

VMware, Inc.

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,231,168	\$ 176,134
Accounts receivable, less allowance for doubtful accounts of \$1,603 and \$2,139	283,824	193,710
Due from EMC, net	—	2,245
Deferred tax asset	54,386	27,656
Other current assets	<u>33,956</u>	<u>22,686</u>
Total current assets	1,603,334	422,431
Property and equipment, net	276,983	48,675
Other assets, net	71,695	49,912
Deferred tax asset	72,249	20,935
Intangible assets, net	32,073	43,515
Goodwill	<u>639,366</u>	<u>560,482</u>
Total assets	<u>\$ 2,695,700</u>	<u>\$ 1,145,950</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 61,503	\$ 44,227
Accrued expenses	173,610	103,321
Due to EMC, net	2,759	—
Income taxes payable to EMC, current portion	68,823	87,598
Deferred revenue, current portion	<u>363,317</u>	<u>242,603</u>
Total current liabilities	670,012	477,749
Note payable to EMC	450,000	800,000
Deferred revenue, net of current portion	189,479	63,912
Deferred tax liability	27,327	30,579
Income taxes payable to EMC, net of current portion	18,265	4,522
Commitments and contingencies		
Stockholder's equity (deficit):		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 82,924 and 32,500 shares	829	325
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	1,352,788	—
Accumulated deficit	<u>(16,000)</u>	<u>(234,137)</u>
Total stockholders' equity (deficit)	<u>1,340,617</u>	<u>(230,812)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 2,695,700</u>	<u>\$ 1,145,950</u>

VMware, Inc.

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

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2007	2006	2007	2006
Revenues:				
License	\$ 284,282	\$ 161,998	\$ 905,368	\$ 491,902
Services	128,193	67,583	420,443	212,002
	<u>412,475</u>	<u>229,581</u>	<u>1,325,811</u>	<u>703,904</u>
Operating expenses:				
Cost of license revenues	20,330	14,485	80,876	59,202
Cost of services revenues	46,852	22,765	137,798	64,180
Research and development	91,562	50,131	285,941	148,254
Sales and marketing	138,763	80,603	450,195	238,327
General and administrative	38,494	25,088	135,660	69,602
In-process research and development	—	—	—	3,700
Operating income	<u>76,474</u>	<u>36,509</u>	<u>235,341</u>	<u>120,639</u>
Investment income	11,224	613	22,942	2,497
Interest income (expense) with EMC, net	(4,496)	627	(17,757)	293
Other income (expense), net	58	(6)	(48)	(882)
Income before taxes	<u>83,260</u>	<u>37,743</u>	<u>240,478</u>	<u>122,547</u>
Income tax provision	<u>5,105</u>	<u>6,764</u>	<u>22,341</u>	<u>36,832</u>
Income before cumulative effect of a change in accounting principle	<u>78,155</u>	<u>30,979</u>	<u>218,137</u>	<u>85,715</u>
Cumulative effect of a change in accounting principle, net of tax of \$108	—	—	—	175
Net income	<u>\$ 78,155</u>	<u>\$ 30,979</u>	<u>\$ 218,137</u>	<u>\$ 85,890</u>
Net income per weighted average share, basic for Class A and Class B:				
Income per share before cumulative effect of a change in accounting principle	\$ 0.21	\$ 0.09	\$ 0.62	\$ 0.26
Cumulative effect of a change in accounting principle	—	—	—	—
Net income per share	<u>\$ 0.21</u>	<u>\$ 0.09</u>	<u>\$ 0.62</u>	<u>\$ 0.26</u>
Net income per weighted average share, diluted for Class A and Class B:				
Income per share before cumulative effect of a change in accounting principle	\$ 0.19	\$ 0.09	\$ 0.61	\$ 0.26
Cumulative effect of a change in accounting principle	—	—	—	—
Net income per share	<u>\$ 0.19</u>	<u>\$ 0.09</u>	<u>\$ 0.61</u>	<u>\$ 0.26</u>
Weighted average shares, basic for Class A and Class B	379,953	332,500	350,493	332,500
Weighted average shares, diluted for Class A and Class B	402,604	332,500	359,189	332,500

VMware, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Three Months Ended		For the Year Ended	
	December 31,		December 31,	
	2007	2006	2007	2006
Cash flows from operating activities:				
Net income	\$ 78.155	\$ 30.979	\$ 218.137	\$ 85.890
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	31.565	20.127	104.027	66.573
In-process research and development	—	—	—	3.700
Stock-based compensation	33.052	16.206	92.406	51.226
Other adjustments	227	4.921	(167)	5.076
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(119.941)	(80.107)	(88.969)	(97.992)
Other assets	1.689	1.543	(977)	(9.076)
Due to (from) EMC, net	79.440	57.204	5.004	(48.365)
Accounts payable	(5.388)	12.666	15.571	31.762
Accrued expenses	50.819	22.437	61.620	60.904
Income taxes payable to EMC	(78.209)	(37.847)	(17.812)	(6.006)
Deferred income taxes, net	(33.412)	(20.202)	(78.486)	(21.888)
Deferred revenue	125.577	96.889	242.082	158.059
Net cash provided by operating activities	<u>163.574</u>	<u>124.816</u>	<u>552.436</u>	<u>279.863</u>
Cash flows from investing activities:				
Additions to property and equipment, net	(45.101)	(10.614)	(136.395)	(52.574)
Purchase of headquarters facilities from EMC	—	—	(132.564)	—
Capitalized software development costs	(14.877)	(4.458)	(47.735)	(32.523)
Business acquisitions, net of cash acquired	(7.017)	—	(82.535)	(46.541)
Decrease (increase) in restricted cash	673	1,385	(4,466)	(10,744)
Net cash used in investing activities	<u>(66,322)</u>	<u>(13,687)</u>	<u>(403,695)</u>	<u>(142,382)</u>
Cash flows from financing activities:				
Dividends paid to EMC	—	—	—	—
Proceeds from Class A common stock issued in IPO, net of issuance costs	—	—	1,035,233	—
Proceeds from Class A common stock issued to Intel Capital, net of issuance costs	—	—	218,300	—
Proceeds from exercises of stock options	—	—	2,760	—
Repayment of note payable to EMC	—	—	(350,000)	—
Net cash provided by financing activities	<u>—</u>	<u>—</u>	<u>906,293</u>	<u>—</u>
Net increase in cash and cash equivalents	97,252	111,129	1,055,034	137,481
Cash and cash equivalents at beginning of the period	<u>1,133,916</u>	<u>65,005</u>	<u>176,134</u>	<u>38,653</u>
Cash and cash equivalents at end of the period	<u>\$ 1,231,168</u>	<u>\$ 176,134</u>	<u>\$ 1,231,168</u>	<u>\$ 176,134</u>

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended December 31, 2007

(in thousands, except per share amounts)

(unaudited)

	GAAP	Stock-Based Compensation	Intangible Amortization & Other	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non-GAAP, as adjusted
Operating expenses:						
Cost of license revenues	\$ 20,330	(236)	(5,027)	(10,478)	-	\$ 4,589
Cost of services revenues	\$ 46,852	(2,462)	144	-	-	\$ 44,534
Research and development	\$ 91,562	(15,257)	1,996	17,246	(2,369)	\$ 93,178
Sales and marketing	\$ 138,763	(9,510)	137	-	-	\$ 129,390
General and administrative	\$ 38,494	(5,587)	-	-	-	\$ 32,907
Operating income	\$ 76,474	33,052	2,750	(6,768)	2,369	\$ 107,877
Income before taxes	\$ 83,260	33,052	2,750	(6,768)	2,369	\$ 114,663
Income tax provision	\$ 5,105	6,484	1,015	(1,267)	479	\$ 11,816
Quarterly tax rate	6.1%					10.3%
Net income	\$ 78,155	26,568	1,735	(5,501)	1,890	\$ 102,847
Net income per weighted average share, basic for Class A and Class B	\$ 0.21	\$ 0.07	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.27
Net income per weighted average share, diluted for Class A and Class B	\$ 0.19	\$ 0.07	\$ 0.00	\$ (0.01)	\$ 0.00	\$ 0.26
Weighted average shares, basic for Class A and Class B	379,953	379,953	379,953	379,953	379,953	379,953
Weighted average shares, diluted for Class A and Class B	402,604	402,604	402,604	402,604	402,604	402,604

(1) For the fourth quarter of 2007, VMware capitalized \$17.2 million (including \$2.4 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$10.5 million for the fourth quarter of 2007.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended December 31, 2006

(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	\$ 14,485	(37)	(5,532)	(8,063)	-	\$ 853
Cost of services revenues	\$ 22,765	(718)	-	-	-	\$ 22,047
Research and development	\$ 50,131	(9,001)	-	5,131	(673)	\$ 45,588
Sales and marketing	\$ 80,603	(3,643)	(548)	-	-	\$ 76,412
General and administrative	\$ 25,088	(2,807)	(372)	-	-	\$ 21,909
Operating income	\$ 36,509	16,206	6,452	2,932	673	\$ 62,772
Income before taxes	\$ 37,743	16,206	6,452	2,932	673	\$ 64,006
Income tax provision	\$ 6,764	4,257	2,453	1,115	177	\$ 14,766
Net income	\$ 30,979	11,949	3,999	1,817	496	\$ 49,240
Net income per weighted average share, basic for Class A and Class B	\$ 0.09	\$ 0.04	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.15
Net income per weighted average share, diluted for Class A and Class B	\$ 0.09	\$ 0.04	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.15
Weighted average shares, basic for Class A and Class B	332,500	332,500	332,500	332,500	332,500	332,500
Weighted average shares, diluted for Class A and Class B	332,500	332,500	332,500	332,500	332,500	332,500

(1) For the fourth quarter of 2006, VMware capitalized \$5.1 million (including \$0.7 million of stock-based compensation), of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$8.1 million for the fourth quarter of 2006.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Year Ended December 31, 2007

(in thousands, except per share amounts)

(unaudited)

	GAAP	Stock-Based Compensation	Intangible Amortization & Other	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non-GAAP, as adjusted
Operating expenses:						
Cost of license revenues	\$ 80,876	(558)	(20,810)	(36,407)	-	\$ 23,101
Cost of services revenues	\$ 137,798	(6,070)	144	-	-	\$ 131,872
Research and development	\$ 285,941	(42,934)	1,996	56,840	(9,105)	\$ 292,738
Sales and marketing	\$ 450,195	(26,288)	(1,787)	-	-	\$ 422,120
General and administrative	\$ 135,660	(16,556)	(1,476)	-	-	\$ 117,628
Operating income	\$ 235,341	92,406	21,933	(20,433)	9,105	\$ 338,352
Income before taxes	\$ 240,478	92,406	21,933	(20,433)	9,105	\$ 343,489
Income tax provision	\$ 22,341	21,227	8,113	(5,256)	2,091	\$ 48,516
Annual tax rate	9.3%					14.1%
Net income	\$ 218,137	71,179	13,820	(15,177)	7,014	\$ 294,973
Net income per weighted average share, basic for Class A and Class B	\$ 0.62	\$ 0.20	\$ 0.04	\$ (0.04)	\$ 0.02	\$ 0.84
Net income per weighted average share, diluted for Class A and Class B	\$ 0.61	\$ 0.20	\$ 0.04	\$ (0.04)	\$ 0.02	\$ 0.82
Weighted average shares, basic for Class A and Class B	350,493	350,493	350,493	350,493	350,493	350,493
Weighted average shares, diluted for Class A and Class B	359,189	359,189	359,189	359,189	359,189	359,189

(1) For the year ended December 31, 2007, VMware capitalized \$56.8 million (including \$9.1 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$36.4 million for the year ended December 31, 2007.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
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
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	\$ 148,254	(26,342)	-	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
In-process research and development	\$ 3,700	-	(3,700)	-	-	\$ -
Operating income	\$ 120,639	51,226	29,222	(20,713)	10,489	\$ 190,863
Income before taxes	\$ 122,547	51,226	29,222	(20,713)	10,489	\$ 192,771
Income tax provision	\$ 36,832	13,457	9,698	(7,871)	2,758	\$ 54,874
Net income	\$ 85,890	37,769	19,524	(12,842)	7,731	\$ 138,072
Net income per weighted average share, basic for Class A and Class B	\$ 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	\$ 0.26	\$ 0.11	\$ 0.06	\$ (0.04)	\$ 0.02	\$ 0.42
Weighted average shares, basic for Class A and Class B	332,500	332,500	332,500	332,500	332,500	332,500
Weighted average shares, diluted for Class A and Class B	332,500	332,500	332,500	332,500	332,500	332,500

(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 previously capitalized amounts was \$22.3 million for the year ended December 31, 2006.