

VMware, Inc.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Cash flows from operating activities:</b>				
Net income	\$ 74,538	\$ 32,535	\$ 152,959	\$ 102,470
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	58,556	44,927	112,344	86,310
Stock-based compensation, excluding amounts capitalized	67,836	51,456	131,533	101,271
Excess tax benefits from stock-based compensation	(64,583)	(4,243)	(88,501)	(4,473)
Other	4,442	141	5,859	634
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(77,543)	6,530	107,688	80,691
Other assets	(23,406)	(9,313)	(24,251)	896
Due to/from EMC, net	(23,474)	5,973	2,302	(9,411)
Accounts payable	9,207	(8,925)	6,560	(28,382)
Accrued expenses	78,098	26,316	26,896	13,888
Income taxes receivable from EMC	2,508	87,899	2,508	87,899
Income taxes payable	16,759	733	31,124	21,110
Deferred income taxes, net	(126)	(7,755)	(4,347)	(14,599)
Deferred revenue	93,311	17,046	108,401	64,255
Net cash provided by operating activities	<u>216,123</u>	<u>243,320</u>	<u>571,075</u>	<u>502,559</u>
<b>Cash flows from investing activities:</b>				
Additions to property and equipment	(28,996)	(29,843)	(60,108)	(65,668)
Capitalized software development costs	(19,310)	(14,745)	(41,171)	(44,680)
Purchases of available-for-sale securities	(660,051)	—	(660,051)	—
Purchase of strategic investments	—	(25,000)	—	(25,745)
Business acquisitions, net of cash acquired	(60,600)	—	(167,150)	—
Transfer of net assets under common control	(175,000)	—	(175,000)	—
Decrease in restricted cash	17,054	549	206	549
Net cash used in investing activities	<u>(926,903)</u>	<u>(69,039)</u>	<u>(1,103,274)</u>	<u>(135,544)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of common stock	106,132	77,103	215,907	81,606
Repurchase of common stock	(113,152)	—	(144,500)	—
Excess tax benefits from stock-based compensation	64,583	4,243	88,501	4,473
Shares repurchased for tax withholdings on vesting of restricted stock	(34,677)	(11,449)	(45,583)	(18,246)
Net cash provided by financing activities	<u>22,886</u>	<u>69,897</u>	<u>114,325</u>	<u>67,833</u>
Net increase (decrease) in cash and cash equivalents	(687,894)	244,178	(417,874)	434,848
Cash and cash equivalents at beginning of the period	2,756,481	2,031,482	2,486,461	1,840,812
Cash and cash equivalents at end of the period	<u>\$ 2,068,587</u>	<u>\$ 2,275,660</u>	<u>\$ 2,068,587</u>	<u>\$ 2,275,660</u>

VMware, Inc.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenues:				
License	\$ 323,665	\$ 227,962	\$ 635,842	\$ 484,965
Services	350,239	227,713	671,595	441,020
	<u>673,904</u>	<u>455,675</u>	<u>1,307,437</u>	<u>925,985</u>
Operating expenses (1):				
Cost of license revenues	40,269	27,853	80,390	48,212
Cost of services revenues	77,883	53,293	146,412	107,937
Research and development	161,756	121,380	299,868	226,781
Sales and marketing	231,662	167,421	448,491	321,565
General and administrative	61,153	47,729	128,909	96,588
Operating income	<u>101,181</u>	<u>37,999</u>	<u>203,367</u>	<u>124,902</u>
Investment income	995	2,496	1,680	5,558
Interest expense with EMC, net	(957)	(1,999)	(1,858)	(4,673)
Other income (expense), net	<u>(4,275)</u>	<u>375</u>	<u>(8,606)</u>	<u>(1,449)</u>
Income before income taxes	96,944	38,871	194,583	124,338
Income tax provision	<u>22,406</u>	<u>6,336</u>	<u>41,624</u>	<u>21,868</u>
Net income	<u>\$ 74,538</u>	<u>\$ 32,535</u>	<u>\$ 152,959</u>	<u>\$ 102,470</u>
Net income per weighted-average share, basic for Class A and Class B	\$ 0.18	\$ 0.08	\$ 0.38	\$ 0.26
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.18	\$ 0.08	\$ 0.37	\$ 0.26
Weighted-average shares, basic for Class A and Class B	407,931	391,841	405,089	390,855
Weighted-average shares, diluted for Class A and Class B	422,333	395,826	418,476	393,178
(1) Includes stock-based compensation as follows:				
Cost of license revenues	\$ 390	\$ 313	\$ 775	\$ 643
Cost of services revenues	4,057	3,463	8,214	6,938
Research and development	39,445	26,433	74,168	50,337
Sales and marketing	15,452	13,311	31,499	27,145
General and administrative	8,492	7,936	16,877	16,208

VMware, Inc.

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

	<u>June 30,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,068,587	\$ 2,486,461
Short-term investments	711,234	27,360
Accounts receivable, net	429,884	534,196
Due from EMC, net	22,874	26,402
Deferred tax asset, current portion	86,379	63,360
Other current assets	104,113	44,701
Total current assets	<u>3,423,071</u>	<u>3,182,480</u>
Property and equipment, net	413,483	402,356
Capitalized software development costs, net and other	169,590	169,293
Deferred tax asset, net of current portion	102,822	102,529
Intangible assets, net	177,322	94,557
Goodwill	1,510,873	1,115,769
Total assets	<u>\$ 5,797,161</u>	<u>\$ 5,066,984</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 59,663	\$ 50,566
Accrued expenses and other	373,359	334,523
Deferred revenue, current portion	1,011,067	908,953
Total current liabilities	<u>1,444,089</u>	<u>1,294,042</u>
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	461,763	416,345
Deferred tax liability	23,789	60,300
Other liabilities	111,882	103,346
Total liabilities	<u>2,491,523</u>	<u>2,324,033</u>
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 110,266 and 102,785 shares	1,103	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	2,946,462	2,339,079
Accumulated other comprehensive income	7,004	4,563
Retained earnings	348,069	395,281
Total stockholders' equity	<u>3,305,638</u>	<u>2,742,951</u>
Total liabilities and stockholders' equity	<u>\$ 5,797,161</u>	<u>\$ 5,066,984</u>

VMware, Inc.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**For the Three Months Ended June 30, 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	\$ 40,269	(390)	(25)	(5,611)	—	(21,236)	—	—	\$ 13,007
Cost of services revenues	\$ 77,883	(4,057)	(122)	(1,471)	—	—	—	—	\$ 72,233
Research and development	\$ 161,756	(39,445)	(1,719)	(627)	—	18,594	(2,691)	—	\$ 135,868
Sales and marketing	\$ 231,662	(15,452)	(724)	(598)	—	—	—	—	\$ 214,888
General and administrative	\$ 61,153	(8,492)	(365)	(38)	(900)	—	—	—	\$ 51,358
Operating income	\$ 101,181	67,836	2,955	8,345	900	2,642	2,691	—	\$ 186,550
Operating margin	15.0%	10.1%	0.4%	1.2%	0.2%	0.4%	0.4%	0.0%	27.7%
Income before income taxes	\$ 96,944	67,836	2,955	8,345	900	2,642	2,691	—	\$ 182,313
Income tax provision	\$ 22,406							17,703	\$ 40,109
Tax rate	23.1%								22.0%
Net income	\$ 74,538	67,836	2,955	8,345	900	2,642	2,691	(17,703)	\$ 142,204
Net income per weighted-average share, basic for Class A and Class B (3)	\$ 0.18	\$ 0.17	\$ 0.01	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.35
Net income per weighted-average share, diluted for Class A and Class B (4)	\$ 0.18	\$ 0.16	\$ 0.01	\$ 0.02	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.34

(1) For the second quarter of 2010, VMware capitalized \$18.6 million (including \$2.7 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$21.2 million for the second quarter of 2010.

(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.

(3) Calculated based upon 407,931 basic weighted-average shares for Class A and Class B.

(4) Calculated based upon 422,333 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**For the Three Months Ended June 30, 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	\$ 27,853	(313)	(4)	(2,757)	(17,629)	—	\$ 7,150
Cost of services revenues	\$ 53,293	(3,463)	(20)	—	—	—	\$ 49,810
Research and development	\$ 121,380	(26,433)	(411)	—	18,388	(3,643)	\$ 109,281
Sales and marketing	\$ 167,421	(13,311)	(141)	(388)	—	—	\$ 153,581
General and administrative	\$ 47,729	(7,936)	(164)	(124)	—	—	\$ 39,505
Operating income	\$ 37,999	51,456	740	3,269	(759)	3,643	\$ 96,348
<i>Operating margin</i>	8.3%	11.3%	0.2%	0.7%	-0.2%	0.8%	21.1%
Income before income taxes	\$ 38,871	51,456	740	3,269	(759)	3,643	\$ 97,220
Income tax provision	\$ 6,336	9,853	190	1,154	(560)	686	\$ 17,659
<i>Tax rate</i>	16.3%						18.2%
Net income	\$ 32,535	41,603	550	2,115	(199)	2,957	\$ 79,561
Net income per weighted-average share, basic for Class A and Class B (2)	\$ 0.08	\$ 0.11	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ 0.01	\$ 0.20
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.08	\$ 0.11	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ 0.01	\$ 0.20

(1) For the second quarter of 2009, VMware capitalized \$18.4 million (including \$3.6 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$17.6 million for the second quarter of 2009.

(2) Calculated based up on 391,841 basic weighted-average shares for Class A and Class B.

(3) Calculated based up on 395,826 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**For the Six Months Ended June 30, 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	\$ 80,390	(775)	(37)	(8,722)	—	(44,917)	—	—	\$ 25,939
Cost of services revenues	\$ 146,412	(8,214)	(177)	(1,728)	—	—	—	—	\$ 136,293
Research and development	\$ 299,868	(74,168)	(2,702)	(1,100)	—	44,635	(6,871)	—	\$ 259,662
Sales and marketing	\$ 448,491	(31,499)	(1,061)	(1,038)	—	—	—	—	\$ 414,893
General and administrative	\$ 128,909	(16,877)	(576)	(76)	(2,139)	—	—	—	\$ 109,241
Operating income	\$ 203,367	131,533	4,553	12,664	2,139	282	6,871	—	\$ 361,409
<i>Operating margin</i>	<i>15.6%</i>	<i>10.1%</i>	<i>0.3%</i>	<i>1.0%</i>	<i>0.1%</i>	<i>0.0%</i>	<i>0.5%</i>	<i>0.0%</i>	<i>27.6%</i>
Income before income taxes	\$ 194,583	131,533	4,553	12,664	2,139	282	6,871	—	\$ 352,625
Income tax provision	\$ 41,624							35,954	\$ 77,578
<i>Tax rate</i>	<i>21.4%</i>								<i>22.0%</i>
Net income	\$ 152,959	131,533	4,553	12,664	2,139	282	6,871	(35,954)	\$ 275,047
Net income per weighted-average share, basic for Class A and Class B (3)	\$ 0.38	\$ 0.32	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.00	\$ 0.02	\$ (0.09)	\$ 0.68
Net income per weighted-average share, diluted for Class A and Class B (4)	\$ 0.37	\$ 0.31	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.00	\$ 0.02	\$ (0.09)	\$ 0.66

(1) For the first half of 2010, VMware capitalized \$44.6 million (including \$6.9 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$44.9 million for the first half of 2010.

(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.

(3) Calculated based upon 405,089 basic weighted average shares for Class A and Class B.

(4) Calculated based upon 418,476 diluted weighted average shares for Class A and Class B.

VMware, Inc.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**For the Six Months Ended June 30, 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 Software Development	Non-GAAP, as adjusted
Operating expenses :							
Cost of license revenues	\$ 48,212	(643)	(5)	(5,514)	(28,281)	—	\$ 13,769
Cost of services revenues	\$ 107,937	(6,938)	(21)	—	—	—	\$ 100,978
Research and development	\$ 226,781	(50,337)	(606)	—	54,769	(10,089)	\$ 220,518
Sales and marketing	\$ 321,565	(27,145)	(181)	(816)	—	—	\$ 293,423
General and administrative	\$ 96,588	(16,208)	(177)	(248)	—	—	\$ 79,955
Operating income	\$ 124,902	101,271	990	6,578	(26,488)	10,089	\$ 217,342
<i>Operating margin</i>	<i>13.5%</i>	<i>10.9%</i>	<i>0.0%</i>	<i>0.7%</i>	<i>-2.9%</i>	<i>1.1%</i>	<i>23.5%</i>
Income before income taxes	\$ 124,338	101,271	990	6,578	(26,488)	10,089	\$ 216,778
Income tax provision	\$ 21,868	19,787	255	2,322	(8,675)	1,971	\$ 37,528
<i>Tax rate</i>	<i>17.6%</i>						<i>17.3%</i>
Net income	\$ 102,470	81,484	735	4,256	(17,813)	8,118	\$ 179,250
Net income per weighted-average share, basic for Class A and Class B (2)	\$ 0.26	\$ 0.21	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.02	\$ 0.46
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.26	\$ 0.21	\$ 0.00	\$ 0.01	\$ (0.04)	\$ 0.02	\$ 0.46

(1) For the first half of 2009, VMware capitalized \$54.8 million (including \$10.1 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$28.3 million for the first half of 2009.

(2) Calculated based upon 390,855 basic weighted-average shares for Class A and Class B.

(3) Calculated based upon 393,178 diluted weighted-average shares for Class A and Class B.

**VMware, Inc.**

**REVENUE BY TYPE**  
(in thousands)  
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
License	\$ 323,665	\$ 227,962	\$ 635,842	\$ 484,965
Services:				
Software maintenance	290,429	188,995	557,673	364,735
Professional services	59,810	38,718	113,922	76,285
Total services	<u>350,239</u>	<u>227,713</u>	<u>671,595</u>	<u>441,020</u>
	<u>\$ 673,904</u>	<u>\$ 455,675</u>	<u>\$ 1,307,437</u>	<u>\$ 925,985</u>
Percentage of revenues:				
License	48.0%	50.0%	48.6%	52.4%
Services:				
Software maintenance	43.1%	41.5%	42.7%	39.4%
Professional services	8.9%	8.5%	8.7%	8.2%
Total services	<u>52.0%</u>	<u>50.0%</u>	<u>51.4%</u>	<u>47.6%</u>
	<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 June 30, 2010 and 2009**

**(in thousands)**

**(unaudited)**

	<b>For the Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
GAAP cash flows from operating activities	\$ 216,123	\$ 243,320
Capitalized software development costs	(19,310)	(14,745)
Excess tax benefits from stock-based compensation	64,583	4,243
Capital expenditures	(28,996)	(29,843)
Free cash flows	<u>\$ 232,400</u>	<u>\$ 202,975</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 June 30, 2010 and 2009**

**(in thousands)**

**(unaudited)**

	<b>For the Trailing Twelve Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
GAAP cash flows from operating activities	\$ 1,054,132	\$ 1,018,876
Capitalized software development costs	(65,102)	(119,646)
Excess tax benefits from stock-based compensation	110,242	10,822
Capital expenditures	(97,815)	(156,343)
Free cash flows	<u>\$ 1,001,457</u>	<u>\$ 753,709</u>