293	211,871	906,293
Net increase in cash and cash equivalents	151,112	853,820	460,204	957,782
Cash and cash equivalents at beginning of the period	1,540,260	280,096	1,231,168	176,134
Cash and cash equivalents at end of the period	\$ 1,691,372	\$ 1,133,916	\$ 1,691,372	\$ 1,133,916

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA  
For the Three Months Ended September 30, 2008  
(in thousands, except per share amounts)  
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Tax on Employee Stock Transactions	Intangible Amortization	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non- GAAP, as adjusted
Operating expenses:							
Cost of license revenues	\$ 21,535	(264)	(3)	(3,529)	(11,046)	—	\$ 6,693
Cost of services revenues	\$ 52,919	(3,660)	(29)	—	—	—	\$ 49,230
Research and development	\$ 85,315	(15,331)	(296)	—	45,788	(7,827)	\$ 107,649
Sales and marketing	\$ 167,914	(13,138)	(90)	(898)	—	—	\$ 153,788
General and administrative	\$ 43,418	(2,924)	(35)	(648)	—	—	\$ 39,811
Operating income	\$ 101,020	35,317	453	5,075	(34,742)	7,827	\$ 114,950
Income before income taxes	\$ 103,530	35,317	453	5,075	(34,742)	7,827	\$ 117,460
Income tax provision	\$ 20,242	8,689	106	1,902	(8,388)	1,821	\$ 24,372
Quarterly tax rate	19.55%						20.75%
Net income	\$ 83,288	26,628	347	3,173	(26,354)	6,006	\$ 93,088
Net income per weighted average share, basic for Class A and Class B	\$ 0.21	\$ 0.07	\$ 0.00	\$ 0.01	\$ (0.07)	\$ 0.02	\$ 0.24
Net income per weighted average share, diluted for Class A and Class B	\$ 0.21	\$ 0.07	\$ 0.00	\$ 0.01	\$ (0.07)	\$ 0.02	\$ 0.24
Weighted average shares, basic for Class A and Class B	387,621	387,621	387,621	387,621	387,621	387,621	387,621
Weighted average shares, diluted for Class A and Class B	394,232	394,232	394,232	394,232	394,232	394,232	394,232

(1) For the third quarter of 2008, VMware capitalized \$45.8 million (including \$7.8 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$11.0 million for the third quarter of 2008.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA  
For the Three Months Ended September 30, 2007  
(in thousands, except per share amounts)  
(unaudited)

	GAAP	Stock-Based Compensation	Intangible Amortization	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non- GAAP, as adjusted
Operating expenses:						
Cost of license revenues	\$ 19,158	(212)	(5,353)	(9,212)	—	\$ 4,381
Cost of services revenues	\$ 39,493	(2,195)	—	—	—	\$ 37,298
Research and development	\$ 67,840	(13,033)	—	27,593	(5,279)	\$ 77,121
Sales and marketing	\$ 125,736	(9,594)	(766)	—	—	\$ 115,376
General and administrative	\$ 39,839	(6,703)	(491)	—	—	\$ 32,645
Operating income	\$ 65,750	31,737	6,610	(18,381)	5,279	\$ 90,995
Income before income taxes	\$ 66,288	31,737	6,610	(18,381)	5,279	\$ 91,533
Income tax provision	\$ 1,610	7,009	2,446	(5,734)	1,073	\$ 6,404
Quarterly tax rate	2.4%					7.0%
Net income	\$ 64,678	24,728	4,164	(12,647)	4,206	\$ 85,129
Net income per weighted average share, basic for Class A and Class B	\$ 0.18	\$ 0.07	\$ 0.01	\$ (0.04)	\$ 0.01	\$ 0.24
Net income per weighted average share, diluted for Class A and Class B	\$ 0.18	\$ 0.07	\$ 0.01	\$ (0.03)	\$ 0.01	\$ 0.23
Weighted average shares, basic for Class A and Class B	356,431	356,431	356,431	356,431	356,431	356,431
Weighted average shares, diluted for Class A and Class B	368,567	368,567	368,567	368,567	368,567	368,567

(1) For the third quarter of 2007, VMware capitalized \$27.6 million (including \$5.3 million of stock-based compensation), of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$9.2 million for the third quarter of 2007.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA  
For the Nine Months Ended September 30, 2008  
(in thousands, except per share amounts)  
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Tax on Employee Stock Transactions	Intangible Amortization	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non- GAAP, as adjusted
Operating expenses:							
Cost of license revenues	\$ 66,033	(803)	(28)	(8,133)	(40,185)	—	\$ 16,884
Cost of services revenues	\$ 166,122	(10,716)	(220)	—	—	—	\$ 155,186
Research and development	\$ 318,698	(55,907)	(2,735)	—	65,641	(11,746)	\$ 313,951
Sales and marketing	\$ 475,478	(36,138)	(1,234)	(2,689)	—	—	\$ 435,417
General and administrative	\$ 129,682	(15,986)	(512)	(1,942)	—	—	\$ 111,242
Operating income	\$ 210,411	119,550	4,729	12,764	(25,456)	11,746	\$ 333,744
Income before income taxes	\$ 218,661	119,550	4,729	12,764	(25,456)	11,746	\$ 341,994
Income tax provision	\$ 39,982	27,102	1,245	4,605	(7,497)	2,678	\$ 68,115
Quarterly tax rate	18.28%						19.92%
Net income	\$ 178,679	92,448	3,484	8,159	(17,959)	9,068	\$ 273,879
Net income per weighted average share, basic for Class A and Class B	\$ 0.47	\$ 0.24	\$ 0.01	\$ 0.02	\$ (0.05)	\$ 0.02	\$ 0.71
Net income per weighted average share, diluted for Class A and Class B	\$ 0.45	\$ 0.23	\$ 0.01	\$ 0.02	\$ (0.05)	\$ 0.02	\$ 0.69
Weighted average shares, basic for Class A and Class B	383,876	383,876	383,876	383,876	383,876	383,876	383,876
Weighted average shares, diluted for Class A and Class B	397,093	397,093	397,093	397,093	397,093	397,093	397,093

(1) For the first nine months of 2008, VMware capitalized \$65.6 million (including \$11.7 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$40.2 million for the first nine months of 2008.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA  
For the Nine Months Ended September 30, 2007  
(in thousands, except per share amounts)  
(unaudited)

	GAAP	Stock-Based Compensation	Intangible Amortization	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non- GAAP, as adjusted
Operating expenses:						
Cost of license revenues	\$ 60,546	(322)	(15,783)	(25,929)	—	\$ 18,512
Cost of services revenues	\$ 90,946	(3,608)	—	—	—	\$ 87,338
Research and development	\$ 194,379	(27,677)	—	39,594	(6,736)	\$ 199,560
Sales and marketing	\$ 311,432	(16,778)	(1,924)	—	—	\$ 292,730
General and administrative	\$ 97,166	(10,969)	(1,476)	—	—	\$ 84,721
Operating income	\$ 158,867	59,354	19,183	(13,665)	6,736	\$ 230,475
Income before income taxes	\$ 157,218	59,354	19,183	(13,665)	6,736	\$ 228,826
Income tax provision	\$ 17,236	14,743	7,098	(3,989)	1,612	\$ 36,700
Quarterly tax rate	11.0%					16.0%
Net income	\$ 139,982	44,611	12,085	(9,676)	5,124	\$ 192,126
Net income per weighted average share, basic for Class A and Class B	\$ 0.41	\$ 0.13	\$ 0.04	\$ (0.03)	\$ 0.02	\$ 0.56
Net income per weighted average share, diluted for Class A and Class B	\$ 0.41	\$ 0.13	\$ 0.04	\$ (0.03)	\$ 0.01	\$ 0.56
Weighted average shares, basic for Class A and Class B	340,565	340,565	340,565	340,565	340,565	340,565
Weighted average shares, diluted for Class A and Class B	344,736	344,736	344,736	344,736	344,736	344,736

(1) For the first nine months of 2007, VMware capitalized \$39.6 million (including \$6.7 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$25.9 million for the first nine months of 2007.

**VMware, Inc.**

**REVENUE BY TYPE**  
(in thousands)  
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
License	\$ 285,086	\$ 247,481	\$ 863,299	\$ 621,086
Services:				
Software maintenance	147,310	86,835	395,415	227,916
Professional services	39,725	23,500	107,710	64,334
Total services	<u>187,035</u>	<u>110,335</u>	<u>503,125</u>	<u>292,250</u>
	<u>\$ 472,121</u>	<u>\$ 357,816</u>	<u>\$ 1,366,424</u>	<u>\$ 913,336</u>
Percentage of revenues:				
License	60.4%	69.2%	63.2%	68.0%
Services:				
Software maintenance	31.2%	24.3%	28.9%	25.0%
Professional services	8.4%	6.5%	7.9%	7.0%
Total services	<u>39.6%</u>	<u>30.8%</u>	<u>36.8%</u>	<u>32.0%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>