

VMware, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Three Months Ended		For the Year Ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Cash flows from operating activities:				
Net income	\$ 119,880	\$ 56,409	\$ 357,439	\$ 197,098
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	77,090	56,756	260,551	198,486
Stock-based compensation, excluding amounts capitalized	86,501	67,833	291,691	231,456
Excess tax benefits from stock-based compensation	(56,253)	(13,376)	(223,457)	(26,214)
Other	6,963	5,435	13,083	2,816
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(236,362)	(279,392)	(77,121)	(193,610)
Other assets	3,999	(6,257)	(79,431)	(14,181)
Due to/from EMC, net	(44,439)	(49,706)	(28,508)	(64,762)
Accounts payable	4,292	12,699	8,881	(17,886)
Accrued expenses	92,353	90,393	120,880	124,685
Income taxes receivable from EMC	—	—	2,508	107,927
Income taxes payable	46,618	21,509	89,439	32,779
Deferred income taxes, net	(48,513)	(14,281)	(56,948)	(40,476)
Deferred revenue	354,486	335,669	495,382	447,498
Net cash provided by operating activities	406,615	283,691	1,174,389	985,616
Cash flows from investing activities:				
Additions to property and equipment	(40,450)	(23,462)	(131,695)	(103,375)
Capitalized software development costs	(15,955)	(15,087)	(64,149)	(68,611)
Purchases of available-for-sale securities	(477,201)	—	(2,101,907)	—
Sales and maturities of available-for-sale securities	361,193	—	516,305	—
Purchase of strategic investments	(4,800)	(3,200)	(4,800)	(34,665)
Sale of strategic investments	—	—	2,648	—
Business acquisitions, net of cash acquired	—	—	(292,970)	(356,278)
Transfer of net assets under common control	(10,580)	—	(185,580)	—
Decrease in restricted cash	—	—	206	549
Net cash used in investing activities	(187,793)	(41,749)	(2,261,942)	(562,380)
Cash flows from financing activities:				
Proceeds from issuance of common stock	75,460	61,143	431,306	227,666
Repurchase of common stock	(52,587)	—	(338,527)	—
Excess tax benefits from stock-based compensation	56,253	13,376	223,457	26,214
Shares repurchased for tax withholdings on vesting of restricted stock	(16,063)	(6,161)	(86,179)	(31,467)
Net cash provided by financing activities	63,063	68,358	230,057	222,413
Net increase (decrease) in cash and cash equivalents	281,885	310,300	(857,496)	645,649
Cash and cash equivalents at beginning of the period	1,347,080	2,176,161	2,486,461	1,840,812
Cash and cash equivalents at end of the period	\$ 1,628,965	\$ 2,486,461	\$ 1,628,965	\$ 2,486,461

VMware, Inc.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended		For the Year Ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Revenues:				
License	\$ 422,343	\$ 304,206	\$ 1,401,424	\$ 1,029,442
Services	413,318	303,995	1,455,919	994,495
	835,661	608,201	2,857,343	2,023,937
Operating expenses (1):				
Cost of license revenues	50,735	40,945	177,458	126,686
Cost of services revenues	89,616	66,561	316,257	233,042
Research and development	177,671	136,262	652,968	496,552
Sales and marketing	313,045	229,596	1,013,281	736,383
General and administrative	73,980	63,680	269,386	211,979
Operating income	130,614	71,157	427,993	219,295
Investment income	2,604	1,054	6,633	8,233
Interest expense with EMC, net	(966)	(966)	(4,069)	(6,958)
Other income (expense), net	(7,205)	(4,008)	(14,182)	2,879
Income before income taxes	125,047	67,237	416,375	223,449
Income tax provision	5,167	10,828	58,936	26,351
Net income	\$ 119,880	\$ 56,409	\$ 357,439	\$ 197,098
Net income per weighted-average share, basic for Class A and Class B	\$ 0.29	\$ 0.14	\$ 0.87	\$ 0.50
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.28	\$ 0.14	\$ 0.84	\$ 0.49
Weighted-average shares, basic for Class A and Class B	414,919	400,708	409,805	394,269
Weighted-average shares, diluted for Class A and Class B	427,883	410,973	423,446	399,776
(1) Includes stock-based compensation as follows:				
Cost of license revenues	\$ 483	\$ 320	\$ 1,653	\$ 1,293
Cost of services revenues	5,877	3,933	18,478	14,874
Research and development	47,143	37,183	164,435	121,770
Sales and marketing	23,545	15,702	73,146	58,610
General and administrative	9,453	10,695	33,979	34,909

VMware, Inc.

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

	December 31,	
	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,628,965	\$ 2,486,461
Short-term investments	1,694,675	27,360
Accounts receivable, net	614,726	534,196
Due from EMC, net	55,481	26,402
Deferred tax asset, current portion	100,689	63,360
Other current assets	203,119	44,701
Total current assets	4,297,655	3,182,480
Property and equipment, net	419,065	402,356
Capitalized software development costs, net and other	151,945	169,293
Deferred tax asset, net of current portion	149,126	102,529
Intangible assets, net	210,928	94,557
Goodwill	1,568,600	1,115,769
Total assets	<u>\$ 6,797,319</u>	<u>\$ 5,066,984</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 58,913	\$ 50,566
Accrued expenses and other	459,813	334,523
Deferred revenue, current portion	1,270,426	908,953
Total current liabilities	1,789,152	1,294,042
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	589,668	416,345
Deferred tax liability	30,096	60,300
Other liabilities	129,960	103,346
Total liabilities	2,988,876	2,324,033
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 116,701 and 102,785 shares	1,167	1,028
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	2,955,971	2,263,129
Accumulated other comprehensive income	19,635	4,563
Retained earnings	828,670	471,231
Total stockholders' equity	3,808,443	2,742,951
Total liabilities and stockholders' equity	<u>\$ 6,797,319</u>	<u>\$ 5,066,984</u>

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 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
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
<p>(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.</p>									
<p>(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.</p>									
<p>(3) Calculated based upon 414,919 basic weighted-average shares for Class A and Class B.</p>									
<p>(4) Calculated based upon 427,883 diluted weighted-average shares for Class A and Class B.</p>									

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended December 31, 2009

(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	Non-GAAP, as adjusted
Operating expenses:								
Cost of license revenues	\$ 40,945	(320)	(6)	(3,262)	—	(27,604)	—	\$ 9,753
Cost of services revenues	\$ 66,561	(3,933)	(135)	(266)	—	—	—	\$ 62,227
Research and development	\$ 136,262	(37,183)	(626)	(67)	—	18,148	(3,061)	\$ 113,473
Sales and marketing	\$ 229,596	(15,702)	(283)	(390)	—	—	—	\$ 213,221
General and administrative	\$ 63,680	(10,695)	(122)	(124)	(828)	—	—	\$ 51,911
Operating income	\$ 71,157	67,833	1,172	4,109	828	9,456	3,061	\$ 157,616
<i>Operating margin</i>	<i>11.7%</i>	<i>11.2%</i>	<i>0.2%</i>	<i>0.7%</i>	<i>—</i>	<i>1.6%</i>	<i>0.5%</i>	<i>25.9%</i>
Income before income taxes	\$ 67,237	67,833	1,172	4,109	828	9,456	3,061	\$ 153,696
Income tax provision	\$ 10,828	9,463	135	1,562	—	4,738	339	\$ 27,065
<i>Tax rate</i>	<i>16.1%</i>							<i>17.6%</i>
Net income	\$ 56,409	58,370	1,037	2,547	828	4,718	2,722	\$ 126,631
Net income per weighted-average share, basic for Class A and Class B (2)	\$ 0.14	\$ 0.15	\$ —	\$ 0.01	\$ —	\$ 0.01	\$ 0.01	\$ 0.32
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.14	\$ 0.14	\$ —	\$ 0.01	\$ —	\$ 0.01	\$ 0.01	\$ 0.31
(1) For the fourth quarter of 2009, we capitalized \$18.1 million (including \$3.1 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$27.6 million for the fourth quarter of 2009.								
(2) Calculated based upon 400,708 basic weighted-average shares for Class A and Class B.								
(3) Calculated based upon 410,973 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 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
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							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
<p>(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.</p>									
<p>(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.</p>									
<p>(3) Calculated based upon 409,805 basic weighted average shares for Class A and Class B.</p>									
<p>(4) Calculated based upon 423,446 diluted weighted average shares for Class A and Class B.</p>									

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Year Ended December 31, 2009

(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	Non-GAAP, as adjusted
Operating expenses :								
Cost of license revenues	\$ 126,686	(1,293)	(17)	(11,669)	—	(82,915)	—	\$ 30,792
Cost of services revenues	\$ 233,042	(14,874)	(182)	(266)	—	—	—	\$ 217,720
Research and development	\$ 496,552	(121,770)	(1,684)	(107)	—	83,514	(14,903)	\$ 441,602
Sales and marketing	\$ 736,383	(58,610)	(647)	(1,594)	—	—	—	\$ 675,532
General and administrative	\$ 211,979	(34,909)	(404)	(498)	(1,601)	—	—	\$ 174,567
Operating income	\$ 219,295	231,456	2,934	14,134	1,601	(599)	14,903	\$ 483,724
Operating margin	10.8%	11.4%	0.2%	0.7%	0.1%	—	0.7%	23.9%
Other income, net	\$ 2,879	—	—	—	(5,859)	—	—	\$ (2,980)
Income before income taxes	\$ 223,449	231,456	2,934	14,134	(4,258)	(599)	14,903	\$ 482,019
Income tax provision	\$ 26,351	43,170	669	5,018	—	3,002	2,779	\$ 80,989
Tax rate	11.8%							16.8%
Net income	\$ 197,098	188,286	2,265	9,116	(4,258)	(3,601)	12,124	\$ 401,030
Net income per weighted-average share, basic for Class A and Class B (2)	\$ 0.50	\$ 0.48	\$ 0.01	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ 0.03	\$ 1.02
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.49	\$ 0.47	\$ 0.01	\$ 0.02	\$ (0.01)	\$ (0.01)	\$ 0.03	\$ 1.00
<p>(1) For the year ended December 31, 2009, we capitalized \$83.5 million (including \$14.9 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$82.9 million for the year ended December 31, 2009.</p>								
<p>(2) Calculated based upon 394,269 basic weighted-average shares for Class A and Class B.</p>								
<p>(3) Calculated based upon 399,776 diluted weighted-average shares for Class A and Class B.</p>								

VMware, Inc.

REVENUE BY TYPE

(in thousands)

(unaudited)

	For the Three Months Ended		For the Year Ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Revenues:				
License	\$ 422,343	\$ 304,206	\$ 1,401,424	\$ 1,029,442
Services:				
Software maintenance	345,260	246,236	1,217,064	823,789
Professional services	68,058	57,759	238,855	170,706
Total services	413,318	303,995	1,455,919	994,495
	<u>\$ 835,661</u>	<u>\$ 608,201</u>	<u>\$ 2,857,343</u>	<u>\$ 2,023,937</u>
Percentage of revenues:				
License	50.5%	50.0%	49.0%	50.9%
Services:				
Software maintenance	41.3%	40.5%	42.6%	40.7%
Professional services	8.2%	9.5%	8.4%	8.4%
Total services	49.5%	50.0%	51.0%	49.1%
	<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, 2010 and 2009

(in thousands)

(unaudited)

	For the Three Months Ended	
	December 31,	
	2010	2009
GAAP cash flows from operating activities	\$ 406,615	\$ 283,691
Capitalized software development costs	(15,955)	(15,087)
Excess tax benefits from stock-based compensation	56,253	13,376
Capital expenditures	(40,450)	(23,462)
Free cash flows	\$ 406,463	\$ 258,518

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, 2010 and 2009

(in thousands)

(unaudited)

	For the Year Ended	
	December 31,	
	2010	2009
GAAP cash flows from operating activities	\$ 1,174,389	\$ 985,616
Capitalized software development costs	(64,149)	(68,611)
Excess tax benefits from stock-based compensation	223,457	26,214
Capital expenditures	(131,695)	(103,375)
Free cash flows	<u>\$ 1,202,002</u>	<u>\$ 839,844</u>