

VMware, Inc.

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

	December 31,	
	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,840,812	\$ 1,231,168
Accounts receivable, less allowance for doubtful accounts of \$1,690 and \$1,603	338,014	283,824
Deferred tax asset, current portion	44,573	54,386
Income taxes receivable from EMC	111,050	—
Other current assets	55,639	33,956
Total current assets	2,390,088	1,603,334
Property and equipment, net	418,212	276,983
Other assets, net	134,553	71,695
Deferred tax asset, net of current portion	68,280	72,249
Intangible assets, net	56,984	32,073
Goodwill	771,088	639,366
Total assets	<u>\$ 3,839,205</u>	<u>\$ 2,695,700</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 88,647	\$ 61,503
Accrued expenses	197,580	171,770
Due to EMC, net	33,407	2,759
Income taxes payable	15,761	68,823
Deferred revenue, current portion	544,355	363,317
Total current liabilities	879,750	668,172
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	325,634	189,479
Deferred tax liability	47,825	27,327
Other liabilities	65,929	20,105
Total liabilities	1,769,138	1,355,083
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 90,448 and 82,924 shares	904	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	1,836,513	1,352,788
Retained earnings (accumulated deficit)	229,650	(16,000)
Total stockholders' equity	2,070,067	1,340,617
Total liabilities and stockholders' equity	<u>\$ 3,839,205</u>	<u>\$ 2,695,700</u>

VMware, Inc.

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

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2008	2007	2008	2007
Revenues:				
License	\$ 314,843	\$ 284,282	\$ 1,178,142	\$ 905,368
Services	199,760	128,193	702,885	420,443
	<u>514,603</u>	<u>412,475</u>	<u>1,881,027</u>	<u>1,325,811</u>
Operating expenses:				
Cost of license revenues	22,123	20,330	88,156	80,876
Cost of services revenues	49,827	46,852	215,949	137,798
Research and development	110,506	91,562	429,204	285,941
Sales and marketing	178,605	138,763	654,083	450,195
General and administrative	51,428	38,494	181,110	135,660
Operating income	<u>102,114</u>	<u>76,474</u>	<u>312,525</u>	<u>235,341</u>
Investment income	6,333	11,224	28,301	22,942
Interest expense with EMC, net	(5,095)	(4,496)	(18,316)	(17,757)
Other income (expense), net	<u>(2,728)</u>	<u>58</u>	<u>(3,225)</u>	<u>(48)</u>
Income before income taxes	100,624	83,260	319,285	240,478
Income tax provision (benefit)	<u>(10,830)</u>	<u>5,105</u>	<u>29,152</u>	<u>22,341</u>
Net income	<u>\$ 111,454</u>	<u>\$ 78,155</u>	<u>\$ 290,133</u>	<u>\$ 218,137</u>
Net income per weighted-average share, basic for Class A and Class B	\$ 0.29	\$ 0.21	\$ 0.75	\$ 0.62
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.29	\$ 0.19	\$ 0.73	\$ 0.61
Weighted-average shares, basic for Class A and Class B	388,620	379,953	385,068	350,493
Weighted-average shares, diluted for Class A and Class B	389,733	402,604	397,185	359,189

VMware, Inc.

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

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income	\$ 111,454	\$ 78,155	\$ 290,133	\$ 218,137
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	41,091	31,565	158,628	104,027
Stock-based compensation, excluding amounts capitalized	46,966	33,052	166,516	92,406
Excess tax benefits from stock-based compensation	(505)	—	(85,776)	—
Other adjustments	6,363	227	8,663	(167)
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(49,044)	(119,941)	(52,527)	(88,969)
Other assets	(6,260)	1,689	(21,910)	(977)
Due to/from EMC, net	(2,842)	79,440	40,348	5,004
Accounts payable	7,963	(5,388)	7,713	15,571
Accrued expenses	43,494	50,819	18,229	61,620
Income taxes receivable from EMC	(13,986)	—	(111,050)	—
Income taxes payable	(1,446)	(78,209)	26,623	(17,812)
Deferred income taxes, net	1,065	(33,412)	38,908	(78,486)
Deferred revenue	88,499	125,577	315,633	242,082
Net cash provided by operating activities	<u>272,812</u>	<u>163,574</u>	<u>800,131</u>	<u>552,436</u>
Cash flows from investing activities:				
Additions to property and equipment	(58,011)	(45,101)	(191,596)	(136,395)
Purchase of headquarters facilities from EMC	—	—	—	(132,564)
Capitalized software development costs	(37,005)	(14,877)	(90,900)	(47,735)
Purchase of long-term investment	—	—	(1,750)	—
Business acquisitions, net of cash acquired	(47,917)	(7,017)	(138,569)	(82,535)
Decrease (increase) in restricted cash	32	673	928	(4,466)
Net cash used in investing activities	<u>(142,901)</u>	<u>(66,322)</u>	<u>(421,887)</u>	<u>(403,695)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock	22,690	—	190,107	1,256,293
Excess tax benefits from stock-based compensation	505	—	85,776	—
Shares repurchased for tax withholdings on vesting of restricted stock	(3,666)	—	(44,483)	—
Repayment of note payable to EMC	—	—	—	(350,000)
Net cash provided by financing activities	<u>19,529</u>	<u>—</u>	<u>231,400</u>	<u>906,293</u>
Net increase in cash and cash equivalents	149,440	97,252	609,644	1,055,034
Cash and cash equivalents at beginning of the period	1,691,372	1,133,916	1,231,168	176,134
Cash and cash equivalents at end of the period	<u>\$ 1,840,812</u>	<u>\$ 1,231,168</u>	<u>\$ 1,840,812</u>	<u>\$ 1,231,168</u>

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended December 31, 2008
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Tax on Employee Stock Transactions	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	\$ 22,123	(317)	—	(3,145)	(11,456)	—	\$ 7,205
Cost of services revenues	\$ 49,827	(2,769)	(4)	—	—	—	\$ 47,054
Research and development	\$ 110,506	(22,085)	(79)	(6,576)	48,008	(11,003)	\$ 118,771
Sales and marketing	\$ 178,605	(13,624)	(23)	(897)	—	—	\$ 164,061
General and administrative	\$ 51,428	(8,171)	(7)	(657)	—	—	\$ 42,593
Operating income	\$ 102,114	46,966	113	11,275	(36,552)	11,003	\$ 134,919
Income before income taxes	\$ 100,624	46,966	113	11,275	(36,552)	11,003	\$ 133,429
Income tax provision (benefit)	\$ (10,830)	5,918	39	3,911	(9,171)	1,834	\$ (8,299)
Quarterly tax rate	-10.8%						-6.2%
Net income	\$ 111,454	41,048	74	7,364	(27,381)	9,169	\$ 141,728
Net income per weighted average share, basic for Class A and Class B	\$ 0.29	\$ 0.11	\$ 0.00	\$ 0.02	\$ (0.07)	\$ 0.02	\$ 0.36
Net income per weighted average share, diluted for Class A and Class B	\$ 0.29	\$ 0.11	\$ 0.00	\$ 0.02	\$ (0.07)	\$ 0.02	\$ 0.36
Weighted average shares, basic for Class A and Class B	388,620	388,620	388,620	388,620	388,620	388,620	388,620
Weighted average shares, diluted for Class A and Class B	389,733	389,733	389,733	389,733	389,733	389,733	389,733

(1) For the fourth quarter of 2008, VMware capitalized \$48.0 million (including \$11.0 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$11.5 million for the fourth quarter of 2008.

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 income 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 capitalized amounts was \$10.5 million for the fourth quarter of 2007.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Year Ended December 31, 2008
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Tax on Employee Stock Transactions	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	\$ 88,156	(1,120)	(28)	(11,278)	(51,641)	—	\$ 24,089
Cost of services revenues	\$ 215,949	(13,485)	(224)	—	—	—	\$ 202,240
Research and development	\$ 429,204	(77,992)	(2,814)	(6,576)	113,649	(22,749)	\$ 432,722
Sales and marketing	\$ 654,083	(49,762)	(1,257)	(3,586)	—	—	\$ 599,478
General and administrative	\$ 181,110	(24,157)	(519)	(2,599)	—	—	\$ 153,835
Operating income	\$ 312,525	166,516	4,842	24,039	(62,008)	22,749	\$ 468,663
Income before income taxes	\$ 319,285	166,516	4,842	24,039	(62,008)	22,749	\$ 475,423
Income tax provision	\$ 29,152	33,020	1,284	8,516	(16,668)	4,512	\$ 59,816
Annual tax rate	9.1%						12.6%
Net income	\$ 290,133	133,496	3,558	15,523	(45,340)	18,237	\$ 415,607
Net income per weighted average share, basic for Class A and Class B	\$ 0.75	\$ 0.35	\$ 0.01	\$ 0.04	\$ (0.12)	\$ 0.05	\$ 1.08
Net income per weighted average share, diluted for Class A and Class B	\$ 0.73	\$ 0.34	\$ 0.01	\$ 0.04	\$ (0.11)	\$ 0.05	\$ 1.05
Weighted average shares, basic for Class A and Class B	385,068	385,068	385,068	385,068	385,068	385,068	385,068
Weighted average shares, diluted for Class A and Class B	397,185	397,185	397,185	397,185	397,185	397,185	397,185

(1) For the year ended December 31, 2008, VMware capitalized \$113.6 million (including \$22.7 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$51.6 million for the year ended December 31, 2008.

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 income 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 capitalized amounts was \$36.4 million for the year ended December 31, 2007.

VMware, Inc.

REVENUE BY TYPE
(in thousands)
(unaudited)

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2008	2007	2008	2007
Revenues:				
License	\$ 314,843	\$ 284,282	\$ 1,178,142	\$ 905,368
Services:				
Software maintenance	160,491	102,076	555,906	329,992
Professional services	39,269	26,117	146,979	90,451
Total services	199,760	128,193	702,885	420,443
	<u>\$ 514,603</u>	<u>\$ 412,475</u>	<u>\$ 1,881,027</u>	<u>\$ 1,325,811</u>
Percentage of revenues:				
License	61.2%	68.9%	62.6%	68.3%
Services:				
Software maintenance	31.2%	24.7%	29.6%	24.9%
Professional services	7.6%	6.3%	7.8%	6.8%
Total services	38.8%	31.1%	37.4%	31.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>