

VMware, Inc.

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

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,486,461	\$ 1,840,812
Accounts receivable, less allowance for doubtful accounts of \$2,525 and \$1,690	534,196	338,014
Due from EMC, net	26,402	—
Deferred tax asset, current portion	63,360	44,573
Income taxes receivable from EMC	2,967	111,050
Other current assets	69,094	55,639
Total current assets	<u>3,182,480</u>	<u>2,390,088</u>
Property and equipment, net	402,356	418,212
Capitalized software development costs, net and other	169,293	134,553
Deferred tax asset, net of current portion	102,529	68,280
Intangible assets, net	94,557	56,984
Goodwill	1,115,769	771,088
Total assets	<u>\$ 5,066,984</u>	<u>\$ 3,839,205</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 50,566	\$ 74,708
Accrued expenses	324,061	211,519
Due to EMC, net	—	33,407
Income taxes payable	10,462	15,761
Deferred revenue, current portion	908,953	544,355
Total current liabilities	<u>1,294,042</u>	<u>879,750</u>
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	416,345	325,634
Deferred tax liability	60,300	47,825
Other liabilities	103,346	65,929
Total liabilities	<u>2,324,033</u>	<u>1,769,138</u>
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 102,785 and 90,448 shares	1,028	904
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	2,339,079	1,836,513
Accumulated other comprehensive income	4,563	—
Retained earnings	395,281	229,650
Total stockholders' equity	<u>2,742,951</u>	<u>2,070,067</u>
Total liabilities and stockholders' equity	<u>\$ 5,066,984</u>	<u>\$ 3,839,205</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,	
	2009	2008	2009	2008
Revenues:				
License	\$ 304,206	\$ 314,843	\$ 1,029,442	\$ 1,178,142
Services	303,995	199,760	994,495	702,885
	<u>608,201</u>	<u>514,603</u>	<u>2,023,937</u>	<u>1,881,027</u>
Operating expenses (1):				
Cost of license revenues	40,945	22,123	126,686	88,156
Cost of services revenues	66,561	49,827	233,042	215,949
Research and development	136,262	110,506	496,552	429,204
Sales and marketing	229,596	178,605	736,383	654,083
General and administrative	63,680	51,428	211,979	181,110
Operating income	<u>71,157</u>	<u>102,114</u>	<u>219,295</u>	<u>312,525</u>
Investment income	1,054	6,333	8,233	28,301
Interest expense with EMC, net	(966)	(5,095)	(6,958)	(18,316)
Other income (expense), net	<u>(4,008)</u>	<u>(2,728)</u>	<u>2,879</u>	<u>(3,225)</u>
Income before income taxes	67,237	100,624	223,449	319,285
Income tax provision (benefit)	10,828	(10,830)	26,351	29,152
Net income	<u>\$ 56,409</u>	<u>\$ 111,454</u>	<u>\$ 197,098</u>	<u>\$ 290,133</u>
Net income per weighted-average share, basic for Class A and Class B	\$ 0.14	\$ 0.29	\$ 0.50	\$ 0.75
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.14	\$ 0.29	\$ 0.49	\$ 0.73
Weighted-average shares, basic for Class A and Class B	400,708	388,620	394,269	385,068
Weighted-average shares, diluted for Class A and Class B	410,973	389,733	399,776	397,185
(1) Includes stock-based compensation as follows:				
Cost of license revenues	\$ 320	\$ 317	\$ 1,293	\$ 1,120
Cost of services revenues	3,933	2,769	14,874	13,485
Research and development	37,183	22,085	121,770	77,992
Sales and marketing	15,702	13,624	58,610	49,762
General and administrative	10,695	8,171	34,909	24,157

VMware, Inc.

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

	For the Three Months Ended December 31,		For the Year Ended December 31,	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net income	\$ 56,409	\$ 111,454	\$ 197,098	\$ 290,133
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	56,756	41,091	198,486	158,628
Stock-based compensation, excluding amounts capitalized	67,833	46,966	231,456	166,516
Excess tax benefits from stock-based compensation	(13,376)	(505)	(26,214)	(85,776)
Gain on acquisition	—	—	(5,859)	—
Other	5,435	6,363	8,675	8,663
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(279,392)	(49,044)	(193,610)	(52,527)
Other assets	(6,257)	(6,260)	(14,181)	(21,910)
Due to/from EMC, net	(49,706)	(2,842)	(64,762)	40,348
Accounts payable	12,699	10,958	(17,886)	3,012
Accrued expenses	90,393	40,499	124,685	22,930
Income taxes receivable from EMC	—	(13,986)	107,927	(111,050)
Income taxes payable	21,509	(1,446)	32,779	26,623
Deferred income taxes, net	(14,281)	1,065	(40,476)	38,908
Deferred revenue	335,669	88,499	447,498	315,633
Net cash provided by operating activities	<u>283,691</u>	<u>272,812</u>	<u>985,616</u>	<u>800,131</u>
Cash flows from investing activities:				
Additions to property and equipment	(23,462)	(58,011)	(103,375)	(191,596)
Capitalized software development costs	(15,087)	(37,005)	(68,611)	(90,900)
Purchase of investments	(3,200)	—	(34,665)	(1,750)
Business acquisitions, net of cash acquired	—	(47,917)	(356,278)	(138,569)
Decrease in restricted cash	—	32	549	928
Net cash used in investing activities	<u>(41,749)</u>	<u>(142,901)</u>	<u>(562,380)</u>	<u>(421,887)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock	61,143	22,690	227,666	190,107
Excess tax benefits from stock-based compensation	13,376	505	26,214	85,776
Shares repurchased for tax withholdings on vesting of restricted stock	(6,161)	(3,666)	(31,467)	(44,483)
Net cash provided by financing activities	<u>68,358</u>	<u>19,529</u>	<u>222,413</u>	<u>231,400</u>
Net increase in cash and cash equivalents	310,300	149,440	645,649	609,644
Cash and cash equivalents at beginning of the period	2,176,161	1,691,372	1,840,812	1,231,168
Cash and cash equivalents at end of the period	<u>\$ 2,486,461</u>	<u>\$ 1,840,812</u>	<u>\$ 2,486,461</u>	<u>\$ 1,840,812</u>

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
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
Quarterly tax rate	16.1%							17.6%
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	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.32
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.14	\$ 0.14	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.31

(1) For the fourth quarter of 2009, VMware 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 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	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 (2)	\$ 0.29	\$ 0.11	\$ 0.00	\$ 0.02	\$ (0.08)	\$ 0.02	\$ 0.36
Net income per weighted-average share, diluted for Class A and Class B (3)	\$ 0.29	\$ 0.11	\$ 0.00	\$ 0.02	\$ (0.08)	\$ 0.02	\$ 0.36

(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.

(2) Calculated based upon 388,620 basic weighted-average shares for Class A and Class B.

(3) Calculated based upon 389,733 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, 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
Other income (expense), 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
Annual 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

(1) For the year ended December 31, 2009, VMware 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.

(2) Calculated based upon 394,269 basic weighted-average shares for Class A and Class B.

(3) Calculated based upon 399,776 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, 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	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 (benefit)	\$ 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 (2)	\$ 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 (3)	\$ 0.73	\$ 0.34	\$ 0.01	\$ 0.04	\$ (0.12)	\$ 0.05	\$ 1.05

(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.

(2) Calculated based upon 385,068 basic weighted-average shares for Class A and Class B.

(3) Calculated based upon 397,185 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

REVENUE BY TYPE
(in thousands)
(unaudited)

	For the Three Months		For the Year Ended	
	Ended December 31,		December 31,	
	2009	2008	2009	2008
Revenues:				
License	\$ 304,206	\$ 314,843	\$ 1,029,442	\$ 1,178,142
Services:				
Software maintenance	246,236	160,491	823,789	555,906
Professional services	57,759	39,269	170,706	146,979
Total services	<u>303,995</u>	<u>199,760</u>	<u>994,495</u>	<u>702,885</u>
	<u>\$ 608,201</u>	<u>\$ 514,603</u>	<u>\$ 2,023,937</u>	<u>\$ 1,881,027</u>
Percentage of revenues:				
License	50.0%	61.2%	50.9%	62.6%
Services:				
Software maintenance	40.5%	31.2%	40.7%	29.6%
Professional services	9.5%	7.6%	8.4%	7.8%
Total services	<u>50.0%</u>	<u>38.8%</u>	<u>49.1%</u>	<u>37.4%</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 December 31, 2009 and 2008

(in thousands)

(unaudited)

	For the Three Months Ended December 31,	
	2009	2008
GAAP cash flows from operating activities	\$ 283,691	\$ 272,812
Capitalized software development costs	(15,087)	(37,005)
Excess tax benefits from stock-based compensation	13,376	505
Additions to property and equipment	(23,462)	(58,011)
Free cash flows	<u>\$ 258,518</u>	<u>\$ 178,301</u>

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, 2009 and 2008

(in thousands)

(unaudited)

	For the Year Ended December 31,	
	2009	2008
GAAP cash flows from operating activities	\$ 985,616	\$ 800,131
Capitalized software development costs	(68,611)	(90,900)
Excess tax benefits from stock-based compensation	26,214	85,776
Additions to property and equipment	(103,375)	(191,596)
Free cash flows	<u>\$ 839,844</u>	<u>\$ 603,411</u>