

GROWTH IN REVENUE PLUS SEQUENTIAL CHANGE IN UNEARNED REVENUE

(in millions)

(unaudited)

Growth in Total Revenue Plus Sequential Change in Unearned Revenue

	Three Months Ended	
	May 5, 2017	March 31, 2016
Total revenue, as reported	\$ 1,736	\$ 1,589
Sequential change in unearned revenue ⁽¹⁾⁽²⁾	(105)	(100)
Total revenue plus sequential change in unearned revenue	<u>\$ 1,631</u>	<u>\$ 1,489</u>
Change (%) over prior year, as reported	<u>10%</u>	
Reduction of unearned revenue due to vCloud Air ⁽²⁾	\$ 35	\$ —
Total revenue plus sequential change in unearned revenue, excluding impact of vCloud Air	<u>\$ 1,666</u>	<u>\$ 1,489</u>
Change (%) over prior year, excluding impact of vCloud Air	<u>12%</u>	

Growth in License Revenue Plus Sequential Change in Unearned License Revenue

	Three Months Ended	
	May 5, 2017	March 31, 2016
Total license revenue, as reported	\$ 610	\$ 572
Sequential change in unearned license revenue ⁽²⁾⁽³⁾	(12)	(13)
Total license revenue plus sequential change in unearned license revenue	<u>\$ 598</u>	<u>\$ 559</u>
Change (%) over prior year, as reported	<u>7%</u>	
Reduction of unearned license revenue due to vCloud Air ⁽²⁾	\$ 18	\$ —
Total revenue plus sequential change in unearned license revenue, excluding impact of vCloud Air	<u>\$ 616</u>	<u>\$ 559</u>
Change (%) over prior year, excluding impact of vCloud Air	<u>10%</u>	

⁽¹⁾ Sequential change in unearned revenue compares total unearned revenue as of May 5, 2017 to total unearned revenue as of February 3, 2017. As of February 3, 2017, total unearned revenue was \$5,340 million.

⁽²⁾ In conjunction with the disposition of the vCloud Air offering, approximately \$35 million of unearned revenue was reclassified to accrued expenses and other on the condensed consolidated balance sheet as of May 5, 2017. Included in the \$35 million of total unearned revenue was approximately \$18 million of unearned license revenue. The amounts shown in the table above are inclusive of these reclassifications.

⁽³⁾ Sequential change in unearned license revenue compares unearned license revenue as of May 5, 2017 to unearned license revenue as of February 3, 2017. As of February 3, 2017, unearned license revenue was \$484 million.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended May 5, 2017

(amounts in millions, except per share amounts, and shares in thousands)

(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Acquisition, Disposition and Other Related Items	Loss on Share Repurchase	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
Operating expenses:								
Cost of license revenue	\$ 39	(1)	—	(26)	—	—	—	\$ 12
Cost of services revenue	\$ 250	(14)	(1)	(1)	(1)	—	—	\$ 233
Research and development	\$ 421	(82)	—	—	(3)	—	—	\$ 337
Sales and marketing	\$ 586	(48)	(2)	(4)	—	—	—	\$ 531
General and administrative	\$ 151	(18)	—	—	(5)	—	—	\$ 128
Realignment and loss on disposition	\$ 51	—	—	—	(51)	—	—	\$ —
Operating income	\$ 238	163	3	31	60	—	—	\$ 495
Operating margin ⁽²⁾	13.7%	9.4%	0.2%	1.8%	3.5%	—	—	28.5%
Other income (expense), net	\$ 4	—	—	—	1	2	—	\$ 7
Income before income tax	\$ 258	163	3	31	61	2	—	\$ 518
Income tax provision	\$ 26						80	\$ 106
Tax rate ⁽²⁾	10.1%							20.5%
Net income	\$ 232	163	3	31	61	2	(80)	\$ 412
Net income per weighted-average share, diluted for Class A and Class B ⁽²⁾⁽³⁾	\$ 0.56	\$ 0.39	\$ 0.01	\$ 0.08	\$ 0.15	\$ —	(0.19)	\$ 0.99

⁽¹⁾ 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 as well as significant tax adjustments. 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 revenue 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.

⁽²⁾ Totals may not sum, due to rounding. Operating margin, tax rate and net income per weighted average share information are calculated based upon the respective underlying, non-rounded data.

⁽³⁾ Calculated based upon 414,018 diluted weighted-average shares for Class A and Class B.

VMware, Inc.

RECONCILIATION OF GAAP TO NON-GAAP DATA

For the Three Months Ended March 31, 2016

(amounts in millions, except per share amounts, and shares in thousands)

(unaudited)

	GAAP	Stock-Based Compensation	Employer Payroll Taxes on Employee Stock Transactions	Intangible Amortization	Realignment Charges	Acquisition, Disposition and Other Related Items	Tax Adjustment ⁽¹⁾	Non-GAAP, as adjusted ⁽²⁾
Operating expenses:								
Cost of license revenue	\$ 40	(1)	—	(25)	—	—	—	\$ 15
Cost of services revenue	\$ 211	(12)	—	(1)	—	—	—	\$ 198
Research and development	\$ 356	(70)	—	—	—	—	—	\$ 286
Sales and marketing	\$ 565	(49)	(3)	(6)	—	—	—	\$ 508
General and administrative	\$ 172	(18)	—	—	—	(16)	—	\$ 136
Realignment	\$ 53	—	—	—	(53)	—	—	\$ —
Operating income	\$ 192	150	3	32	53	16	—	\$ 446
Operating margin ⁽²⁾	12.1%	9.4%	0.2%	2.0%	3.3%	1.0%	—	28.1%
Other income (expense), net	\$ (1)	—	—	—	—	3	—	\$ 2
Income before income tax	\$ 200	150	3	32	53	19	—	\$ 457
Income tax provision	\$ 39	—	—	—	—	—	53	\$ 91
Tax rate ⁽²⁾	19.5%	—	—	—	—	—	—	20.0%
Net income	\$ 161	150	3	32	53	19	(53)	\$ 366
Net income per weighted-average share, diluted for Class A and Class B ⁽²⁾⁽³⁾	\$ 0.38	\$ 0.35	\$ 0.01	\$ 0.08	\$ 0.13	\$ 0.05	(0.12)	\$ 0.86

⁽¹⁾ 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 as well as significant tax adjustments. 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 revenue 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.

⁽²⁾ Totals may not sum, due to rounding. Operating margin, tax rate and net income per weighted average share information are calculated based upon the respective underlying, non-rounded data.

⁽³⁾ Calculated based upon 424,180 diluted weighted-average shares for Class A and Class B.

**RECONCILIATION OF GAAP CASH FLOWS FROM OPERATING ACTIVITIES
TO FREE CASH FLOWS
(A NON-GAAP FINANCIAL MEASURE)
(in millions)
(unaudited)**

	Three Months Ended	
	May 5, 2017	March 31, 2016
GAAP cash flows from operating activities	\$ 775	\$ 720
Capital expenditures	(49)	(41)
Free cash flows	\$ 726	\$ 679