

VMware, Inc.

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

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,540,260	\$ 1,231,168
Accounts receivable, less allowance for doubtful accounts of \$1,160 and \$1,603	309,719	283,824
Deferred tax asset, current portion	31,470	54,386
Income taxes receivable from EMC, net	99,649	—
Other current assets	<u>46,741</u>	<u>33,956</u>
Total current assets	2,027,839	1,603,334
Property and equipment, net	349,851	276,983
Other assets, net	62,909	71,695
Deferred tax asset, net of current portion	48,261	72,249
Intangible assets, net	33,783	32,073
Goodwill	<u>684,338</u>	<u>639,366</u>
Total assets	<u>\$ 3,206,981</u>	<u>\$ 2,695,700</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 66,986	\$ 61,503
Accrued expenses	171,283	173,610
Due to EMC, net	33,345	2,759
Income taxes payable to EMC, current portion	—	68,823
Deferred revenue, current portion	<u>450,326</u>	<u>363,317</u>
Total current liabilities	721,940	670,012
Note payable to EMC	450,000	450,000
Deferred revenue, net of current portion	270,962	189,479
Deferred tax liability	25,613	27,327
Income taxes payable to EMC, net of current portion	25,471	18,265
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 87,959 and 82,924 shares	880	829
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	1,668,847	1,352,788
Retained earnings (accumulated deficit)	<u>40,268</u>	<u>(16,000)</u>
Total stockholders' equity	<u>1,712,995</u>	<u>1,340,617</u>
Total liabilities and stockholders' equity	<u>\$ 3,206,981</u>	<u>\$ 2,695,700</u>

VMware, Inc.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Revenues:				
License	\$ 284,233	\$ 204,048	\$ 578,213	\$ 373,605
Services	<u>171,895</u>	<u>92,777</u>	<u>316,090</u>	<u>181,915</u>
	456,128	296,825	894,303	555,520
Operating expenses:				
Cost of license revenues	21,639	20,832	44,498	41,388
Cost of services revenues	58,892	27,985	113,203	51,453
Research and development	114,128	71,581	233,383	126,539
Sales and marketing	158,307	98,989	307,564	185,696
General and administrative	<u>42,162</u>	<u>30,703</u>	<u>86,264</u>	<u>57,327</u>
Operating income	61,000	46,735	109,391	93,117
Investment income	6,310	2,714	14,314	4,419
Interest expense with EMC, net	(3,579)	(7,791)	(9,398)	(6,519)
Other income (expense), net	<u>370</u>	<u>(146)</u>	<u>824</u>	<u>(87)</u>
Income before taxes	64,101	41,512	115,131	90,930
Income tax provision	<u>11,765</u>	<u>7,288</u>	<u>19,740</u>	<u>15,626</u>
Net income	<u>\$ 52,336</u>	<u>\$ 34,224</u>	<u>\$ 95,391</u>	<u>\$ 75,304</u>
Net income per weighted average share, basic for Class A and Class B	\$ 0.14	\$ 0.10	\$ 0.25	\$ 0.23
Net income per weighted average share, diluted for Class A and Class B	\$ 0.13	\$ 0.10	\$ 0.24	\$ 0.23
Weighted average shares, basic for Class A and Class B	382,931	332,500	381,976	332,500
Weighted average shares, diluted for Class A and Class B	398,979	332,501	398,258	332,501

VMware, Inc.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Cash flows from operating activities:</b>				
Net income	\$ 52,336	\$ 34,224	\$ 95,391	\$ 75,304
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	39,459	23,622	76,893	44,819
Stock-based compensation, excluding amounts capitalized	42,072	15,973	84,233	27,617
Excess tax benefits from stock-based compensation	(56,735)	—	(79,427)	—
Other adjustments	(278)	(429)	1,058	134
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	(25,132)	(52,451)	(24,286)	(6,090)
Other assets	(4,687)	(8,054)	(13,281)	(8,660)
Due to/from EMC, net	23,040	(33,902)	40,286	(90,080)
Accounts payable	(18,602)	14,349	(11,130)	12,381
Accrued expenses	11,349	10,508	(3,956)	11,468
Income taxes payable to/receivable from EMC	(75,412)	22,813	(97,008)	37,509
Deferred income taxes, net	83,063	(16,037)	46,719	(22,628)
Deferred revenue	80,161	75,015	168,322	108,755
Net cash provided by operating activities	<u>150,634</u>	<u>85,631</u>	<u>283,814</u>	<u>190,529</u>
<b>Cash flows from investing activities:</b>				
Additions to property and equipment	(51,899)	(32,335)	(100,921)	(48,919)
Capitalized software development costs	(11,770)	(3,872)	(15,934)	(10,544)
Purchase of long-term investment	(1,750)	—	(1,750)	—
Business acquisitions, net of cash acquired	—	(21,414)	(33,289)	(21,410)
Decrease (increase) in restricted cash	—	(6,382)	896	(5,694)
Net cash used in investing activities	<u>(65,419)</u>	<u>(64,003)</u>	<u>(150,998)</u>	<u>(86,567)</u>
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of common stock	109,658	—	133,327	—
Excess tax benefits from stock-based compensation	56,735	—	79,427	—
Shares repurchased for tax withholdings on vesting of restricted stock	(17,359)	—	(36,478)	—
Net cash provided by financing activities	<u>149,034</u>	<u>—</u>	<u>176,276</u>	<u>—</u>
Net increase in cash and cash equivalents	234,249	21,628	309,092	103,962
Cash and cash equivalents at beginning of the period	<u>1,306,011</u>	<u>258,468</u>	<u>1,231,168</u>	<u>176,134</u>
Cash and cash equivalents at end of the period	<u>\$ 1,540,260</u>	<u>\$ 280,096</u>	<u>\$ 1,540,260</u>	<u>\$ 280,096</u>

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended June 30, 2008

(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 Costs	Non-GAAP, as adjusted
Operating expenses:							
Cost of license revenues	\$ 21,639	(276)	(23)	(2,294)	(14,269)	—	\$ 4,777
Cost of services revenues	\$ 58,892	(3,795)	(154)	—	—	—	\$ 54,943
Research and development	\$ 114,128	(19,479)	(1,642)	—	14,817	(3,046)	\$ 104,778
Sales and marketing	\$ 158,307	(11,699)	(856)	(897)	—	—	\$ 144,855
General and administrative	\$ 42,162	(6,823)	(320)	(647)	—	—	\$ 34,372
Operating income	\$ 61,000	42,072	2,995	3,838	(548)	3,046	\$ 112,403
Income before taxes	\$ 64,101	42,072	2,995	3,838	(548)	3,046	\$ 115,504
Income tax provision	\$ 11,765	9,913	811	1,292	(1,291)	682	\$ 23,172
Quarterly tax rate	18.35%						20.06%
Net income	\$ 52,336	32,159	2,184	2,546	743	2,364	\$ 92,332
Net income per weighted average share, basic for Class A and Class B	\$ 0.14	\$ 0.08	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.24
Net income per weighted average share, diluted for Class A and Class B	\$ 0.13	\$ 0.08	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.01	\$ 0.23
Weighted average shares, basic for Class A and Class B	382,931	382,931	382,931	382,931	382,931	382,931	382,931
Weighted average shares, diluted for Class A and Class B	398,979	398,979	398,979	398,979	398,979	398,979	398,979

(1) For the second quarter of 2008, VMware capitalized \$14.8 million (including \$3.0 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$14.3 million for the second quarter of 2008.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA  
For the Three Months Ended June 30, 2007  
(in thousands, except per share amounts)  
(unaudited)

	GAAP	Stock-Based Compensation	Intangible Amortization	Capitalized Software Development Costs (1)	Stock-based Compensation Included in Capitalized Software Development Costs	Non-GAAP, as adjusted
<b>Operating expenses:</b>						
Cost of license revenues	\$ 20,832	(74)	(5,215)	(8,730)	—	\$ 6,813
Cost of services revenues	\$ 27,985	(919)	—	—	—	\$ 27,066
Research and development	\$ 71,581	(8,252)	—	4,402	(530)	\$ 67,201
Sales and marketing	\$ 98,989	(4,240)	(581)	—	—	\$ 94,168
General and administrative	\$ 30,703	(2,488)	(492)	—	—	\$ 27,723
Operating income	\$ 46,735	15,973	6,288	4,328	530	\$ 73,854
Income before taxes	\$ 41,512	15,973	6,288	4,328	530	\$ 68,631
Income tax provision	\$ 7,288	5,059	2,327	1,601	196	\$ 16,471
Quarterly tax rate	17.6%					24.0%
Net income	\$ 34,224	10,914	3,961	2,727	334	\$ 52,160
Net income per weighted average share, basic for Class A and Class B	\$ 0.10	\$ 0.03	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.16
Net income per weighted average share, diluted for Class A and Class B	\$ 0.10	\$ 0.03	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.16
Weighted average shares, basic for Class A and Class B	332,500	332,500	332,500	332,500	332,500	332,500
Weighted average shares, diluted for Class A and Class B	332,501	332,501	332,501	332,501	332,501	332,501

(1) For the second quarter of 2007, VMware capitalized \$4.4 million (including \$0.5 million of stock-based compensation), of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$8.7 million for the second quarter of 2007.

VMware, Inc.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**For the Six Months Ended June 30, 2008**  
(in thousands, except per share amounts)  
(unaudited)

	<u>GAAP</u>	<u>Stock-Based Compensation</u>	<u>Employer Payroll Tax on Employee Stock Transactions</u>	<u>Intangible Amortization</u>	<u>Capitalized Software Development Costs (1)</u>	<u>Stock-based Compensation Included in Capitalized Software Development Costs</u>	<u>Non-GAAP, as adjusted</u>
Operating expenses:							
Cost of license revenues	\$ 44,498	(539)	(25)	(4,604)	(29,139)	—	\$ 10,191
Cost of services revenues	\$ 113,203	(7,056)	(191)	—	—	—	\$ 105,956
Research and development	\$ 233,383	(40,576)	(2,439)	—	19,853	(3,919)	\$ 206,302
Sales and marketing	\$ 307,564	(23,000)	(1,144)	(1,791)	—	—	\$ 281,629
General and administrative	\$ 86,264	(13,062)	(477)	(1,294)	—	—	\$ 71,431
Operating income	\$ 109,391	84,233	4,276	7,689	9,286	3,919	\$ 218,794
Income before taxes	\$ 115,131	84,233	4,276	7,689	9,286	3,919	\$ 224,534
Income tax provision	\$ 19,740	18,413	1,139	2,703	891	857	\$ 43,743
Quarterly tax rate	17.1%						19.5%
Net income	\$ 95,391	65,820	3,137	4,986	8,395	3,062	\$ 180,791
Net income per weighted average share, basic for Class A and Class B	\$ 0.25	\$ 0.17	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.47
Net income per weighted average share, diluted for Class A and Class B	\$ 0.24	\$ 0.17	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.45
Weighted average shares, basic for Class A and Class B	381,976	381,976	381,976	381,976	381,976	381,976	381,976
Weighted average shares, diluted for Class A and Class B	398,258	398,258	398,258	398,258	398,258	398,258	398,258

(1) For the first six months of 2008, VMware capitalized \$19.9 million (including \$3.9 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$29.1 million for the first six months of 2008.

VMware, Inc.

**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
**For the Six Months Ended June 30, 2007**  
(in thousands, except per share amounts)  
(unaudited)

	<b>GAAP</b>	<b>Stock-Based Compensation</b>	<b>Intangible Amortization</b>	<b>Capitalized Software Development Costs (1)</b>	<b>Stock-based Compensation Included in Capitalized Software Development Costs</b>	<b>Non-GAAP, as adjusted</b>
Operating expenses:						
Cost of license revenues	\$ 41,388	(110)	(10,430)	(16,717)	—	\$ 14,131
Cost of services revenues	\$ 51,453	(1,413)	—	—	—	\$ 50,040
Research and development	\$ 126,539	(14,644)	—	12,001	(1,457)	\$ 122,439
Sales and marketing	\$ 185,696	(7,184)	(1,158)	—	—	\$ 177,354
General and administrative	\$ 57,327	(4,266)	(985)	—	—	\$ 52,076
Operating income	\$ 93,117	27,617	12,573	4,716	1,457	\$ 139,480
Income before taxes	\$ 90,930	27,617	12,573	4,716	1,457	\$ 137,293
Income tax provision	\$ 15,626	7,734	4,652	1,745	539	\$ 30,296
Quarterly tax rate	17.2%					22.1%
Net income	\$ 75,304	19,883	7,921	2,971	918	\$ 106,997
Net income per weighted average share, basic for Class A and Class B	\$ 0.23	\$ 0.06	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.32
Net income per weighted average share, diluted for Class A and Class B	\$ 0.23	\$ 0.06	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.32
Weighted average shares, basic for Class A and Class B	332,500	332,500	332,500	332,500	332,500	332,500
Weighted average shares, diluted for Class A and Class B	332,501	332,501	332,501	332,501	332,501	332,501

(1) For the first six months of 2007, VMware capitalized \$12.0 million (including \$1.5 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from previously capitalized amounts was \$16.7 million for the first six months of 2007.