

VMware, Inc.

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

	For the Three Months Ended	
	March 31,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 78,421	\$ 69,935
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	53,788	41,383
Stock-based compensation, excluding amounts capitalized	63,697	49,815
Excess tax benefits from stock-based compensation	(23,918)	(230)
Other	1,417	493
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	185,231	74,161
Other assets	(845)	10,209
Due to/from EMC, net	25,776	(15,384)
Accounts payable	(2,647)	(19,457)
Accrued expenses	(51,202)	(12,428)
Income taxes payable	14,365	20,377
Deferred income taxes, net	(4,221)	(6,844)
Deferred revenue	15,090	47,209
Net cash provided by operating activities	<u>354,952</u>	<u>259,239</u>
Cash flows from investing activities:		
Additions to property and equipment	(31,112)	(35,825)
Capitalized software development costs	(21,861)	(29,935)
Purchase of investments	—	(745)
Business acquisitions, net of cash acquired	(106,550)	—
Increase in restricted cash	(16,848)	—
Net cash used in investing activities	<u>(176,371)</u>	<u>(66,505)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	109,775	4,503
Repurchase of common stock	(31,348)	—
Excess tax benefits from stock-based compensation	23,918	230
Shares repurchased for tax withholdings on vesting of restricted stock	(10,906)	(6,797)
Net cash provided by (used in) financing activities	<u>91,439</u>	<u>(2,064)</u>
Net increase in cash and cash equivalents	270,020	190,670
Cash and cash equivalents at beginning of the period	2,486,461	1,840,812
Cash and cash equivalents at end of the period	<u>\$ 2,756,481</u>	<u>\$ 2,031,482</u>

VMware, Inc.

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

	For the Three Months Ended	
	March 31,	
	2010	2009
Revenues:		
License	\$ 312,177	\$ 257,003
Services	321,356	213,307
	<u>633,533</u>	<u>470,310</u>
Operating expenses (1):		
Cost of license revenues	40,121	20,359
Cost of services revenues	68,529	54,644
Research and development	138,112	105,401
Sales and marketing	216,829	154,144
General and administrative	67,756	48,859
	<u>102,186</u>	<u>86,903</u>
Operating income	102,186	86,903
Investment income	685	3,062
Interest expense with EMC, net	(901)	(2,674)
Other expense, net	(4,331)	(1,824)
	<u>97,639</u>	<u>85,467</u>
Income before income taxes	97,639	85,467
Income tax provision	19,218	15,532
	<u>\$ 78,421</u>	<u>\$ 69,935</u>
Net income	<u>\$ 78,421</u>	<u>\$ 69,935</u>
Net income per weighted-average share, basic for Class A and Class B	\$ 0.19	\$ 0.18
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.19	\$ 0.18
Weighted-average shares, basic for Class A and Class B	404,480	389,857
Weighted-average shares, diluted for Class A and Class B	416,853	391,111
(1) Includes stock-based compensation as follows:		
Cost of license revenues	\$ 385	\$ 330
Cost of services revenues	4,157	3,475
Research and development	34,723	23,904
Sales and marketing	16,047	13,834
General and administrative	8,385	8,272

VMware, Inc.

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

	March 31,	December 31,
	2010	2009
	<hr/>	<hr/>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,756,481	\$ 2,486,461
Accounts receivable, less allowance for doubtful accounts	353,122	534,196
Due from EMC, net	626	26,402
Deferred tax asset, current portion	80,113	63,360
Income taxes receivable from EMC	2,967	2,967
Other current assets	87,316	69,094
Total current assets	<hr/> 3,280,625	<hr/> 3,182,480
Property and equipment, net	405,695	402,356
Capitalized software development costs, net and other	172,042	169,293
Deferred tax asset, net of current portion	103,756	102,529
Intangible assets, net	127,139	94,557
Goodwill	1,189,874	1,115,769
Total assets	<hr/> <hr/> \$ 5,279,131	<hr/> <hr/> \$ 5,066,984
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 46,113	\$ 50,566
Accrued expenses	272,466	324,061
Income taxes payable	1,831	10,462
Deferred revenue, current portion	934,099	908,953
Total current liabilities	<hr/> 1,254,509	<hr/> 1,294,042
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	423,981	416,345
Deferred tax liability	62,036	60,300
Other liabilities	109,555	103,346
Total liabilities	<hr/> 2,300,081	<hr/> 2,324,033
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 107,299 and 102,785 shares	1,073	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	2,538,538	2,339,079
Accumulated other comprehensive income	4,985	4,563
Retained earnings	431,454	395,281
Total stockholders' equity	<hr/> 2,979,050	<hr/> 2,742,951
Total liabilities and stockholders' equity	<hr/> <hr/> \$ 5,279,131	<hr/> <hr/> \$ 5,066,984

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended March 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 (4)	Non-GAAP, as adjusted
Operating expenses :									
Cost of license revenues	\$ 40,121	\$ (385)	\$ (12)	\$ (3,111)	—	\$ (23,681)	\$ —	—	\$ 12,932
Cost of services revenues	\$ 68,529	(4,157)	(55)	(257)	—	—	—	—	\$ 64,060
Research and development	\$ 138,112	(34,723)	(983)	(473)	—	26,041	(4,180)	—	\$ 123,794
Sales and marketing	\$ 216,829	(16,047)	(337)	(440)	—	—	—	—	\$ 200,005
General and administrative	\$ 67,756	(8,385)	(211)	(38)	(1,239)	—	—	—	\$ 57,883
Operating income	\$ 102,186	63,697	1,598	4,319	1,239	(2,360)	4,180	—	\$ 174,859
Income before income taxes	\$ 97,639	63,697	1,598	4,319	1,239	(2,360)	4,180	—	\$ 170,312
Income tax provision	\$ 19,218							18,251	\$ 37,469
Quarterly tax rate	19.7%								22.0%
Net income	\$ 78,421	63,697	1,598	4,319	1,239	(2,360)	4,180	(18,251)	\$ 132,843
Net income per weighted-average share, basic for Class A and Class B (2)	\$ 0.19	\$ 0.16	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.05)	\$ 0.33
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.19	\$ 0.15	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.32

(1) For the first quarter of 2010, VMware capitalized \$26.0 million (including \$4.2 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$23.7 million for the first quarter of 2010.

(2) Calculated based upon 404,480 basic weighted-average shares for Class A and Class B.

(3) Calculated based upon 416,853 diluted weighted-average shares for Class A and Class B.

(4) 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.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA
For the Three Months Ended March 31, 2009
(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	Non-GAAP, as adjusted
Operating expenses :							
Cost of license revenues	\$ 20,359	\$ (330)	\$ (1)	\$ (2,757)	\$ (10,652)	\$ —	\$ 6,619
Cost of services revenues	\$ 54,644	(3,475)	(1)	—	—	—	\$ 51,168
Research and development	\$ 105,401	(23,904)	(195)	—	36,381	(6,446)	\$ 111,237
Sales and marketing	\$ 154,144	(13,834)	(40)	(428)	—	—	\$ 139,842
General and administrative	\$ 48,859	(8,272)	(13)	(124)	—	—	\$ 40,450
Operating income	\$ 86,903	49,815	250	3,309	(25,729)	6,446	\$ 120,994
Income before income taxes	\$ 85,467	49,815	250	3,309	(25,729)	6,446	\$ 119,558
Income tax provision	\$ 15,532	9,934	65	1,168	(8,115)	1,285	\$ 19,869
Quarterly tax rate	18.2%						16.6%
Net income	\$ 69,935	39,881	185	2,141	(17,614)	5,161	\$ 99,689
Net income per weighted-average share, basic for Class A and Class B (2)	\$ 0.18	\$ 0.10	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.01	\$ 0.26
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.18	\$ 0.10	\$ 0.00	\$ 0.01	\$ (0.05)	\$ 0.01	\$ 0.25

(1) For the first quarter of 2009, VMware capitalized \$36.4 million (including \$6.4 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$10.7 million for the first quarter of 2009.

(2) Calculated based upon 389,857 basic weighted-average shares for Class A and Class B.

(3) Calculated based upon 391,111 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

REVENUE BY TYPE
(in thousands)
(unaudited)

	For the Three Months	
	Ended March 31,	
	2010	2009
Revenues:		
License	\$ 312,177	\$ 257,003
Services:		
Software maintenance	267,244	175,740
Professional services	54,112	37,567
Total services	<u>321,356</u>	<u>213,307</u>
	<u>\$ 633,533</u>	<u>\$ 470,310</u>
Percentage of revenues:		
License	49.3%	54.6%
Services:		
Software maintenance	42.2%	37.4%
Professional services	8.5%	8.0%
Total services	<u>50.7%</u>	<u>45.4%</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 March 31, 2010 and 2009

(in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2010	2009
GAAP cash flows from operating activities	\$ 354,952	\$ 259,239
Capitalized software development costs	(21,861)	(29,935)
Excess tax benefits from stock-based compensation	23,918	230
Capital expenditures	<u>(31,112)</u>	<u>(35,825)</u>
Free cash flows	<u>\$ 325,897</u>	<u>\$ 193,709</u>

VMware, Inc.

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

(A NON-GAAP FINANCIAL MEASURE)

For the Trailing Twelve Months Ended March 31, 2010 and 2009

(in thousands)

(unaudited)

	For the Trailing Twelve Months Ended March 31,	
	2010	2009
GAAP cash flows from operating activities	\$ 1,081,329	\$ 926,190
Capitalized software development costs	(60,537)	(116,671)
Excess tax benefits from stock-based compensation	49,902	63,314
Capital expenditures	(98,662)	(178,399)
Free cash flows	<u>\$ 972,032</u>	<u>\$ 694,434</u>