

VMware, Inc.

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

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,609,322	\$ 1,955,756
Short-term investments	3,021,512	2,556,450
Accounts receivable, net of allowance for doubtful accounts of \$4,267 and \$3,794	1,150,906	882,857
Due from EMC, net	67,934	73,799
Deferred tax asset	179,430	128,471
Other current assets	90,935	80,439
Total current assets	<u>6,120,039</u>	<u>5,677,772</u>
Property and equipment, net	664,669	525,490
Other assets, net	128,701	154,236
Deferred tax asset	103,001	156,855
Intangible assets, net	731,852	407,375
Goodwill	2,848,130	1,759,080
Total assets	<u>\$ 10,596,392</u>	<u>\$ 8,680,808</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 89,562	\$ 49,747
Accrued expenses and other	674,746	587,650
Unearned revenues	2,195,926	1,764,109
Total current liabilities	<u>2,960,234</u>	<u>2,401,506</u>
Note payable to EMC	450,000	450,000
Unearned revenues	1,264,639	944,309
Other liabilities	181,538	114,711
Total liabilities	<u>4,856,411</u>	<u>3,910,526</u>
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 128,688 and 123,610 shares	1,287	1,236
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	3,431,710	3,212,264
Accumulated other comprehensive income	5,676	1,176
Retained earnings	2,298,308	1,552,606
Total stockholders' equity	<u>5,739,981</u>	<u>4,770,282</u>
Total liabilities and stockholders' equity	<u>\$ 10,596,392</u>	<u>\$ 8,680,808</u>

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,	
	2012	2011	2012	2011
Revenues:				
License	\$ 596,720	\$ 513,767	\$ 2,086,990	\$ 1,841,169
Services	696,435	546,535	2,518,057	1,925,927
Total revenues	1,293,155	1,060,302	4,605,047	3,767,096
Operating expenses (1):				
Cost of license revenues	63,393	56,389	237,027	207,398
Cost of services revenues	128,431	110,485	484,296	414,589
Research and development	268,323	216,992	999,214	775,051
Sales and marketing	478,401	385,236	1,644,849	1,334,346
General and administrative	102,082	77,144	367,718	300,541
Operating income	252,525	214,056	871,943	735,171
Investment income	6,364	4,685	26,557	16,157
Interest expense with EMC	(1,047)	(1,060)	(4,654)	(3,906)
Other income (expense), net	2,082	(8,815)	(732)	46,991
Income before income taxes	259,924	208,866	893,114	794,413
Income tax provision	54,155	8,438	147,412	70,477
Net income	\$ 205,769	\$ 200,428	\$ 745,702	\$ 723,936
Net income per weighted-average share, basic for Class A and Class B	\$ 0.48	\$ 0.47	\$ 1.75	\$ 1.72
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.47	\$ 0.46	\$ 1.72	\$ 1.68
Weighted-average shares, basic for Class A and Class B	427,266	422,873	426,658	421,188
Weighted-average shares, diluted for Class A and Class B	433,205	431,375	433,974	431,750
(1) Includes stock-based compensation as follows:				
Cost of license revenues	\$ 547	\$ 335	\$ 2,072	\$ 1,606
Cost of services revenues	7,482	5,993	28,220	23,389
Research and development	62,779	39,643	210,377	174,264
Sales and marketing	39,100	25,138	149,879	95,688
General and administrative	13,894	9,650	48,107	40,206

VMware, Inc.

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

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2012	2011	2012	2011
Operating activities:				
Net income	\$ 205,769	\$ 200,428	\$ 745,702	\$ 723,936
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	93,276	86,228	354,868	315,871
Stock-based compensation, excluding amounts capitalized	123,802	80,759	425,995	335,153
Excess tax benefits from stock-based compensation	(27,225)	(26,811)	(138,139)	(224,503)
Gain on sale of Terremark investment	—	—	—	(56,000)
Other	3,645	10,626	2,355	21,420
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(469,947)	(336,123)	(267,639)	(263,366)
Other assets	9,597	15,576	(112,266)	(75,879)
Due to/from EMC, net	(21,759)	(61,310)	5,865	(18,370)
Accounts payable	(2,426)	(3,960)	23,692	(16,513)
Accrued expenses	84,978	100,353	21,997	115,025
Income taxes receivable from EMC	19,488	23,018	19,488	269,258
Income taxes payable	10,842	27,261	138,508	79,183
Deferred income taxes, net	(3,962)	(28,936)	(74,060)	(19,663)
Unearned revenue	467,299	474,300	751,158	840,081
Net cash provided by operating activities	493,377	561,409	1,897,524	2,025,633
Investing activities:				
Additions to property and equipment	(81,639)	(52,911)	(234,458)	(230,091)
Purchase of leasehold interest	—	—	—	(151,083)
Capitalized software development costs	—	—	—	(73,998)
Purchases of available-for-sale securities	(469,042)	(584,397)	(3,188,684)	(2,667,888)
Sales of available-for-sale securities	227,443	208,058	1,880,545	816,351
Maturities of available-for-sale securities	133,639	249,706	901,743	974,413
Sale of strategic investments	—	—	—	78,513
Business acquisitions, net of cash acquired	—	—	(1,344,214)	(303,610)
Transfer of net assets under common control	—	—	—	(22,393)
Other investing	(37,195)	(815)	(49,552)	(31,187)
Net cash used in investing activities	(226,794)	(180,359)	(2,034,620)	(1,610,973)
Financing activities:				
Proceeds from issuance of common stock	38,936	52,332	253,159	337,618
Repurchase of common stock	(160,522)	(35,287)	(467,534)	(526,203)
Excess tax benefits from stock-based compensation	27,225	26,811	138,139	224,503
Shares repurchased for tax withholdings on vesting of restricted stock	(43,100)	(18,979)	(133,102)	(123,787)
Net cash provided by (used in) financing activities	(137,461)	24,877	(209,338)	(87,869)
Net increase (decrease) in cash and cash equivalents	129,122	405,927	(346,434)	326,791
Cash and cash equivalents at beginning of the period	1,480,200	1,549,829	1,955,756	1,628,965
Cash and cash equivalents at end of the period	\$ 1,609,322	\$ 1,955,756	\$ 1,609,322	\$ 1,955,756

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended December 31, 2012
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition Related Items	Capitalized Software Development Costs (1)	Tax Adjustment (2)	Non-GAAP, as adjusted
Operating expenses:								
Cost of license revenues	\$ 63,393	(547)	(17)	(25,271)	—	(13,151)	—	\$ 24,407
Cost of services revenues	\$ 128,431	(7,482)	(194)	(1,098)	—	—	—	\$ 119,657
Research and development	\$ 268,323	(62,779)	(1,277)	(1,254)	—	—	—	\$ 203,013
Sales and marketing	\$ 478,401	(39,100)	(1,076)	(3,096)	—	—	—	\$ 435,129
General and administrative	\$ 102,082	(13,894)	(631)	—	(494)	—	—	\$ 87,063
Operating income	\$ 252,525	123,802	3,195	30,719	494	13,151	—	\$ 423,886
<i>Operating margin</i>	<i>19.5%</i>	<i>9.6%</i>	<i>0.3%</i>	<i>2.4%</i>	<i>—</i>	<i>1.0%</i>	<i>—</i>	<i>32.8%</i>
Income before income taxes	\$ 259,924	123,802	3,195	30,719	494	13,151	—	\$ 431,285
Income tax provision	\$ 54,155						27,832	\$ 81,987
<i>Tax rate</i>	<i>20.8%</i>							<i>19.0%</i>
Net income	\$ 205,769	123,802	3,195	30,719	494	13,151	(27,832)	\$ 349,298
Net income per weighted-average share, basic for Class A and Class B (3)	\$ 0.48	\$ 0.29	\$ 0.01	\$ 0.07	\$ —	\$ 0.03	\$ (0.06)	\$ 0.82
Net income per weighted-average share, diluted for Class A and Class B (4)	\$ 0.47	\$ 0.29	\$ 0.01	\$ 0.07	\$ —	\$ 0.03	\$ (0.06)	\$ 0.81

(1) For the fourth quarter of 2012, no costs were capitalized for the development of software products. Amortization expense from previously capitalized amounts was \$13.2 million.

(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 427,266 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 433,205 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, 2011
(in thousands, except per share amounts)
(unaudited)

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

(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

(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 Year Ended December 31, 2012
(in thousands, except per share amounts)
(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition Related Items	Capitalized Software Development Costs (1)	Tax Adjustment (2)	Non-GAAP, as adjusted
Operating expenses:								
Cost of license revenues	\$ 237,027	(2,072)	(60)	(71,605)	—	(70,608)	—	\$ 92,682
Cost of services revenues	\$ 484,296	(28,220)	(1,040)	(4,392)	—	—	—	\$ 450,644
Research and development	\$ 999,214	(210,377)	(6,327)	(3,718)	—	—	—	\$ 778,792
Sales and marketing	\$ 1,644,849	(149,879)	(4,847)	(12,243)	—	—	—	\$ 1,477,880
General and administrative	\$ 367,718	(48,107)	(1,622)	—	(3,896)	—	—	\$ 314,093
Operating income	\$ 871,943	438,655	13,896	91,958	3,896	70,608	—	\$ 1,490,956
<i>Operating margin</i>	<i>18.9%</i>	<i>9.5%</i>	<i>0.3%</i>	<i>2.0%</i>	<i>0.2%</i>	<i>1.5%</i>	—	<i>32.4%</i>
Income before income taxes	\$ 893,114	438,655	13,896	91,958	3,896	70,608	—	\$ 1,512,127
Income tax provision	\$ 147,412						129,126	\$ 276,538
<i>Tax rate</i>	<i>16.5%</i>							<i>18.3%</i>
Net income	\$ 745,702	438,655	13,896	91,958	3,896	70,608	(129,126)	\$ 1,235,589
Net income per weighted-average share, basic for Class A and Class B (3)	\$ 1.75	\$ 1.03	\$ 0.03	\$ 0.22	\$ 0.01	\$ 0.17	\$ (0.31)	\$ 2.90
Net income per weighted-average share, diluted for Class A and Class B (4)	\$ 1.72	\$ 1.01	\$ 0.03	\$ 0.21	\$ 0.01	\$ 0.16	\$ (0.29)	\$ 2.85

(1) For the year ended December 31, 2012, no costs were capitalized for the development of software products. Amortization expense from previously capitalized amounts was \$70.6 million.

(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 426,658 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 433,974 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	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	\$ 1,324,346	(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%	0.3%	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.

(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 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.

(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.

REVENUE BY TYPE
(in thousands)
(unaudited)

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2012	2011	2012	2011
Revenues:				
License	\$ 596,720	\$ 513,767	\$ 2,086,990	\$ 1,841,169
Services:				
Software maintenance	590,971	463,489	2,152,986	1,640,397
Professional services	105,464	83,046	365,071	285,530
Total services	696,435	546,535	2,518,057	1,925,927
Total revenues	<u>\$ 1,293,155</u>	<u>\$ 1,060,302</u>	<u>\$ 4,605,047</u>	<u>\$ 3,767,096</u>
Percentage of revenues:				
License	46.1%	48.5%	45.3%	48.9%
Services:				
Software maintenance	45.7%	43.7%	46.8%	43.5%
Professional services	8.2%	7.8%	7.9%	7.6%
Total services	53.9%	51.5%	54.7%	51.1%
Total revenues	<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)

(in thousands)

(unaudited)

	For the Three Months Ended	
	December 31,	
	2012	2011
GAAP cash flows from operating activities	\$ 493,377	\$ 561,409
Capital expenditures	(81,639)	(52,911)
Free cash flows	<u>\$ 411,738</u>	<u>\$ 508,498</u>

VMware, Inc.

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

(A NON-GAAP FINANCIAL MEASURE)

(in thousands)

(unaudited)

	For the Year Ended December 31,	
	2012	2011
GAAP cash flows from operating activities	\$ 1,897,524	\$ 2,025,633
Capital expenditures	(234,458)	(230,091)
Free cash flows	<u>\$ 1,663,066</u>	<u>\$ 1,795,542</u>