

VMWARE, INC.

FORM 8-K (Current report filing)

Filed 07/23/12 for the Period Ending 07/17/12

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of report (Date of earliest event reported): July 17, 2012

VMWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-33622
(Commission
File Number)

94-3292913
(IRS Employer
Identification Number)

3401 Hillview Avenue, Palo Alto, CA
(Address of Principal Executive Offices)

94304
(Zip code)

Registrant's telephone number, including area code: (650) 427-5000

N/A

(Former Name or Former Address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

On July 21, 2012, VMware, Inc. entered into an Agreement and Plan of Merger, or the merger agreement, to acquire Nicira, Inc.

Under the terms of the merger agreement, each share of Nicira capital stock outstanding at the completion of the merger will be converted into a right to receive a cash payment, which will be determined by dividing the total merger consideration (described below) by the total number of shares of Nicira capital stock outstanding at the completion of the merger (calculated on a fully-diluted basis).

Vested options will be converted into a right to receive a cash payment. In addition, VMware will assume all unvested Nicira stock options, restricted stock and restricted stock units outstanding at the completion of the merger. These assumed equity awards will be converted into VMware equity awards based on an exchange ratio derived from the per share merger consideration payable to holders of Nicira capital stock and the ten-day trading average of VMware's Class A common stock prior to the completion of the merger.

The total merger consideration that will be used to determine the price per share payable in cash for outstanding Nicira capital stock and the exchange ratio for the assumption of Nicira equity awards is an amount equal to \$1,260,000,000 *plus* (a) the aggregate of all exercise prices under vested Nicira stock options outstanding at the time of the completion of the merger, (b) 50% of the aggregate of all exercise prices under unvested Nicira stock options outstanding at the time of the completion of the merger, and (c) the amount of any unrestricted cash and cash equivalents of the Company and its subsidiaries as of immediately prior to the completion of the merger and *minus* (i) the amount of any change of control payments required under any existing agreements resulting from the merger, (ii) the amount of any unpaid Nicira transaction expenses incurred in connection with the merger as of immediately prior to the completion of the merger, subject to certain exclusions and (iii) the amount of any Nicira debt outstanding of the completion of the merger, subject to certain exclusions.

The merger and the merger agreement have been approved by the board of directors of each of Nicira and VMware, by the requisite vote of the Nicira stockholders and by the sole Class B common stockholder of VMware. Completion of the transaction is subject to other customary closing conditions, including (1) clearance under the Hart-Scott-Rodino Antitrust Improvements Act, (2) acceptance of VMware employment offers by certain Nicira employees, subject to specified thresholds, (3) subject to certain exceptions, the accuracy of each party's representations and warranties, (4) compliance in all material respects by the other party with its covenants and (5) the absence of any material adverse effect on Nicira. The merger is expected to close in the second half of 2012.

The merger agreement provides that Nicira and VMware each have the right to terminate the agreement on the occurrence of certain events, including if the transaction is not consummated by January 21, 2013, subject to extension for up to an additional nine months if the parties have not received clearance under the Hart-Scott-Rodino Antitrust Improvements Act at such time. Under certain circumstances, VMware has agreed to pay a fee to Nicira in the event the merger is not consummated due to the failure of the parties to receive clearance under the Hart-Scott-Rodino Antitrust Improvements Act.

The merger agreement contains customary representations and warranties of Nicira and VMware, covenants regarding Nicira's operation of its business prior to the closing date and provisions regarding indemnification in favor of VMware. VMware will deposit into escrow \$100 million of the total merger consideration otherwise payable in the merger to holders of Nicira stock and equity awards, to be held in escrow as the sole remedy for indemnification claims, if any, under the merger agreement, subject to fraud and equitable remedies, for a period of one year following the completion of the merger, subject to any unresolved indemnification claims.

Item 2.02 Results of Operations and Financial Condition.

On July 17, 2012, VMware issued a press release announcing preliminary financial results for the quarter ended June 30, 2012.

On July 23, 2012, VMware issued a press release announcing its financial results for the quarter ended June 30, 2012.

The press releases, including information regarding VMware's use of non-GAAP financial measures, are attached hereto as Exhibit 99.2 and Exhibit 99.3 and are incorporated by reference herein.

The information in this Item 2.02 and the Exhibits 99.2 and 99.3 attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of any general incorporation language in such filing.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On July 18, 2012, VMware designated Carl M. Eschenbach, the Company's Chief Operating Officer and Co-President, as the Company's principal financial officer on an interim basis until such time as VMware appoints a new chief financial officer.

Biographical information about Mr. Eschenbach required by Item 5.02(c) of Form 8-K is contained on a Form 8-K, filed with the Securities and Exchange Commission on April 11, 2012, and such information is incorporated by reference herein.

Item 5.07 Submission of Matters to a Vote of Security Holders.

On July 21, 2012, the sole Class B common stockholder of VMware, approved the proposed acquisition by VMware of Nicira, Inc. and authorized the aggregate size of equity grants to be made in connection with the acquisition in accordance with VMware's Amended and Restated Certificate of Incorporation, by action of written consent pursuant to Section 228 of the Delaware General Corporation Law. The equity grants will be issued from the VMware 2007 Equity and Incentive Plan previously approved by VMware's stockholders.

Item 8.01 Other Events

On July 23, 2012, VMware issued a press release to announce the entry into the merger agreement, a copy of which is attached hereto as Exhibit 99.1 and incorporated herein by reference.

FORWARD LOOKING-STATEMENTS

This 8-K contains forward-looking statements including, among other things, statements regarding the consummation of the acquisition of Nicira. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors, including but not limited to: (i) the satisfaction of closing conditions for the transaction; (ii) the successful integration of Nicira and VMware personnel and technologies; (iii) adverse changes in general economic or market conditions; (iv) delays or reductions in consumer or information technology spending; (v) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into the virtualization market, and new product and marketing initiatives by our competitors; (vi) our customers' ability to develop, and to transition to, new products and computing strategies such as cloud computing and software-defined data centers; (vii) the uncertainty of customer acceptance of emerging technology; (viii) rapid technological and market changes in virtualization software and platforms for cloud and desktop computing; (ix) changes to product development timelines; (x) our ability to protect our proprietary technology and comply with open source licensing requirements; and (xi) our ability to attract and retain highly qualified employees. These forward looking statements are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect as well as other risks detailed in documents filed with the Securities and Exchange Commission, including our most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K that we may file from time to time, which could cause actual results to vary from expectations. VMware assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

Item 9.01 Financial Statements and Exhibits.**(d) Exhibits**

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| 99.1 | Press release of VMware, Inc. dated July 23, 2012 regarding VMware's entry into a definitive agreement to acquire Nicira. |
| 99.2 | Press release of VMware, Inc. dated July 17, 2012 regarding VMware's preliminary financial results for the quarter ended June 30, 2012. |
| 99.3 | Press release of VMware, Inc. dated July 23, 2012 regarding VMware's financial results for the quarter ended June 30, 2012. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 23, 2012

VMware, Inc.

By: /s/ Carl Eschenbach

Carl Eschenbach

Chief Operating Officer and Co-President

VMware to Acquire Nicira

Acquisition expands VMware's networking portfolio to revolutionize networking for the cloud and provide a full suite of capabilities for any cloud environment.

PALO ALTO, Calif., July 23, 2012 – VMware, Inc. (NYSE: VMW), the global leader in virtualization and cloud infrastructure, today announced it has signed a definitive agreement to acquire Nicira, Inc., a pioneer in software-defined networking (SDN) and a leader in network virtualization for open source initiatives.

“VMware has led the server virtualization revolution, and we have the opportunity to do the same in datacenter and cloud networking,” said Paul Maritz, chief executive officer, VMware. “The acquisition of Nicira adds to our portfolio of networking assets and positions VMware to be the industry leader in software-defined networking.”

VMware will acquire Nicira for approximately \$1.05 billion in cash plus approximately \$210 million of assumed unvested equity awards. The acquisition is subject to regulatory approvals and other customary closing conditions. The parties expect the acquisition to close during the second half of 2012. The acquisition has been approved by the boards of directors of both VMware and Nicira and the stockholders of Nicira.

The Software-Defined Datacenter – The Foundation of Cloud Computing

Cloud computing is about agile, elastic, efficient, and reliable services, and it is achieved through sophisticated software that **abstracts** hardware resources, **pools** it into aggregate capacity, enabling **automation** to safely and efficiently dole it out as needed for applications. Tenants or customers utilizing the software-defined datacenter can have their own *virtual* datacenter with an isolated collection of all the compute, storage, networking, and security resources that they are used to. Furthermore, this virtual datacenter can grow and shrink to efficiently utilize physical resources. This is what the software-defined datacenter is all about, and it is the architecture for the cloud.

Managing networks and network services to support cloud architectures is complex, time consuming and limits the achievement of full application mobility across clouds. Nicira is at the forefront of software-defined networking, which enables the dynamic creation of virtual network infrastructure and services that are completely decoupled and independent from the physical network hardware. Many industry leaders, including AT&T, DreamHost, eBay, Fidelity Investments, NTT and Rackspace are using the Nicira Network Virtualization Platform (NVP) to accelerate service delivery from weeks to minutes and dramatically reduce complexity and cost.

“Nicira helps customers dramatically improve business velocity and efficiency by transforming how networking works in the Cloud era,” said Steve Mullaney, chief executive officer, Nicira. “I’m thrilled to be joining forces with VMware to help build the software-defined datacenter.”

“The value we bring to customers lies in our open approach and the richness of capabilities in network virtualization,” said Martin Casado, co-founder and chief technology officer, Nicira. “The combination of Nicira and VMware brings together two pioneering teams, and gives customers the industry leading SDN solution for any cloud environment, on any hypervisor in the enterprise and with Service Providers.”

VMware plans to continue to support the open principles and technologies that have made Nicira solutions successful, including the Open vSwitch to connect physical networks and multiple hypervisors and the open extensibility framework to implement business-level policies from any cloud management system. This will allow enterprises and service providers to create the most

flexible network topologies that seamlessly span any cloud environment. VMware is committed to maintaining Nicira's openness and bringing additional value and choices to heterogeneous environments and the OpenStack, CloudStack and other cloud related communities.

This acquisition expands VMware's networking portfolio, which includes the VMware vSphere® virtual switching, VMware vCloud® Director™ networking, vShield™ Network and Security software defined services, and the VXLAN protocol to provide a full suite of software-defined networking capabilities and a comprehensive solution lineup for virtualizing the network – from virtual switching to virtualized layer 3-7 services. This will allow customers to create a pool of network capacity on top of any network infrastructure from which they can easily support tens of thousands of isolated virtual networks with the simplicity and operational ease of creating and managing virtual machines.

VMware and industry leaders will be showcasing the software-defined datacenter at the upcoming VMworld® 2012 in San Francisco on August 27 – August 30. Information on attending the conference can be found [here](#).

Additional Resources

- VMware's Steve Herrod blog [here](#)
- Nicira's Martin Casado blog [here](#)
- Connect with VMware on [Twitter](#) and [Facebook](#)

About VMware

VMware is the leader in virtualization and cloud infrastructure solutions that enable businesses to thrive in the Cloud Era. Customers rely on VMware to help them transform the way they build, deliver and consume Information Technology resources in a manner that is evolutionary and based on their specific needs. With 2011 revenues of \$3.77 billion, VMware has more than 350,000 customers and 50,000 partners. The company is headquartered in Silicon Valley with offices throughout the world and can be found online at www.vmware.com.

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VMware, VMworld, vShield, VMware vSphere and VMware vCloud Director are registered trademarks or trademarks of VMware, Inc. in the United States and other jurisdictions. All other marks and names mentioned herein may be trademarks of their respective companies.

Forward Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding the consummation of the acquisition of Nicira, the opportunities VMware expects from the acquisition and its prospective positioning in the SDN industry, the planned integration of Nicira technologies with VMware product offerings and the prospective benefits to customers and VMware's post acquisition plans regarding open source technologies. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors, including but not limited to: (i) the satisfaction of closing conditions for the transaction; (ii) the successful integration of Nicira and VMware personnel and technologies; (iii) adverse changes in general economic or market conditions; (iv) delays or reductions in consumer or information technology spending; (v) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into the virtualization market, and new product and marketing initiatives by our competitors; (vi) our customers' ability to develop, and to transition to, new products and computing strategies such as cloud computing and software-defined data centers; (vii) the uncertainty of customer acceptance of emerging technology; (viii) rapid technological and market changes in virtualization software and platforms for cloud and desktop computing; (ix) changes to product development timelines; (x) VMware's ability to protect its proprietary technology and comply with open source licensing requirements; and (xi) VMware's ability to attract and retain highly qualified employees. These forward looking statements are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect as well as other risks detailed in documents filed with the Securities and Exchange Commission, including our most recent reports on Form

10-K and Form 10-Q and current reports on Form 8-K that we may file from time to time, which could cause actual results to vary from expectations. VMware assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

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July 17, 2012

VMware Announces Changes in Executive Leadership and Preliminary Second Quarter Financial Results

Pat Gelsinger Will Succeed Paul Maritz as Chief Executive Officer; Maritz to Remain on VMware Board of Directors, Joins EMC as Chief Strategist; VMware Announces Record Revenues

PALO ALTO, CA — (Marketwire) — 07/17/12 — VMware today announced that Paul Maritz will be succeeded in the post as Chief Executive Officer of VMware, effective September 1, 2012, by Pat Gelsinger, currently president and chief operating officer, EMC Information Infrastructure Products. Maritz will remain a board member of VMware and will take on a new technology strategist role at EMC. Gelsinger will also be named to VMware's Board of Directors, effective September 1, 2012.

Joe Tucci, Paul Maritz and Pat Gelsinger will participate in a financial analyst conference call today at 1:30 p.m. PT to discuss these executive changes and the opportunity ahead. The call will be broadcast live at <http://ir.vmware.com> or you may dial-in: 1-800-369-3179, pass code: 0717.

VMware also announced preliminary second quarter results, including record quarterly revenues of approximately \$1.123 billion, up 22% over second quarter 2011, versus guidance of \$1.100 billion to \$1.120 billion, and second quarter non-GAAP operating margins of approximately 32% versus guidance of 30.25% to 31.25%. VMware expects full-year 2012 revenues to be between \$4.540 billion and \$4.635 billion with non-GAAP operating margins between 30.25% and 31.25%. VMware will discuss further details about its second quarter results and full-year business outlook during its earnings call at 2:00 p.m. Pacific Time on Monday, July 23, 2012.

"VMware has an extraordinary opportunity to help customers transform IT and deliver fundamentally more value to the businesses they serve," commented Paul Maritz, chief executive officer, VMware. "I'm very proud to have been part of an exceptional team of people who have accomplished a great deal over the past four years. VMware has not only transformed current IT practices but is leading in bringing Cloud Computing approaches and infrastructure to enterprises — on-premise and off."

Maritz added, "Pat, with his deep passion for technology and track record, will complement the strong management team that is already in place at VMware, recently strengthened by the promotion of Carl Eschenbach to Chief Operating Officer. This all means that I can devote my time to developing the strategy of EMC as it relates to big data and a new generation of cloud-oriented applications."

Having spent 30 years at Intel before joining EMC, Pat has unique expertise in the x86 architecture and ecosystem underpinning the vast majority of virtualized environments today, which is broadly recognized as the foundation for Cloud Computing. At Intel, Pat was Senior Vice President and Co-General Manager of Intel's Digital Enterprise Group, the company's largest business group accounting for more than half of Intel's annual revenue. Under Gelsinger's leadership, that group was responsible for Intel's enterprise products including clients (PC's), Server, Embedded, Communications, Visualization and Storage products.

Gelsinger said, "The next generation of software defined-datacenters will be built by combining software with standardized hardware building blocks. VMware is uniquely positioned to be the leader in this endeavor and deliver a whole new level of value to customers and its existing important ecosystem partners. For more than ten years I have interacted with the team at VMware and have developed a deep appreciation for the people and technology of this remarkable company. I am really excited about the mission and becoming part of the team."

"In Pat and Paul, we are fortunate to have two world-class leaders," said Joe Tucci, chairman of VMware's Board of Directors. "The strong teams that we now have in place at VMware and EMC allow me to ask Pat and Paul to take on two of the defining challenges and opportunities of the new, unfolding IT era: Cloud Infrastructure and big data. They have unique backgrounds and skills, and I look forward to continuing to work with both of them."

Tucci continued, "I want to personally thank and congratulate Paul for all he's accomplished over the past four years helping transform VMware from a technology leader in virtualization to an industry leader in Cloud Computing, and I'm excited that he'll now be working full time on these new opportunities."

About VMware

VMware (NYSE: VMW) is the leader in virtualization and cloud infrastructure solutions that enable businesses to thrive in the Cloud Era. Customers rely on VMware to help them transform the way they build, deliver and consume Information Technology resources in a manner that is evolutionary and based on their specific needs. With 2011 revenues of \$3.77 billion, VMware has more than 350,000 customers and 50,000 partners. The company is headquartered in Silicon Valley with offices throughout the world and can be found online at www.vmware.com.

VMware is a registered trademark of VMware, Inc. in the United States and/or other jurisdictions. All other marks and names mentioned herein may be trademarks of their respective companies.

Forward-Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding the timing of our senior management changes; our preliminary second quarter results; our expectations for 2012 revenues and non-GAAP operating margins; and VMware's positioning and value proposition for customers and partners with respect to next generation data centers. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements. VMware's expectations about its quarterly results are based on preliminary information about the second quarter of 2012 and are subject to revision. Although the quarter is now completed, VMware is still in the early stages of its standard financial reporting closing procedures. Accordingly, as VMware completes its normal quarter-end closing and review processes, actual results could differ materially from its preliminary estimates. Factors that could cause VMware's actual results to differ materially from those contemplated by these forward-looking statements include: inaccurate data or assumptions; unforeseen expenses; changes in estimates or judgments related to tax liabilities; potential goodwill impairments; potential litigation, bad debts or other contingencies; and facts or circumstances affecting the application of VMware's critical accounting policies, including revenue recognition. Factors that could cause VMware's actual results to differ materially from those contemplated by the other forward-looking statements contained in this press release include but are not limited to (i) changes to priorities and levels of IT and government spending; (ii) adverse changes in general economic or market conditions; (iii) delays or reductions in information technology spending; (iv) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into the virtualization and cloud computing markets, and new product and marketing initiatives by our competitors; (v) our customers' ability to develop, and to transition to, new products and computing strategies such as cloud computing and desktop virtualization; (vi) the uncertainty of customer acceptance of emerging technology; (vii) rapid technological and market changes in virtualization software and platforms for cloud and desktop computing; (viii) changes to product development timelines; (ix) VMware's ability to protect its proprietary technology; (x) VMware's ability to attract and retain highly qualified employees and (xi) changes to VMware's business plans. These forward looking statements are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect as well as other risks detailed in documents filed with the Securities and Exchange Commission, including our most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K that we may file from time to time, which could cause actual results to vary from expectations. VMware assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

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VMware Reports Second Quarter 2012 Results

- Year-over-Year Revenue Growth of 22% to \$1.12 Billion
- Operating Margin of 18.9%; Non-GAAP Operating Margin of 31.9%
- Trailing Twelve Months Operating Cash Flows Growth of 33% to \$2.05 Billion; Free Cash Flows Growth of 29% to \$2.01 Billion

PALO ALTO, Calif., July 23, 2012 — VMware, Inc. (NYSE: VMW), the global leader in virtualization and cloud infrastructure, today announced financial results for the second quarter of 2012:

- Revenues for the second quarter were \$1.12 billion, an increase of 22% from the second quarter of 2011, and 23% measured in constant currency.
- Operating income for the second quarter was \$212 million, an increase of 13% from the second quarter of 2011. Non-GAAP operating income for the second quarter was \$358 million, an increase of 23% from the second quarter of 2011.
- Net income for the second quarter was \$192 million, or \$0.44 per diluted share, compared to \$220 million, or \$0.51 per diluted share, for the second quarter of 2011. Non-GAAP net income for the quarter was \$296 million, or \$0.68 per diluted share, compared to \$235 million, or \$0.55 per diluted share, for the second quarter of 2011.
- Trailing twelve months operating cash flows were \$2.05 billion, an increase of 33%. Trailing twelve months free cash flows were \$2.01 billion, an increase of 29%.
- Cash, cash equivalents and short-term investments were \$5.3 billion and unearned revenue was \$2.9 billion as of June 30, 2012.

U.S. revenues for the second quarter of 2012 grew 22% to \$551 million from 2011. International revenues grew 22% to \$572 million from 2011.

License revenues for the second quarter of 2012 were \$517 million, an increase of 11% from 2011. Service revenues, which include software maintenance and professional services, were \$606 million for 2012, an increase of 33% from 2011.

“The quarter’s strong performance reflects the continued confidence customers have in our solutions,” said Paul Maritz, chief executive officer, VMware. “Our products, amplified by the recent acquisitions, including Nicira, are providing the means for our customers to transform IT as we move into the Cloud Era.”

“We are very pleased with our second quarter results,” said Carl Eschenbach, chief operating officer, VMware. “Despite the tough market conditions, we achieved record quarterly results in total revenue, license revenue, and non-GAAP operating income. Third quarter 2012 revenues are expected to be in the range of \$1.11 and \$1.15 billion. Annual 2012 revenues are expected to be in the range of \$4.540 and \$4.635 billion, an increase of 20.5% to 23.0% from 2011. Annual license revenues are expected to grow between 11% and 15%.”

Recent Highlights & Strategic Announcements

- Today, July 23, 2012 VMware announced the acquisition of Nicira, Inc., a pioneer in software-defined networking and a leader in network virtualization for open source initiatives. VMWare will acquire Nicira, Inc. for approximately \$1.05 billion in cash plus approximately \$210 million of assumed unvested equity awards. The acquisition is a key part of VMware’s vision for delivering the software-defined datacenter.

- In June 2012, VMware announced that it has been positioned by Gartner, Inc. in the Leaders Quadrant of the 2012 Magic Quadrant for x86 Server Virtualization Infrastructure. According to Gartner, “The x86 server virtualization infrastructure market is the foundation for two extremely important market trends that relate and overlap: infrastructure modernization and cloud computing. ... Virtualization is a fundamental enabler to IaaS, and will be used to establish private cloud services, public cloud services and interoperable hybrid cloud services.”
- Recent product announcements included: VMware vFabric™ Suite 5.1, featuring new capabilities that automate the deployment and management of complex applications on VMware cloud infrastructure and the introduction of an in-memory distributed SQL database. VMware View™ 5.1 and an updated portfolio of end-user computing solutions, including Horizon Application Manager™ 1.5 and VMware Project Octopus Beta, that will help IT organizations empower a more agile, productive and connected enterprise.
- Recently, VMware closed two acquisitions: DynamicOps, a provider of cloud automation solutions that enable provisioning and management of IT services across heterogeneous environments including VMware-based private and public clouds, physical infrastructures, multiple hypervisors and Amazon Web Services, and Wanova, a leading provider of physical desktop management solutions. With Wanova, VMware now offers leading solutions for centralized image management of both physical and virtual desktops.

VMware plans to host a conference call today to review its second quarter 2012 results and to discuss its financial outlook. The call is scheduled to begin at 2:00 p.m. PT/ 5:00 p.m. ET and can be accessed via the Web at <http://ir.vmware.com>. The webcast will be available live, and a replay will be available following completion of the live broadcast for approximately 60 days.

About VMware

VMware is the leader in virtualization and cloud infrastructure solutions that enable businesses to thrive in the Cloud Era. Customers rely on VMware to help them transform the way they build, deliver and consume Information Technology resources in a manner that is evolutionary and based on their specific needs. With 2011 revenues of \$3.77 billion, VMware has more than 350,000 customers and 50,000 partners. The company is headquartered in Silicon Valley with offices throughout the world and can be found online at www.vmware.com.

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*Gartner, Inc., Magic Quadrant for x86 Server Virtualization Infrastructure, Thomas J. Bittman, et al, June 11, 2012. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings. Gartner research publications consist of the opinions of Gartner’s research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

Use of Non-GAAP Financial Measures

Reconciliations of non-GAAP financial measures to VMware’s financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of the tables titled “About Non-GAAP Financial Measures.”

Forward-Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding VMware’s third quarter and annual revenue and license revenue projections, our expectations for growth and leadership in virtualization and cloud infrastructure, the consummation of the Nicira acquisition, the opportunities VMware expects from these acquisitions, the planned integration of acquired company technologies with VMware product offerings and the prospective benefits to customers, important IT market trends and the role of VMware products in

the transformation to the Cloud Era and expected benefits to customers of newly available VMware products and services, such as VMware vFabric Suit 5.1, VMware View 5.1, Horizon Application Manager 1.5 and VMware Project Octopus Betas. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors, including but not limited to: (i) the satisfaction of closing conditions for the Nicira transaction; (ii) adverse changes in general economic or market conditions; (iii) delays or reductions in consumer or information technology spending; (iv) competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into the virtualization market, and new product and marketing initiatives by our competitors; (v) factors that affect timing of license revenue recognition such as product announcements and promotions and beta programs; (vi) our customers' ability to develop, and to transition to, new products and computing strategies such as cloud computing and desktop virtualization; (vii) the uncertainty of customer acceptance of emerging technology; (viii) changes in the willingness of customers to enter into longer term licensing and support arrangements; (ix) rapid technological and market changes in virtualization software and platforms for cloud and desktop computing; (x) changes to product development timelines; (xi) VMware's relationship with EMC Corporation and EMC's ability to control matters requiring stockholder approval, including the election of VMware's board members; (xii) our ability to protect our proprietary technology; (xiii) our ability to attract and retain highly qualified employees; (xiv) the successful integration of acquired companies and assets into VMware; and (xv) fluctuating currency exchange rates. These forward looking statements are based on current expectations and are subject to uncertainties and changes in condition, significance, value and effect as well as other risks detailed in documents filed with the Securities and Exchange Commission, including our most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K that we may file from time to time, which could cause actual results to vary from expectations. VMware assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

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VMware, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|--|--------------|--------------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| Operating activities: | | | | |
| Net income | \$ 191,729 | \$ 220,158 | \$ 383,165 | \$ 345,970 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 89,392 | 74,709 | 175,158 | 155,658 |
| Stock-based compensation, excluding amounts capitalized | 100,900 | 85,442 | 182,706 | 166,015 |
| Excess tax benefits from stock-based compensation | (32,701) | (101,256) | (86,383) | (151,264) |
| Gain on sale of Terremark investment | — | (56,000) | — | (56,000) |
| Other | 373 | 2,864 | (555) | 3,826 |
| Changes in assets and liabilities, net of acquisitions: | | | | |
| Accounts receivable | (91,296) | (54,757) | 135,254 | 26,583 |
| Other assets | (69,444) | (16,133) | (117,150) | (34,053) |
| Due to/from EMC, net | (43,403) | (35,265) | 12,145 | 25,435 |
| Accounts payable | 4,894 | (11,105) | 17,419 | (1,707) |
| Accrued expenses | 95,753 | 102,780 | 936 | 34,211 |
| Income taxes receivable from EMC | — | 141,000 | — | 176,444 |
| Income taxes payable | 12,367 | 4,674 | 67,733 | 37,601 |
| Deferred income taxes, net | (1,416) | 11,119 | (36,371) | (958) |
| Unearned revenue | 134,177 | 94,566 | 233,872 | 212,952 |
| Net cash provided by operating activities | 391,325 | 462,796 | 967,929 | 940,713 |
| Investing activities: | | | | |
| Additions to property and equipment | (44,336) | (95,186) | (78,007) | (122,232) |
| Purchase of leasehold interest | — | (173,126) | — | (173,126) |
| Capitalized software development costs | — | (25,437) | — | (52,859) |
| Purchases of available-for-sale securities | (1,253,605) | (529,038) | (1,955,068) | (1,127,805) |
| Sales of available-for-sale securities | 348,437 | 223,491 | 770,754 | 376,588 |
| Maturities of available-for-sale securities | 277,099 | 277,390 | 534,076 | 492,969 |
| Sale of strategic investments | — | 76,000 | — | 78,513 |
| Business acquisitions, net of cash acquired | (102,166) | (189,138) | (102,166) | (204,088) |
| Transfer of net assets under common control | — | (7,973) | — | (20,463) |
| Other investing | (2,677) | 31,858 | (4,174) | (27,142) |
| Net cash used in investing activities | (777,248) | (411,159) | (834,585) | (779,645) |
| Financing activities: | | | | |
| Proceeds from issuance of common stock | 33,554 | 110,543 | 144,595 | 200,714 |
| Repurchase of common stock | (178,195) | (132,660) | (178,195) | (280,389) |
| Excess tax benefits from stock-based compensation | 32,701 | 101,256 | 86,383 | 151,264 |
| Shares repurchased for tax withholdings on vesting of restricted stock | (51,346) | (48,666) | (64,983) | (70,578) |
| Net cash provided by (used in) financing activities | (163,286) | 30,473 | (12,200) | 1,011 |
| Net increase (decrease) in cash and cash equivalents | (549,209) | 82,110 | 121,144 | 162,079 |
| Cash and cash equivalents at beginning of the period | 2,626,109 | 1,708,934 | 1,955,756 | 1,628,965 |
| Cash and cash equivalents at end of the period | \$ 2,076,900 | \$ 1,791,044 | \$ 2,076,900 | \$ 1,791,044 |

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|--|--|-------------------|--------------------------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| License | \$ 517,222 | \$ 464,806 | \$ 999,149 | \$ 883,805 |
| Services | 605,804 | 456,404 | 1,179,059 | 881,126 |
| Total revenues | 1,123,026 | 921,210 | 2,178,208 | 1,764,931 |
| Operating expenses (1): | | | | |
| Cost of license revenues | 56,553 | 48,928 | 113,296 | 104,946 |
| Cost of services revenues | 122,669 | 103,547 | 236,841 | 197,426 |
| Research and development | 248,594 | 189,241 | 470,984 | 358,404 |
| Sales and marketing | 391,501 | 314,560 | 754,913 | 617,484 |
| General and administrative | 91,799 | 78,042 | 173,099 | 146,277 |
| Operating income | 211,910 | 186,892 | 429,075 | 340,394 |
| Investment income | 6,945 | 3,715 | 12,688 | 7,121 |
| Interest expense with EMC | (1,158) | (972) | (2,445) | (1,931) |
| Other income (expense), net | (3,560) | 56,639 | (1,275) | 56,804 |
| Income before income taxes | 214,137 | 246,274 | 438,043 | 402,388 |
| Income tax provision | 22,408 | 26,116 | 54,878 | 56,418 |
| Net income | <u>\$ 191,729</u> | <u>\$ 220,158</u> | <u>\$ 383,165</u> | <u>\$ 345,970</u> |
| Net income per weighted-average share, basic for Class A and Class B | \$ 0.45 | \$ 0.52 | \$ 0.90 | \$ 0.83 |
| Net income per weighted-average share, diluted for Class A and Class B | \$ 0.44 | \$ 0.51 | \$ 0.88 | \$ 0.80 |
| Weighted-average shares, basic for Class A and Class B | 427,223 | 419,657 | 426,106 | 418,557 |
| Weighted-average shares, diluted for Class A and Class B | 434,647 | 430,473 | 434,014 | 429,984 |
| (1) Includes stock-based compensation as follows: | | | | |
| Cost of license revenues | \$ 524 | \$ 438 | \$ 964 | \$ 904 |
| Cost of services revenues | 7,103 | 5,740 | 12,922 | 11,328 |
| Research and development | 48,027 | 46,074 | 87,404 | 87,958 |
| Sales and marketing | 33,883 | 23,264 | 59,117 | 45,787 |
| General and administrative | 11,363 | 9,926 | 22,299 | 20,038 |

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

| | June 30, 2012 | December 31, 2011 |
|---|--------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$2,076,900 | \$1,955,756 |
| Short-term investments | 3,269,969 | 2,556,450 |
| Accounts receivable, net of allowance for doubtful accounts of \$2,942 and \$3,794 | 748,698 | 882,857 |
| Due from EMC, net | 61,654 | 73,799 |
| Deferred tax asset | 151,704 | 128,471 |
| Other current assets | 127,528 | 80,439 |
| Total current assets | 6,436,453 | 5,677,772 |
| Property and equipment, net | 553,124 | 525,490 |
| Capitalized software development costs, net and other | 109,532 | 154,236 |
| Deferred tax asset | 172,190 | 156,855 |
| Intangible assets, net | 402,425 | 407,375 |
| Goodwill | 1,827,068 | 1,759,080 |
| Total assets | <u>\$9,500,792</u> | <u>\$8,680,808</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 77,026 | \$ 49,747 |
| Accrued expenses and other | 590,268 | 587,650 |
| Unearned revenues | 1,850,681 | 1,764,109 |
| Total current liabilities | 2,517,975 | 2,401,506 |
| Note payable to EMC | 450,000 | 450,000 |
| Unearned revenues | 1,091,709 | 944,309 |
| Other liabilities | 120,415 | 114,711 |
| Total liabilities | 4,180,099 | 3,910,526 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 127,264 and 123,610 shares | 1,273 | 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 | 3,377,466 | 3,212,264 |
| Accumulated other comprehensive income | 3,183 | 1,176 |
| Retained earnings | 1,935,771 | 1,552,606 |
| Total stockholders' equity | <u>5,320,693</u> | <u>4,770,282</u> |
| Total liabilities and stockholders' equity | <u>\$9,500,792</u> | <u>\$8,680,808</u> |

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended June 30, 2012

(in thousands, except per share amounts)

(unaudited)

| | GAAP | Stock-Based Compensation | Employer Payroll Taxes on Employee Stock Transactions | Intangible Amortization | Acquisition Related Items and Other | Capitalized Software Development Costs (1) | Tax Adjustment (2) | Non- GAAP, as adjusted |
|--|-----------|-----------------------------|--|----------------------------|--|---|------------------------------|---------------------------------|
| Operating expenses: | | | | | | | | |
| Cost of license revenues | \$ 56,553 | (524) | (20) | (13,749) | — | (20,760) | — | \$ 21,500 |
| Cost of services revenues | \$122,669 | (7,103) | (393) | (1,098) | — | — | — | \$114,075 |
| Research and development | \$248,594 | (48,027) | (2,131) | (751) | — | — | — | \$197,685 |
| Sales and marketing | \$391,501 | (33,883) | (1,440) | (2,928) | — | — | — | \$353,250 |
| General and administrative | \$ 91,799 | (11,363) | (459) | — | (1,640) | — | — | \$ 78,337 |
| Operating income | \$211,910 | 100,900 | 4,443 | 18,526 | 1,640 | 20,760 | — | \$358,179 |
| Operating margin | 18.9 % | 9.0 % | 0.5 % | 1.6 % | 0.1 % | 1.8 % | — | 31.9 % |
| Income before income taxes | \$214,137 | 100,900 | 4,443 | 18,526 | 1,640 | 20,760 | — | \$360,406 |
| Income tax provision | \$ 22,408 | | | | | | 42,465 | \$ 64,873 |
| Tax rate | 10.5 % | | | | | | | 18.0 % |
| Net income | \$191,729 | 100,900 | 4,443 | 18,526 | 1,640 | 20,760 | (42,465) | \$295,533 |
| Net income per weighted- average share, basic for Class A and Class B (3) | \$ 0.45 | \$ 0.24 | \$ 0.01 | \$ 0.04 | \$ — | \$ 0.05 | \$ (0.10) | \$ 0.69 |
| Net income per weighted- average share, diluted for Class A and Class B (4) | \$ 0.44 | \$ 0.23 | \$ 0.01 | \$ 0.04 | \$ — | \$ 0.05 | \$ (0.09) | \$ 0.68 |

- (1) For the second quarter of 2012, no costs were capitalized for the development of software products. Amortization expense from previously capitalized amounts was \$20.8 million for the second quarter of 2012.
- (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 427,223 basic weighted-average shares for Class A and Class B.
- (4) Calculated based upon 434,647 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, 2011

(in thousands, except per share amounts)

(unaudited)

| | | | Employer Payroll Taxes on Employee | | Acquisition | Capitalized Software Development | Stock-Based Compensation | | | |
|--|-----------|-----------------------------|---|----------------------------|------------------|--|---|---------------------------------|-------------------|---------------------------------|
| | GAAP | Stock-Based Compensation | Stock Transactions | Intangible Amortization | Related Items | Costs (1) | Included in Capitalized Software Development | Gain on sale of Terremark | Tax Adjustment | Non- GAAP, as adjusted |
| | | | | | | | | (2) | (3) | |
| Operating expenses: | | | | | | | | | | |
| Cost of license revenues | \$ 48,928 | (438) | (43) | (11,104) | — | (19,807) | — | — | — | \$ 17,536 |
| Cost of services revenues | \$103,547 | (5,740) | (502) | (1,242) | — | — | — | — | — | \$ 96,063 |
| Research and development | \$189,241 | (46,074) | (3,773) | (797) | — | 29,594 | (4,157) | — | — | \$164,034 |
| Sales and marketing | \$314,560 | (23,264) | (2,254) | (2,426) | — | — | — | — | — | \$286,616 |
| General and administrative | \$ 78,042 | (9,926) | (618) | (36) | (1,210) | — | — | — | — | \$ 66,252 |
| Operating income | \$186,892 | 85,442 | 7,190 | 15,605 | 1,210 | (9,787) | 4,157 | — | — | \$290,709 |
| Operating margin | 20.3 % | 9.3 % | 0.8 % | 1.7 % | 0.1 % | -1.2 % | 0.6 % | — | — | 31.6 % |
| Other income, net | \$ 56,639 | | | | | | | (56,000) | | \$ 639 |
| Income before income taxes | \$246,274 | 85,442 | 7,190 | 15,605 | 1,210 | (9,787) | 4,157 | (56,000) | — | \$294,091 |
| Income tax provision | \$ 26,116 | | | | | | | | 32,702 | \$ 58,818 |
| Tax rate | 10.6 % | | | | | | | | | 20.0 % |
| Net income | \$220,158 | 85,442 | 7,190 | 15,605 | 1,210 | (9,787) | 4,157 | (56,000) | (32,702) | \$235,273 |
| Net income per weighted-average share, basic for Class A and Class B (4) | \$ 0.52 | \$ 0.20 | \$ 0.02 | \$ 0.04 | \$ — | \$ (0.02) | \$ 0.01 | \$ (0.13) | \$ (0.08) | \$ 0.56 |
| Net income per weighted-average share, diluted for Class A and Class B (5) | \$ 0.51 | \$ 0.20 | \$ 0.02 | \$ 0.04 | \$ — | \$ (0.02) | \$ 0.01 | \$ (0.13) | \$ (0.08) | \$ 0.55 |

- (1) For the second quarter of 2011, we capitalized \$29.6 million (including \$4.2 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$19.8 million for the second quarter of 2011.
- (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 419,657 basic weighted-average shares for Class A and Class B.
- (5) Calculated based upon 430,473 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, 2012

(in thousands, except per share amounts)

(unaudited)

| | GAAP | Stock-Based Compensation | Employer Payroll Taxes on Employee Stock Transactions | Intangible Amortization | Acquisition Related Items and Other | Capitalized Software Development Costs (1) | Tax Adjustment (2) | Non-GAAP, as adjusted |
|--|-----------|-----------------------------|--|----------------------------|--|---|------------------------------|--------------------------|
| Operating expenses: | | | | | | | | |
| Cost of license revenues | \$113,296 | (964) | (36) | (27,028) | — | (42,598) | — | \$ 42,670 |
| Cost of services revenues | \$236,841 | (12,922) | (847) | (2,196) | — | — | — | \$ 220,876 |
| Research and development | \$470,984 | (87,404) | (4,054) | (1,502) | — | — | — | \$ 378,024 |
| Sales and marketing | \$754,913 | (59,117) | (3,439) | (5,860) | — | — | — | \$ 686,497 |
| General and administrative | \$173,099 | (22,299) | (841) | — | (1,679) | — | — | \$ 148,280 |
| Operating income | \$429,075 | 182,706 | 9,217 | 36,586 | 1,679 | 42,598 | — | \$ 701,861 |
| Operating margin | 19.7 % | 8.4 % | 0.3 % | 1.7 % | 0.1 % | 2.0 % | — | 32.2 % |
| Income before income taxes | \$438,043 | 182,706 | 9,217 | 36,586 | 1,679 | 42,598 | — | \$ 710,829 |
| Income tax provision | \$ 54,878 | | | | | | 73,071 | \$ 127,949 |
| Tax rate | 12.5 % | | | | | | | 18.0 % |
| Net income | \$383,165 | 182,706 | 9,217 | 36,586 | 1,679 | 42,598 | (73,071) | \$ 582,880 |
| Net income per weighted-average share, basic for Class A and Class B (3) | \$ 0.90 | \$ 0.43 | \$ 0.02 | \$ 0.09 | \$ — | \$ 0.10 | \$ (0.17) | \$ 1.37 |
| Net income per weighted-average share, diluted for Class A and Class B (4) | \$ 0.88 | \$ 0.42 | \$ 0.02 | \$ 0.08 | \$ — | \$ 0.11 | \$ (0.17) | \$ 1.34 |

- (1) For the first half of 2012, no costs were capitalized for the development of software products. Amortization expense from previously capitalized amounts was \$42.6 million for the first half of 2012.
- (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 426,106 basic weighted-average shares for Class A and Class B.
- (4) Calculated based upon 434,014 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, 2011

(in thousands, except per share amounts)

(unaudited)

| | | | Employer Payroll Taxes on Employee | | Acquisition | Capitalized Software Development | Stock-Based Compensation | | Tax Adjustment | Non- GAAP, as adjusted |
|--|-----------|-----------------------------|---|----------------------------|------------------|--|---|----------------------------------|-------------------|---------------------------------|
| | GAAP | Stock-Based Compensation | Stock Transactions | Intangible Amortization | Related Items | Costs (1) | Included in Capitalized Software Development | Gain on sale of Terremark (2) | (3) | |
| Operating expenses: | | | | | | | | | | |
| Cost of license revenues | \$104,946 | (904) | (67) | (20,144) | — | (48,272) | — | — | — | \$ 35,559 |
| Cost of services revenues | \$197,426 | (11,328) | (879) | (2,484) | — | — | — | — | — | \$182,735 |
| Research and development | \$358,404 | (87,958) | (5,844) | (1,594) | — | 61,898 | (9,039) | — | — | \$315,867 |
| Sales and marketing | \$617,484 | (45,787) | (3,307) | (4,515) | — | — | — | — | — | \$563,875 |
| General and administrative | \$446,277 | (20,038) | (857) | (72) | (1,382) | — | — | — | — | \$123,928 |
| Operating income | \$340,394 | 166,015 | 10,954 | 28,809 | 1,382 | (13,626) | 9,039 | — | — | \$542,967 |
| Operating margin | 19.3 % | 9.4 % | 0.6 % | 1.6 % | 0.1 % | -0.7 % | 0.5 % | — | — | 30.8 % |
| Other income, net | \$ 56,804 | | | | | | | (56,000) | | \$ 804 |
| Income before income taxes | \$402,388 | 166,015 | 10,954 | 28,809 | 1,382 | (13,626) | 9,039 | (56,000) | — | \$548,961 |
| Income tax provision | \$ 56,418 | | | | | | | | 53,374 | \$109,792 |
| Tax rate | 14.0 % | | | | | | | | | 20.0 % |
| Net income | \$345,970 | 166,015 | 10,954 | 28,809 | 1,382 | (13,626) | 9,039 | (56,000) | (53,374) | \$439,169 |
| Net income per weighted-average share, basic for Class A and Class B (4) | \$ 0.83 | \$ 0.40 | \$ 0.03 | \$ 0.07 | \$ — | \$ (0.03) | \$ 0.01 | \$ (0.13) | \$ (0.13) | \$ 1.05 |
| Net income per weighted-average share, diluted for Class A and Class B (5) | \$ 0.80 | \$ 0.39 | \$ 0.03 | \$ 0.07 | \$ — | \$ (0.03) | \$ 0.01 | \$ (0.13) | \$ (0.12) | \$ 1.02 |

- (1) For the first half of 2011, we capitalized \$61.9 million (including \$9.0 million of stock-based compensation) of costs incurred for the development of software products. Amortization expense from capitalized amounts was \$48.3 million for the first half of 2011.
- (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 418,557 basic weighted-average shares for Class A and Class B.
- (5) Calculated based upon 429,984 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, | |
|-------------------------|--|------------------|--------------------------------------|--------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Revenues: | | | | |
| License | \$ 517,222 | \$464,806 | \$ 999,149 | \$ 883,805 |
| Services: | | | | |
| Software maintenance | 519,119 | 386,329 | 1,011,389 | 750,135 |
| Professional services | 86,685 | 70,075 | 167,670 | 130,991 |
| Total services | 605,804 | 456,404 | 1,179,059 | 881,126 |
| Total revenues | <u>\$1,123,026</u> | <u>\$921,210</u> | <u>\$2,178,208</u> | <u>\$1,764,931</u> |
| Percentage of revenues: | | | | |
| License | 46.1% | 50.5% | 45.9% | 50.1% |
| Services: | | | | |
| Software maintenance | 46.2% | 41.9% | 46.4% | 42.5% |
| Professional services | 7.7% | 7.6% | 7.7% | 7.4% |
| Total services | 53.9% | 49.5% | 54.1% | 49.9% |
| 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 | |
|---|----------------------------|-------------------|
| | June 30, | |
| | 2012 | 2011 |
| GAAP cash flows from operating activities | \$ 391,325 | \$ 462,796 |
| Capitalized software development costs | — | (25,437) |
| Excess tax benefits from stock-based compensation | 32,701 | 101,256 |
| Capital expenditures | (44,336) | (95,186) |
| Free cash flows | <u>\$ 379,690</u> | <u>\$ 443,429</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 Trailing Twelve Months Ended June 30, | |
|---|--|--------------------|
| | 2012 | 2011 |
| GAAP cash flows from operating activities | \$2,052,849 | \$1,544,027 |
| Capitalized software development costs | (21,139) | (75,837) |
| Excess tax benefits from stock-based compensation | 159,622 | 286,220 |
| Capital expenditures | (185,866) | (193,819) |
| Free cash flows | <u>\$2,005,466</u> | <u>\$1,560,591</u> |

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding VMware's results, we have disclosed in this press release the following non-GAAP financial measures: non-GAAP operating income, non-GAAP net income, non-GAAP income per diluted share, non-GAAP operating margin, free cash flows and trailing twelve-month free cash flows. VMware has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. These non-GAAP financial measures, other than free cash flows, differ from GAAP in that they exclude stock-based compensation, employer payroll tax on employee stock transactions, amortization of intangible assets, acquisition related items and the net effect of the amortization and capitalization of software development costs. Free cash flows differ from GAAP cash flows from operating activities in its treatment of capitalized software development costs, excess tax benefits from stock-based compensation and capital expenditures.

VMware's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, to calculate bonus payments and to evaluate VMware's financial performance, the performance of its individual functional groups and the ability of operations to generate cash. Management believes these non-GAAP financial measures reflect VMware's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in VMware's business, as they exclude expenses and gains that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating VMware's operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flows provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to repurchase shares, to fund ongoing operations and to fund other capital expenditures.

Management believes these non-GAAP financial measures are useful to investors and others in assessing VMware's operating performance due to the following factors:

- *Stock-based compensation.* Although stock-based compensation is an important aspect of the compensation of VMware's employees and executives, determining the fair value of certain of the stock-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Furthermore, unlike cash compensation, the value of stock options, which is an element of our ongoing stock-based compensation expense, is determined using a complex formula that incorporates factors, such as market volatility, that are beyond our control. Management believes it is useful to exclude stock-based compensation in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies.
- *Excess tax benefits from stock-based compensation.* We account for stock-based compensation under GAAP, which requires that we report the excess income tax benefit from stock-based compensation as a financing cash flow rather than as an operating cash flow. We have added this benefit back to our calculation of free cash flows in order to generally classify cash flows arising from income taxes as operating cash flows.
- *Employer payroll tax on employee stock transactions.* The amount of employer payroll taxes on stock-based compensation is dependent on VMware's stock price and other factors that are beyond our control and do not correlate to the operation of the business.
- *Amortization of intangible assets.* A portion of the purchase price of VMware's acquisitions is generally allocated to intangible assets, such as intellectual property, and is subject to amortization. However, VMware does not acquire businesses on a predictable cycle. Additionally, the amount of an acquisition's purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition. Therefore, VMware believes that the presentation of non-GAAP financial measures that adjust for the amortization of intangible assets provides investors and others with a consistent basis for comparison across accounting periods.
- *Acquisition related items.* Acquisition related items include direct costs of acquisitions, such as transaction fees, which vary significantly and are unique to each acquisition. Additionally, VMware does not acquire businesses on a predictable cycle.

- *Capitalized software development costs.* Capitalized software development costs encompasses capitalization of development costs and the subsequent amortization of the capitalized costs over the useful life of the product. Amortization and capitalization of software development costs can vary significantly depending upon the timing of products reaching technological feasibility and being made generally available. In addition, we exclude the capitalization of software from our free cash flows to better convey management's view of operating cash flows. To the extent that we capitalize costs under generally accepted accounting guidance, we increase our GAAP operating cash flows due to the treatment of capitalized costs as cash used in investing activities. Historically, the amount of software development costs that we capitalized during a given fiscal period was often significant. However, following the release of VMware vSphere 5 and the comprehensive suite of cloud infrastructure technologies in the third quarter of 2011, management determined that VMware's go-to-market strategy had changed from single solutions to product suite solutions. As a result of this change in strategy, and the related increased importance of interoperability between our products, the length of time between achieving technological feasibility and general release to customers has significantly decreased. Given that we expect the majority of our product offerings to be suites or to have key components that interoperate with our other product offerings, the costs incurred subsequent to achievement of technological feasibility are expected to be immaterial in future periods and we do not expect to record significant capitalized software development costs under our current strategy. We did not record capitalized software development costs during the first half of 2012. We also expect amortization of previously capitalized software development costs to steadily decline as previously capitalized software development costs become fully amortized.
- *Tax Adjustment.* 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 our non-GAAP income. 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.

Additionally, we believe that the non-GAAP financial measure, free cash flows, is meaningful to investors because we review cash flows generated from operations after taking into consideration capital expenditures due to the fact that these expenditures are considered to be a necessary component of ongoing operations. As discussed above, we also exclude capitalization of software development costs and the excess income tax benefit from stock-based compensation from our measure of free cash flows.

The use of non-GAAP financial measures has certain limitations because they do not reflect all items of income and expense that affect VMware's operations. Specifically, in the case of stock-based compensation, if VMware did not pay out a portion of its compensation in the form of stock-based compensation and related employer payroll taxes, the cash salary expense included in costs of revenues and operating expenses would be higher, which would affect VMware's cash position. VMware compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP and should not be considered measures of VMware's liquidity. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited. Management encourages investors and others to review VMware's financial information in its entirety and not rely on a single financial measure.

Revenue Growth in Constant Currency

We invoice and collect in the Euro, the British Pound, the Japanese Yen, and the Australian Dollar in their respective regions. As a result, our total revenues are affected by changes in the U.S. Dollar against these currencies.

In order to provide a comparable framework for assessing how our business performed excluding the effect of foreign currency fluctuations, management analyzes year-over-year revenue growth on a constant currency basis.

Since all of our entities operate with the U.S. Dollar as their functional currency, unearned revenues for orders booked in currencies other than U.S. Dollars are converted into U.S. Dollars at the exchange rate in effect for the month in which each order is booked. We calculate constant currency on license revenues recognized during the current period that were originally booked in currencies other than U.S. Dollars by comparing the exchange rates used to recognize revenue in the current period against the exchange rates used to recognize revenue in the comparable period. We do not calculate constant currency on services revenues, which include software maintenance revenues and professional services revenues.