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

Form 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2020

OR

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

For the transition period from to

Commission File Number 001-33622

VMWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-3292913**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
3401 Hillview Avenue	
Palo Alto, CA	**94304**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock	**VMW**	**New York Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of August 28, 2020, the number of shares of common stock, par value $0.01 per share, of the registrant outstanding was 420,127,174, of which 112,905,338 shares were Class A common stock and 307,221,836 were Class B common stock.

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VMware, Pivotal, Datrium, Lastline, vRealize, Carbon Black, VeloCloud, Nyansa, Workspace ONE, CloudHealth, NSX, VMware vSAN, VMware Foundation, vSphere, Heptio, and Tanzu are registered trademarks or trademarks of VMware or its subsidiaries in the United States and other jurisdictions. All other marks and names mentioned herein may be trademarks of their respective companies.

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019[1]	July 31, 2020	August 2, 2019[1]
Revenue[2][3]:				
License	$ 719	$ 773	$ 1,379	$ 1,419
Subscription and SaaS	631	439	1,204	850
Services	1,525	1,420	3,026	2,813
Total revenue	2,875	2,632	5,609	5,082
Operating expenses[2][4]:				
Cost of license revenue	35	38	74	74
Cost of subscription and SaaS revenue	132	97	258	191
Cost of services revenue	321	306	639	605
Research and development	679	614	1,344	1,204
Sales and marketing	897	888	1,814	1,756
General and administrative	277	223	523	432
Realignment and loss on disposition	—	—	4	—
Operating income	534	466	953	820
Investment income	1	14	7	28
Interest expense	(55)	(34)	(104)	(68)
Other income (expense), net	15	41	8	58
Income before income tax	495	487	864	838
Income tax provision (benefit)	48	(4,798)	31	(4,812)
Net income	447	5,285	833	5,650
Less: Net loss attributable to non-controlling interests	—	(18)	—	(33)
Net income attributable to VMware, Inc.	$ 447	$ 5,303	$ 833	$ 5,683
Net income per weighted-average share attributable to VMware, Inc. common stockholders, basic for Classes A and B	$ 1.06	$ 12.72	$ 1.99	$ 13.62
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B	$ 1.06	$ 12.47	$ 1.97	$ 13.34
Weighted-average shares, basic for Classes A and B	420,031	416,983	419,208	417,310
Weighted-average shares, diluted for Classes A and B	423,050	425,091	422,428	426,044

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(1) Adjusted to reflect the recast of prior period information due to the Pivotal Software, Inc. ("Pivotal") acquisition in fiscal 2020, which was accounted for as a transaction between entities under common control (refer to Note A).

(2) Effective the fourth quarter of fiscal 2020, revenue recognized from subscription and SaaS offerings, as well as the related cost of subscription and SaaS revenue, are being presented separately (refer to Note A).

(3) Includes related party revenue as follows (refer to Note C):

License	$ 364	$ 360	$ 687	$ 639
Subscription and SaaS	122	79	237	151
Services	478	350	921	676

(4) Includes stock-based compensation as follows:

Cost of license revenue	$ —	$ —	$ 1	$ 1
Cost of subscription and SaaS revenue	5	3	9	6
Cost of services revenue	26	20	48	38
Research and development	132	109	257	211
Sales and marketing	88	68	159	129
General and administrative	42	34	91	64

The accompanying notes are an integral part of the condensed consolidated financial statements.

VMware, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019[(1)]	July 31, 2020	August 2, 2019[(1)]
Net income	$ 447	$ 5,285	$ 833	$ 5,650
Other comprehensive income (loss):				
Changes in fair value of effective foreign currency forward contracts:				
Unrealized gains (losses), net of tax provision (benefit) of $1, $—, ($1) and $—	5	3	(5)	6
Reclassification of (gains) losses realized during the period, net of tax (provision) benefit of $1, $—, $— and $—	3	(2)	—	(1)
Net change in fair value of effective foreign currency forward contracts	8	1	(5)	5
Foreign currency translation adjustments	1	—	—	—
Total other comprehensive income (loss)	9	1	(5)	5
Comprehensive income, net of taxes	456	5,286	828	5,655
Less: Net loss attributable to the non-controlling interests	—	(18)	—	(33)
Comprehensive income attributable to VMware, Inc.	$ 456	$ 5,304	$ 828	$ 5,688

(1) Adjusted to reflect the recast of prior period information due to the Pivotal acquisition in fiscal 2020, which was accounted for as a transaction between entities under common control (refer to Note A).

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

	July 31, 2020	January 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,703	$ 2,915
Accounts receivable, net of allowance for doubtful accounts of $6 and $7	1,970	1,883
Due from related parties, net	897	1,457
Other current assets	457	436
Total current assets	8,027	6,691
Property and equipment, net	1,302	1,280
Other assets	2,381	2,266
Deferred tax assets	5,809	5,556
Intangible assets, net	1,109	1,172
Goodwill	9,547	9,329
Total assets	$ 28,175	$ 26,294
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 216	$ 208
Accrued expenses and other	2,195	2,151
Current portion of long-term debt and other borrowings	1,500	2,747
Unearned revenue	5,215	5,218
Total current liabilities	9,126	10,324
Note payable to Dell	270	270
Long-term debt	4,714	2,731
Unearned revenue	4,170	4,050
Income tax payable	783	817
Operating lease liabilities	781	746
Other liabilities	424	347
Total liabilities	20,268	19,285
Contingencies (refer to Note D)		
Stockholders' equity:		
Class A common stock, par value $0.01; authorized 2,500,000 shares; issued and outstanding 113,248 and 110,484 shares	1	1
Class B convertible common stock, par value $0.01; authorized 1,000,000 shares; issued and outstanding 307,222 shares	3	3
Additional paid-in capital	2,070	2,000
Accumulated other comprehensive loss	(9)	(4)
Retained earnings	5,842	5,009
Total stockholders' equity	7,907	7,009
Total liabilities and stockholders' equity	$ 28,175	$ 26,294

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

	Six Months Ended	
	July 31, 2020	August 2, 2019[(1)]
Operating activities:		
Net income	$ 833	$ 5,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	496	407
Stock-based compensation	565	449
Deferred income taxes, net	(196)	(4,955)
Unrealized (gain) loss on equity securities, net	(6)	(20)
(Gain) loss on disposition of assets, revaluation and impairment, net	7	(4)
Loss on extinguishment of debt	8	—
Other	(2)	2
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(79)	116
Other current assets and other assets	(345)	(356)
Due to/from related parties, net	560	298
Accounts payable	11	7
Accrued expenses and other liabilities	207	9
Income taxes payable	(51)	(11)
Unearned revenue	86	443
Net cash provided by operating activities	2,094	2,035
Investing activities:		
Additions to property and equipment	(163)	(163)
Purchases of strategic investments	(11)	(8)
Proceeds from disposition of assets	21	22
Business combinations, net of cash acquired, and purchases of intangible assets	(335)	(384)
Net cash paid on disposition of a business	—	(5)
Net cash used in investing activities	(488)	(538)
Financing activities:		
Proceeds from issuance of common stock	142	152
Net proceeds from issuance of long-term debt	1,979	—
Repayment of current portion of long-term debt	(1,257)	—
Repurchase of common stock	(311)	(1,037)
Shares repurchased for tax withholdings on vesting of restricted stock	(276)	(351)
Payment to acquire non-controlling interests	(91)	—
Principal payments on finance lease obligations	(1)	(1)
Net cash provided by (used in) financing activities	185	(1,237)
Net increase in cash, cash equivalents and restricted cash	1,791	260
Cash, cash equivalents and restricted cash at beginning of the period	3,031	3,596
Cash, cash equivalents and restricted cash at end of the period	$ 4,822	$ 3,856
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 91	$ 64
Cash paid for taxes, net	282	188
Non-cash items:		
Changes in capital additions, accrued but not paid	$ (7)	$ (5)

(1) Adjusted to reflect the recast of prior period information due to the Pivotal acquisition in fiscal 2020, which was accounted for as a transaction between entities under common control (refer to Note A).

The accompanying notes are an integral part of the condensed consolidated financial statements.

VMware, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions)
(unaudited)

	Three Months Ended July 31, 2020							
	Class A Common Stock		Class B Convertible Common Stock					
	Shares	Par Value	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
Balance, May 1, 2020	112	$ 1	307	$ 3	$ 2,047	$ 5,395	$ (18)	$ 7,428
Proceeds from issuance of common stock	1	—	—	—	31	—	—	31
Repurchase and retirement of common stock	(1)	—	—	—	(130)	—	—	(130)
Issuance of restricted stock	2	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(1)	—	—	—	(120)	—	—	(120)
Stock-based compensation	—	—	—	—	287	—	—	287
Amount due from tax sharing arrangement	—	—	—	—	(45)	—	—	(45)
Total other comprehensive income (loss)	—	—	—	—	—	—	9	9
Net income	—	—	—	—	—	447	—	447
Balance, July 31, 2020	113	$ 1	307	$ 3	$ 2,070	$ 5,842	$ (9)	$ 7,907

	Six Months Ended July 31, 2020							
	Class A Common Stock		Class B Convertible Common Stock					
	Shares	Par Value	Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
Balance, January 31, 2020	110	$ 1	307	$ 3	$ 2,000	$ 5,009	$ (4)	$ 7,009
Proceeds from issuance of common stock	2	—	—	—	142	—	—	142
Repurchase and retirement of common stock	(2)	—	—	—	(311)	—	—	(311)
Issuance of restricted stock	5	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(2)	—	—	—	(275)	—	—	(275)
Stock-based compensation	—	—	—	—	559	—	—	559
Amount due from tax sharing arrangement	—	—	—	—	(45)	—	—	(45)
Total other comprehensive income (loss)	—	—	—	—	—	—	(5)	(5)
Net income	—	—	—	—	—	833	—	833
Balance, July 31, 2020	113	$ 1	307	$ 3	$ 2,070	$ 5,842	$ (9)	$ 7,907

	Three Months Ended August 2, 2019[1]								
	Class A Common Stock		Class B Convertible Common Stock						
	Shares	Par Value	Shares	Par Value	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Stockholders' Equity
Balance, May 3, 2019	110	$ 1	300	$ 3	$ 2,460	$ (714)	$ 2	$ 1,082	$ 2,834
Proceeds from issuance of common stock	—	—	—	—	3	—	—	—	3
Issuance of stock-based awards in acquisition	—	—	—	—	2	—	—	—	2
Repurchase and retirement of common stock	(2)	—	—	—	(187)	(259)	—	—	(446)
Issuance of restricted stock	2	—	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(1)	—	—	—	(141)	—	—	—	(141)
Stock-based compensation	—	—	—	—	208	—	—	26	234
Credit from tax sharing arrangement	—	—	—	—	85	—	—	—	85
Investment from Dell, net	—	—	—	—	1	—	—	1	2
Total other comprehensive income (loss)	—	—	—	—	—	—	1	—	1
Transactions with Pivotal's non-controlling stockholders	—	—	—	—	6	—	—	6	12

Net income (loss)	—	—	—	—	—	5,303	—	(18)	5,285
Balance, August 2, 2019	109	$ 1	300	$ 3	$ 2,437	$ 4,330	$ 3	$ 1,097	$ 7,871

	Six Months Ended August 2, 2019[1]								
	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Stockholders' Equity
	Shares	Par Value	Shares	Par Value					
Balance, February 1, 2019	111	$ 1	300	$ 3	$ 2,959	$ (1,096)	$ (2)	$ 1,026	$ 2,891
Cumulative effect of adoption of new accounting pronouncements	—	—	—	—	—	2	—	—	2
Proceeds from issuance of common stock	1	—	—	—	106	—	—	—	106
Issuance of stock-based awards in acquisition	—	—	—	—	2	—	—	—	2
Repurchase and retirement of common stock	(6)	—	—	—	(778)	(259)	—	—	(1,037)
Issuance of restricted stock	5	—	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(2)	—	—	—	(348)	—	—	—	(348)
Stock-based compensation	—	—	—	—	402	—	—	47	449
Credit from tax sharing arrangement	—	—	—	—	85	—	—	—	85
Investment from Dell, net	—	—	—	—	16	—	—	11	27
Total other comprehensive income (loss)	—	—	—	—	—	—	5	—	5
Transactions with Pivotal's non-controlling stockholders	—	—	—	—	(7)	—	—	46	39
Net income (loss)	—	—	—	—	—	5,683	—	(33)	5,650
Balance, August 2, 2019	109	$ 1	300	$ 3	$ 2,437	$ 4,330	$ 3	$ 1,097	$ 7,871

(1) Adjusted to reflect the recast of prior period information due to the Pivotal acquisition in fiscal 2020, which was accounted for as a transaction between entities under common control (refer to Note A).

The accompanying notes are an integral part of the condensed consolidated financial statements.

VMware, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

A. Overview and Basis of Presentation

Company and Background

VMware, Inc. (“VMware” or the “Company”) originally pioneered the development and application of virtualization technologies with x86 server-based computing, separating application software from the underlying hardware. Information technology (“IT”) driven innovation continues to disrupt markets and industries. Technologies emerge faster than organizations can absorb, creating increasingly complex environments. IT is working at an accelerated pace to harness new technologies, platforms and cloud models, ultimately guiding businesses through a digital transformation. To take on these challenges, VMware is working with customers in the areas of hybrid and multi-cloud, modern applications, networking, security and digital workspaces. VMware’s software provides a flexible digital foundation to enable customers in their digital transformations.

Accounting Principles

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Retrospective Combination of Historical Financial Statements

In December 2019, VMware completed the acquisition of Pivotal, which was, at the time, a subsidiary of VMware’s parent company, Dell Technologies Inc. (“Dell”). The purchase of the controlling interest in Pivotal from Dell was accounted for as a transaction between entities under common control in accordance with Accounting Standards Codification 805-50, Business Combination - Related Issues, which requires retrospective combination of entities for all periods presented, as if the combination had been in effect since the inception of common control. The condensed consolidated financial statements of VMware and notes thereto are presented on a combined basis, as both VMware and Pivotal were under common control for all periods presented.

Of the total amount of consideration for the acquisition of the non-controlling interest in Pivotal, $155 million was recognized in accrued expenses and other on the condensed consolidated balance sheet as of January 31, 2020 for amounts potentially owed to dissenting stockholders. During the second quarter of fiscal 2021, VMware paid $91 million to dissenting stockholders of Pivotal, representing a portion of the amount accrued as of January 31, 2020.

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, for a fair statement of VMware’s condensed consolidated results of operations, financial position and cash flows for the periods presented. Results of operations are not necessarily indicative of the results that may be expected for the full fiscal year 2021. Certain information and footnote disclosures typically included in annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in VMware’s Annual Report on Form 10-K filed on March 26, 2020.

Effective September 7, 2016, Dell (formerly Denali Holding Inc.) acquired EMC Corporation (“EMC”), VMware’s parent company, including EMC’s majority control of VMware. As of July 31, 2020, Dell controlled 80.4% of VMware’s outstanding common stock and 97.4% of the combined voting power of VMware’s outstanding common stock, including 31 million shares of VMware’s Class A common stock and all of VMware’s Class B common stock.

As VMware is a majority-owned and controlled subsidiary of Dell, its results of operations and financial position are consolidated with Dell’s financial statements.

Management believes the assumptions underlying the condensed consolidated financial statements are reasonable. However, the amounts recorded for VMware’s related party transactions with Dell and its consolidated subsidiaries may not be considered arm’s length with an unrelated third party. Therefore, the condensed consolidated financial statements included herein may not necessarily reflect the results of operations, financial position and cash flows had VMware engaged in such transactions with an unrelated third party during all periods presented. Accordingly, VMware’s historical financial information is not necessarily indicative of what the Company’s results of operations, financial position and cash flows will be in the future, if and when VMware contracts at arm’s length with unrelated third parties for products and services the Company receives from and provides to Dell.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of VMware and subsidiaries in which VMware has a controlling financial interest. The portion of results of operations attributable to the non-controlling interests for Pivotal prior to the acquisition was included in net loss attributable to non-controlling interests on the condensed consolidated statements of income for the periods presented. As part of the acquisition of Pivotal, VMware acquired the non-controlling interests in Pivotal from the holders of Pivotal Class A common stock, and has held 100% of the controlling financial interest in Pivotal since December 2019. The cumulative portion of the results of operations and changes in the net assets of Pivotal attributable to the non-controlling interests through the acquisition date were reclassified to additional paid-in capital on the condensed consolidated balance sheet as of January 31, 2020.

All intercompany transactions and account balances between VMware and its subsidiaries have been eliminated in consolidation. Transactions with Dell and its consolidated subsidiaries are generally settled in cash and are classified on the condensed consolidated statements of cash flows based upon the nature of the underlying transaction.

Intra-Group Transfer of Intellectual Property

During the first quarter of fiscal 2021, the Company completed an intra-group transfer of certain of its intellectual property rights (the "IP") to the Company's Irish subsidiary, resulting in a discrete tax benefit of $59 million recognized with a deferred tax asset. This deferred tax asset was recognized as a result of the book and tax basis difference on the IP transferred and was based on the IP's current fair value.

Use of Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenue and expenses during the reporting periods, and the disclosure of contingent liabilities at the date of the financial statements. Estimates are used for, but not limited to, trade receivable valuation, marketing development funds, expected period of benefit for deferred commissions, useful lives assigned to fixed assets and intangible assets, valuation of goodwill and definite-lived intangibles, income taxes, stock-based compensation and contingencies. Actual results could differ from those estimates.

As the impact of the COVID-19 pandemic continues to evolve, estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require increased judgment. These estimates and assumptions may change in future periods and will be recognized in the condensed consolidated financial statements as new events occur and additional information becomes known. To the extent the Company's actual results differ materially from those estimates and assumptions, VMware's future financial statements could be affected.

Subscription and SaaS Revenue

Effective with the fourth quarter of fiscal 2020, VMware is presenting new revenue and cost of revenue line items entitled "subscription and SaaS revenue" and "cost of subscription and SaaS revenue." Previously, subscription and software-as-a-service ("SaaS") revenue was referred to as "hybrid cloud subscription and SaaS revenue" and was allocated between license revenue and services revenue in the condensed consolidated statements of income. In light of the Company's recent acquisitions, management decided to separately present revenue recognized from subscription and SaaS offerings as management believes it provides a more meaningful representation of the nature of its revenue. Revenue and related costs from prior periods were reclassified to conform to the current presentation.

VMware, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

The following table summarizes the prior period reclassifications for revenue and the corresponding costs resulting from the presentation of the new revenue line item (amounts in millions):

	Three Months Ended August 2, 2019			
	As Previously Reported	Reclassification For New Revenue Line	Pivotal Adjustments[1]	As Adjusted
Revenue:				
License	$ 1,011	$ (238)	$ —	$ 773
Subscription and SaaS	—	306	133	439
Services	1,428	(68)	60	1,420
Operating expenses:				
Cost of license revenue	50	(12)	—	38
Cost of subscription and SaaS revenue	—	73	24	97
Cost of services revenue	315	(61)	52	306

	Six Months Ended August 2, 2019			
	As Previously Reported	Reclassification For New Revenue Line	Pivotal Adjustments[1]	As Adjusted
Revenue:				
License	$ 1,879	$ (460)	$ —	$ 1,419
Subscription and SaaS	—	591	259	850
Services	2,826	(131)	118	2,813
Operating expenses:				
Cost of license revenue	101	(27)	—	74
Cost of subscription and SaaS revenue	—	142	49	191
Cost of services revenue	617	(115)	103	605

[1] Includes adjustments related to the recast of prior periods resulting from the acquisition of Pivotal.

Recently Adopted Accounting Standards

Effective February 1, 2020, VMware adopted Accounting Standards Update No. 2016-13, Financial Instruments-Credit Losses (Topic 326), which requires the measurement and recognition of current expected credit losses for financial assets. The standard did not have a material impact on the Company’s condensed consolidated financial statements.

B. Revenue, Unearned Revenue and Remaining Performance Obligations

Revenue

Contract Assets

A contract asset is recognized when a conditional right to consideration exists and transfer of control has occurred. Contract assets include fixed fee professional services where transfer of services has occurred in advance of the Company’s right to invoice. Contract assets are classified as accounts receivables upon invoicing. Contract assets are included in other current assets on the condensed consolidated balance sheets. Contract assets were $39 million and $26 million as of July 31, 2020 and January 31, 2020, respectively. Contract asset balances will fluctuate based upon the timing of the transfer of services, billings and customers’ acceptance of contractual milestones.

Contract Liabilities

Contract liabilities consist of unearned revenue, which is generally recorded when VMware has the right to invoice or payments have been received for undelivered products or services.

Customer Deposits

Customer deposits include prepayments from customers related to amounts received for contracts that include certain cancellation rights. Purchased credits eligible for redemption of VMware's hosted services ("cloud credits") are included in customer deposits until the cloud credit is consumed or is contractually committed to a specific hosted service. Cloud credits are redeemable by the customer for the gross value of the hosted offering. Upon contractual commitment for a hosted service, the net value of the cloud credits that are expected to be recognized as revenue when the obligation is fulfilled will be classified as unearned revenue.

As of July 31, 2020, customer deposits related to customer prepayments and cloud credits of $277 million were included in accrued expenses and other, and $149 million were included in other liabilities on the condensed consolidated balance sheets. As of January 31, 2020, customer deposits related to customer prepayments and cloud credits of $247 million were included in accrued expenses and other, and $143 million were included in other liabilities on the condensed consolidated balance sheets.

Deferred Commissions

Deferred commissions are classified as current or non-current based on the duration of the expected period of benefit. Deferred commissions, including the employer portion of payroll taxes, included in other current assets as of July 31, 2020 and January 31, 2020 were $24 million and $13 million, respectively. Deferred commissions included in other assets were $994 million and $938 million as of July 31, 2020 and January 31, 2020, respectively.

Amortization expense for deferred commissions was included in sales and marketing on the condensed consolidated statements of income and was $106 million and $206 million during the three and six months ended July 31, 2020, respectively, and $89 million and $178 million during the three and six months ended August 2, 2019, respectively.

Unearned Revenue

Unearned revenue as of the periods presented consisted of the following (table in millions):

	July 31, 2020	January 31, 2020
Unearned license revenue	$ 11	$ 19
Unearned subscription and SaaS revenue	1,619	1,534
Unearned software maintenance revenue	6,696	6,700
Unearned professional services revenue	1,059	1,015
Total unearned revenue	$ 9,385	$ 9,268

Unearned subscription and SaaS revenue is generally recognized over time as customers consume the services or ratably over the term of the subscription, commencing upon provisioning of the service.

Unearned software maintenance revenue is attributable to VMware's maintenance contracts and is generally recognized over time on a ratable basis over the contract duration. The weighted-average remaining contractual term as of July 31, 2020 was approximately two years. Unearned professional services revenue results primarily from prepaid professional services and is generally recognized as the services are performed.

Total billings and revenue recognized during the three months ended July 31, 2020 were $2.0 billion and $1.8 billion, respectively, and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses. Total billings and revenue recognized during the six months ended July 31, 2020 were $3.7 billion and $3.6 billion, respectively, and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses. During the three and six months ended July 31, 2020, VMware also acquired $27 million and $30 million, respectively, in unearned revenue in connection with business combinations.

Revenue recognized during the three and six months ended August 2, 2019 was $1.6 billion and $3.1 billion, respectively, and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses.

Remaining Performance Obligations

Remaining performance obligations represent the aggregate amount of the transaction price in contracts allocated to performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations include unearned revenue, multi-year contracts with future installment payments and certain unfulfilled orders against accepted customer contracts at the end of any given period.

As of July 31, 2020, the aggregate transaction price allocated to remaining performance obligations was $10.3 billion, of which approximately 54% is expected to be recognized as revenue over the next twelve months and the remainder thereafter. As of January 31, 2020, the aggregate transaction price allocated to remaining performance obligations was $10.3 billion, of which approximately 54% was expected to be recognized as revenue during fiscal 2021, and the remainder thereafter.

C. Related Parties

The information provided below includes a summary of transactions with Dell and Dell's consolidated subsidiaries (collectively, "Dell").

Transactions with Dell

VMware and Dell engaged in the following ongoing related party transactions, which resulted in revenue and receipts, and unearned revenue for VMware:

- Pursuant to original equipment manufacturer ("OEM") and reseller arrangements, Dell integrates or bundles VMware's products and services with Dell's products and sells them to end users. Dell also acts as a distributor, purchasing VMware's standalone products and services for resale to end-user customers through VMware-authorized resellers. Revenue under these arrangements is presented net of related marketing development funds and rebates paid to Dell. In addition, VMware provides professional services to end users based upon contractual agreements with Dell.
- Dell purchases products and services from VMware for its internal use.
- From time to time, VMware and Dell enter into agreements to collaborate on technology projects, and Dell pays VMware for services or reimburses VMware for costs incurred by VMware, in connection with such projects.

During the three and six months ended July 31, 2020, revenue from Dell accounted for 34% and 33% of VMware's consolidated revenue, respectively. During the three and six months ended July 31, 2020, revenue recognized on transactions where Dell acted as an OEM accounted for 12% of revenue from Dell, or 4% of VMware's consolidated revenue.

During the three and six months ended August 2, 2019, revenue from Dell accounted for 30% and 29% of VMware's consolidated revenue, respectively. During the three and six months ended August 2, 2019, revenue recognized on transactions where Dell acted as an OEM accounted for 12% of revenue from Dell, or 4% of VMware's consolidated revenue.

Dell purchases VMware products and services directly from VMware, as well as through VMware's channel partners. Information about VMware's revenue and receipts, and unearned revenue from such arrangements, for the periods presented consisted of the following (table in millions):

	Revenue and Receipts				Unearned Revenue	
	Three Months Ended		Six Months Ended		As of	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019	July 31, 2020	January 31, 2020
Reseller revenue	$ 948	$ 778	$ 1,810	$ 1,443	$ 4,204	$ 3,787
Internal-use revenue	16	11	35	23	33	57
Collaborative technology project receipts	3	2	6	4	n/a	n/a

Customer deposits resulting from transactions with Dell were $203 million and $194 million as of July 31, 2020 and January 31, 2020, respectively.

VMware and Dell engaged in the following ongoing related party transactions, which resulted in costs to VMware:

- VMware purchases and leases products and purchases services from Dell.
- From time to time, VMware and Dell enter into agreements to collaborate on technology projects, and VMware pays Dell for services provided to VMware by Dell related to such projects.
- In certain geographic regions where VMware does not have an established legal entity, VMware contracts with Dell subsidiaries for support services and support from Dell personnel who are managed by VMware. The costs incurred by Dell on VMware's behalf related to these employees are charged to VMware with a mark-up intended to approximate costs that would have been incurred had VMware contracted for such services with an unrelated third party. These

costs are included as expenses on VMware's condensed consolidated statements of income and primarily include salaries, benefits, travel and occupancy expenses. Dell also incurs certain administrative costs on VMware's behalf in the United States ("U.S.") that are recorded as expenses on VMware's condensed consolidated statements of income.

- In certain geographic regions, Dell files a consolidated indirect tax return, which includes value added taxes and other indirect taxes collected by VMware from its customers. VMware remits the indirect taxes to Dell, and Dell remits the tax payment to the foreign governments on VMware's behalf.
- From time to time, VMware invoices end users on behalf of Dell for certain services rendered by Dell. Cash related to these services is collected from the end user by VMware and remitted to Dell.
- From time to time, VMware enters into agency arrangements with Dell that enable VMware to sell its subscriptions and services, leveraging the Dell enterprise relationships and end customer contracts.

Information about VMware's payments for such arrangements during the periods presented consisted of the following (table in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Purchases and leases of products and purchases of services[1]	$ 45	$ 56	$ 89	$ 136
Dell subsidiary support and administrative costs	15	27	42	64

[1] Amount includes indirect taxes that were remitted to Dell during the periods presented.

VMware also purchases Dell products through Dell's channel partners. Purchases of Dell products through Dell's channel partners were not significant during the periods presented.

From time to time, VMware and Dell also enter into joint marketing, sales, branding and product development arrangements, for which both parties may incur costs.

Dell Financial Services ("DFS")

DFS provided financing to certain of VMware's end users at the end users' discretion. Upon acceptance of the financing arrangement by both VMware's end users and DFS, amounts classified as trade accounts receivable are reclassified to due from related parties, net on the condensed consolidated balance sheets. Revenue recognized on transactions financed through DFS was recorded net of financing fees. Financing fees on arrangements accepted by both parties were $18 million and $31 million during the three and six months ended July 31, 2020, respectively, and $12 million and $25 million during the three and six months ended August 2, 2019, respectively.

Tax Sharing Agreement with Dell

Payments made to Dell pursuant to the tax sharing agreement were $142 million and $167 million during the three and six months ended July 31, 2020, respectively, and $52 million and $89 million during the three and six months ended August 2, 2019, respectively.

Payments from VMware to Dell under the tax sharing agreement relate to VMware's portion of federal income taxes on Dell's consolidated tax return as well as state tax payments for combined states. The timing of the tax payments due to and from related parties is governed by the tax sharing agreement. VMware's portion of the mandatory one-time transition tax on accumulated earnings of foreign subsidiaries (the "Transition Tax") is governed by a letter agreement between Dell, EMC and VMware executed during the first quarter of fiscal 2020 (the "Letter Agreement"). In December 2019, VMware amended the tax sharing agreement with Dell in connection with, and effective as of, the Pivotal acquisition. The tax sharing agreement with Dell, as amended and subject to certain exceptions, generally limits VMware's maximum annual tax liability to Dell to the amount VMware would owe on a separate tax return basis. Subject to this cap for periods following the Pivotal acquisition, the amounts that VMware pays to Dell for its portion of federal income taxes on Dell's consolidated tax return differ from the amounts VMware would owe on a separate tax return basis and the difference is recognized as a component of additional paid-in capital, generally in the period in which the consolidated tax return is filed. The difference between the amount of tax calculated on a separate tax return basis and the amount of tax calculated pursuant to the tax sharing agreement recorded in additional paid-in capital during the three and six months ended July 31, 2020 was $45 million. The amount recognized in additional paid-in capital during the three and six months ended August 2, 2019 was $85 million, primarily due to a reduction in Transition Tax liability based on the terms of the Letter Agreement and certain tax attribute determinations made by Dell.

As a result of the activity under the tax sharing agreement with Dell, amounts due to Dell were $521 million and $529 million as of July 31, 2020 and January 31, 2020, respectively, primarily related to VMware's estimated tax obligation resulting from the Transition Tax. The Company expects to pay the remainder of its Transition Tax over a period of five years.

Pivotal Tax Sharing Agreement with Dell

Pivotal continues to file its separate tax return for U.S. federal income tax purposes, as it left the Dell consolidated tax group at the time of Pivotal's initial public offering ("IPO") in April 2018. This has reduced the amount of benefit or expense received by Pivotal since the IPO to the amount of benefit or expense Dell realizes from Pivotal's inclusion on unitary state tax returns. Pursuant to a tax sharing agreement, Pivotal historically received payments from Dell for the tax benefits derived from the inclusion of its losses in certain Dell U.S. federal and state group returns. Payments received from Dell were recognized as a component of additional paid-in capital.

In April 2019, Pivotal and Dell amended their tax sharing agreement with regard to the treatment of certain U.S. Tax Cuts and Jobs Act implications not explicitly covered by the original terms of the tax sharing agreement. The amendment resulted in $27 million recognized as a component of additional paid-in capital during the six months ended August 2, 2019 and it was not material during the three months ended August 2, 2019.

Due To/From Related Parties, Net

Amounts due to and from related parties, net as of the periods presented consisted of the following (table in millions):

	July 31, 2020	January 31, 2020
Due from related parties, current	$ 1,027	$ 1,618
Due to related parties, current[1]	130	161
Due from related parties, net, current	$ 897	$ 1,457

[1] Includes an immaterial amount related to the Company's current operating lease liabilities due to related parties.

The Company also recognized an immaterial amount related to non-current operating lease liabilities due to related parties. This amount has been included in operating lease liabilities on the condensed consolidated balance sheets as of July 31, 2020 and January 31, 2020.

Amounts in due from related parties, net, excluding DFS and tax obligations, include the current portion of amounts due to and due from related parties. Amounts included in due from related parties, net are generally settled in cash within 60 days of each quarter-end.

Notes Payable to Dell

As of July 31, 2020 and January 31, 2020, VMware had an outstanding promissory note payable to Dell in the principal amount of $270 million due December 1, 2022. The note may be prepaid without penalty or premium. Interest is payable quarterly in arrears at the annual rate of 1.75%. During the three and six months ended July 31, 2020 and August 2, 2019, interest expense on the notes payable to Dell was not significant.

D. Commitments and Contingencies

Litigation

On June 4, 2020, purported Pivotal stockholder Kenia Lopez filed a lawsuit in the Delaware Chancery Court against Dell, VMware, Michael Dell, Robert Mee and Cynthia Gaylor. The claims include breach of fiduciary duty and aiding and abetting, all tied to VMware's acquisition of Pivotal. On July 16, 2020, purported Pivotal stockholder Stephanie Howarth filed a similar lawsuit in the Delaware Chancery Court against the same defendants asserting the same types of claims. These matters have been consolidated and are in the early stages of litigation. The Company is unable at this time to assess whether or to what extent it may be found liable and, if found liable, what the damages may be, and believes a loss is not probable and reasonably estimable. The Company intends to vigorously defend against these securities class actions.

On April 25, 2019, Cirba Inc. ("Cirba") filed a lawsuit against VMware in the United States District Court for the District of Delaware (the "Delaware Court"), alleging two patent infringement claims and three trademark infringement-related claims. On May 6, 2019, Cirba filed a motion seeking a preliminary injunction tied to one of the two patents it alleges VMware infringes. Following a hearing on August 6, 2019, the Delaware Court denied Cirba's preliminary injunction motion and set the case for trial in mid-January 2020. On August 20, 2019, VMware filed counterclaims against Cirba, asserting among other claims that Cirba is infringing four VMware patents. The Delaware Court severed those claims from the January 2020 trial on Cirba's claims, and the trial on VMware's patent claims is currently set for September 2021. The trial on Cirba's claims in the Delaware Court was completed on January 23, 2020, and on January 24, 2020, the jury returned a verdict finding that VMware willfully infringed the two asserted patents and awarding approximately $237 million in damages. The jury further found that VMware was not liable on Cirba's trademark infringement-related claims. A total of $237 million has been accrued for the Delaware action, which reflects the estimated losses that are considered both probable and reasonably estimable at this time. The parties filed post-trial motions in which VMware moved to set aside the verdict and reduce the damages award, and Cirba moved for a permanent injunction, enhanced damages, set an ongoing royalty rate, and for an award of pre-judgment and post-judgment interest and supplemental damages. The parties held a hearing with the Delaware Court on those motions on May 15, 2020, and the Delaware Court has taken those motions under advisement. The Company intends to vigorously defend itself in this matter, including, if necessary, via an appeal. Final resolution of this matter could be materially different from the amount accrued. The amount accrued for this matter is included in accrued expenses and other on the condensed consolidated balance sheet as of July 31, 2020 and January 31, 2020, and the charge was included in general and administrative on the condensed consolidated statement of income for the year ended January 31, 2020.

On October 22, 2019, VMware filed a separate patent infringement lawsuit against Cirba in the United States District Court for the Eastern District of Virginia, asserting that Cirba infringes an additional four patents. The court in that action transferred the case to the District of Delaware. On March 23, 2020, Cirba filed a counterclaim asserting one additional patent against VMware. Overall, the Company is unable at this time to assess whether or to what extent it may be found liable on the new patent claim and, if found liable, what the damages may be, and believes a loss is not probable and reasonably estimable. The Company intends to vigorously defend against this matter.

On August 10, 2015, the Company received a subpoena from the California Attorney General's office ("California AG"), following the Company's settlement with the Department of Justice and the General Services Administration during June 2015. In this matter, the California AG is investigating the accuracy of the Company's sales practices with departments and agencies within the State of California. The Company has held meetings with the California AG's representatives, and discussions are ongoing. The Company is unable at this time to assess whether or to what extent it may be found liable and, if found liable, what the damages may be, and believes a material loss is not probable and reasonably estimable. The Company intends to vigorously defend against this matter.

In December 2019, the staff of the Enforcement Division of the SEC requested documents and information related to VMware's backlog and associated accounting and disclosures. VMware is fully cooperating with the SEC's investigation and is unable to predict the outcome of this matter at this time.

While VMware believes that it has valid defenses against each of the above legal matters, given the unpredictable nature of legal proceedings, an unfavorable resolution of one or more legal proceedings, claims, or investigations could have a material adverse effect on VMware's condensed consolidated financial statements.

VMware accrues for a liability when a determination has been made that a loss is both probable and the amount of the loss can be reasonably estimated. If only a range can be estimated and no amount within the range is a better estimate than any other amount, an accrual is recorded for the minimum amount in the range. Significant judgment is required in both the determination that the occurrence of a loss is probable and is reasonably estimable. In making such judgments, VMware considers the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. Legal costs are generally recognized as expense when incurred.

VMware is also subject to other legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business or in connection with business mergers and acquisitions, including claims with respect to commercial, contracting and sales practices, product liability, intellectual property, employment, corporate and securities law, class action, whistleblower and other matters. From time to time, VMware also receives inquiries from and has discussions with government entities and stockholders on various matters. As of July 31, 2020, other than the Cirba litigation, amounts accrued relating to these other matters arising as part of the ordinary course of business were considered not material. VMware does not believe that any liability from any reasonably possible disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on its condensed consolidated financial statements.

Contractual Commitments

From time to time, VMware enters into arrangements with minimum purchase commitments in the ordinary course of business. New material purchase commitments in fiscal 2021 have totaled $1.2 billion. Minimum payments under these new commitments as of July 31, 2020 are $250 million for fiscal 2022, $250 million for fiscal 2023 and $700 million prior to the end of fiscal 2024.

E. Business Combinations, Definite-Lived Intangible Assets, Net and Goodwill

Business Combinations

Acquisition of Datrium, Inc.

During the second quarter of fiscal 2021, VMware completed the acquisition of Datrium, Inc., a provider of cloud-native disaster recovery solutions, to broaden the VMware Site Recovery Disaster Recovery as a Service offerings. The total purchase price, net of cash acquired, was $137 million. The purchase price primarily included $25 million of identifiable intangible assets and $91 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of three years to five years.

Acquisition of Lastline, Inc.

During the second quarter of fiscal 2021, VMware completed the acquisition of Lastline, Inc., a provider of network-based security breach detection products and services, to enhance capabilities for network detection and threat analysis on VMware NSX and SD-WAN offerings. The total purchase price, net of cash acquired, was $114 million. The purchase price primarily included $29 million of identifiable intangible assets and $86 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of one year to four years.

Acquisition of Nyansa, Inc.

During the first quarter of fiscal 2021, VMware completed the acquisition of Nyansa, Inc., a developer of artificial intelligence-based network analytics, to accelerate the delivery of end-to-end monitoring and troubleshooting capacities within VMware SD-WAN by VeloCloud. The total purchase price, net of cash acquired, was $38 million. The purchase price primarily included $14 million of identifiable intangible assets and $24 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of one year to four years.

Other Fiscal 2021 Acquisitions

During the second quarter of fiscal 2021, VMware completed two other acquisitions, which were not material individually to the condensed consolidated financial statements. VMware expects these acquisitions to enhance its product features and capabilities for its VMware Carbon Black Cloud and vRealize Operations offerings. The aggregate purchase price for these two acquisitions, net of cash acquired, was $40 million and primarily included $31 million of identifiable intangible assets and $16 million of goodwill, of which $24 million is expected to be deductible for tax purposes. The identifiable intangible assets, which primarily consisted of completed technology, have estimated useful lives of one year to five years.

The pro forma financial information assuming these fiscal 2021 acquisitions had occurred as of the beginning of the fiscal year prior to the fiscal year of acquisition, as well as the revenue and earnings generated during the current fiscal year, were not material for disclosure purposes.

Definite-Lived Intangible Assets, Net

As of the periods presented, definite-lived intangible assets consisted of the following (amounts in tables in millions):

	July 31, 2020			
	Weighted-Average Useful Lives (in years)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Purchased technology	5.5	$ 970	$ (432)	$ 538
Customer relationships and customer lists	11.4	730	(234)	496
Trademarks and tradenames	7.6	132	(68)	64
Other	2.0	21	(10)	11
Total definite-lived intangible assets		$ 1,853	$ (744)	$ 1,109

	January 31, 2020			
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5.7	$ 1,030	$ (488)	$ 542
Customer relationships and customer lists	11.4	739	(200)	539
Trademarks and tradenames	7.6	131	(58)	73
Other	2.0	22	(4)	18
Total definite-lived intangible assets		$ 1,922	$ (750)	$ 1,172

Amortization expense on definite-lived intangible assets was $81 million and $161 million during the three and six months ended July 31, 2020, respectively, and $70 million and $140 million during the three and six months ended August 2, 2019, respectively.

Based on intangible assets recorded as of July 31, 2020 and assuming no subsequent additions, dispositions or impairment of underlying assets, the remaining estimated annual amortization expense over the next five fiscal years and thereafter is expected to be as follows (table in millions):

Remainder of 2021	$ 163
2022	284
2023	234
2024	187
2025	101
Thereafter	140
Total	$ 1,109

Goodwill

The following table summarizes the changes in the carrying amount of goodwill during the six months ended July 31, 2020 (table in millions):

Balance, January 31, 2020	$ 9,329
Increase in goodwill related to business combinations	218
Balance, July 31, 2020	$ 9,547

F. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of common stock outstanding and potentially dilutive securities outstanding during the period, as calculated using the treasury stock method. Potentially dilutive securities primarily include unvested restricted stock units ("RSUs"), including performance stock unit ("PSU") awards, and stock options, including purchase options under VMware's employee stock purchase plan, which included Pivotal's employee stock purchase plan through the date of acquisition. Securities are excluded from the computation of diluted net income per share if their effect would be anti-dilutive. VMware uses the two-class method to calculate net income per share as both classes share the same rights in dividends; therefore, basic and diluted earnings per share are the same for both classes.

The following table sets forth the computations of basic and diluted net income per share during the periods presented (table in millions, except per share amounts and shares in thousands):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Net income attributable to VMware, Inc.	$ 447	$ 5,303	$ 833	$ 5,683
Weighted-average shares, basic for Classes A and B	420,031	416,983	419,208	417,310
Effect of other dilutive securities	3,019	8,108	3,220	8,734
Weighted-average shares, diluted for Classes A and B	423,050	425,091	422,428	426,044
Net income per weighted-average share attributable to VMware, Inc. common stockholders, basic for Classes A and B	$ 1.06	$ 12.72	$ 1.99	$ 13.62
Net income per weighted-average share attributable to VMware, Inc. common stockholders, diluted for Classes A and B	$ 1.06	$ 12.47	$ 1.97	$ 13.34

The following table sets forth the weighted-average common share equivalents of Class A common stock that were excluded from the diluted net income per share calculations during the periods presented because their effect would have been anti-dilutive (shares in thousands):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Anti-dilutive securities:				
Employee stock options	170	—	233	—
Restricted stock units	5,727	458	4,664	251
Total	5,897	458	4,897	251

G. Cash, Cash Equivalents, and Restricted Cash

Cash and Cash Equivalents

Cash and cash equivalents totaled $4.7 billion and $2.9 billion as of July 31, 2020 and January 31, 2020, respectively. Cash equivalents were $3.9 billion as of July 31, 2020 and consisted of money-market funds of $3.9 billion and time deposits of $40 million. Cash equivalents were $2.3 billion as of January 31, 2020 and consisted of money-market funds of $2.2 billion and time deposits of $102 million.

Restricted Cash

The following table provides a reconciliation of the Company's cash and cash equivalents, and current and non-current portion of restricted cash reported on the condensed consolidated balance sheets that sum to the total cash, cash equivalents and restricted cash as of July 31, 2020 and January 31, 2020 (table in millions):

	July 31, 2020	January 31, 2020
Cash and cash equivalents	$ 4,703	$ 2,915
Restricted cash within other current assets	85	83
Restricted cash within other assets	34	33
Total cash, cash equivalents and restricted cash	$ 4,822	$ 3,031

Amounts included in restricted cash primarily relate to certain employee-related benefits, as well as amounts related to installment payments to certain employees as part of acquisitions, subject to the achievement of specified future employment conditions.

H. Debt

Unsecured Senior Notes

On April 7, 2020, VMware issued three series of unsecured senior notes pursuant to a public debt offering. The proceeds from the issuance were $2.0 billion, net of debt discount of $3 million and debt issuance costs of $17 million. VMware also has three series of unsecured senior notes issued on August 21, 2017 (collectively with the notes issued April 7, 2020, the "Senior Notes").

The carrying value of the Senior Notes as of the periods presented was as follows (amounts in millions):

	July 31, 2020	January 31, 2020	Effective Interest Rate
Senior Notes issued August 21, 2017:			
2.30% Senior Note Due August 21, 2020	$ —	$ 1,250	2.56%
2.95% Senior Note Due August 21, 2022	1,500	1,500	3.17%
3.90% Senior Note Due August 21, 2027	1,250	1,250	4.05%
Senior Notes issued April 7, 2020:			
4.50% Senior Note Due May 15, 2025	750	—	4.70%
4.65% Senior Note Due May 15, 2027	500	—	4.80%
4.70% Senior Note Due May 15, 2030	750	—	4.86%
Total principal amount	4,750	4,000	
Less: unamortized discount	(7)	(5)	
Less: unamortized debt issuance costs	(29)	(16)	
Net carrying amount	4,714	3,979	
Current portion of long-term debt	—	1,248	
Long-term debt	$ 4,714	$ 2,731	

On May 11, 2020, VMware exercised a make-whole call and redeemed the $1.3 billion unsecured senior note due August 21, 2020 at a premium. The loss on extinguishment of debt was not material during the three and six months ended July 31, 2020 and was recognized in other income (expense), net on the condensed consolidated statements of income.

Interest on the Senior Notes issued on April 7, 2020 is payable semiannually in arrears, on May 15 and November 15 of each year, beginning November 15, 2020. The interest rate on each note issued on April 7, 2020 is subject to adjustment based on certain rating events. Interest on the Senior Notes issued on August 21, 2017 is payable semiannually in arrears, on February 21 and August 21 of each year. Interest expense was $49 million and $88 million during the three and six months ended July 31, 2020, respectively, and $32 million and $65 million during the three and six months ended August 2, 2019, respectively. Interest expense, which included amortization of discount and issuance costs, was recognized on the condensed consolidated statements of income. The discount and issuance costs are amortized over the term of the Senior Notes on a straight-line basis, which approximates the effective interest method.

The Senior Notes are redeemable in whole at any time or in part from time to time at VMware's option, subject to a make-whole premium. In addition, upon the occurrence of certain change-of-control triggering events and certain downgrades of the ratings on the Senior Notes, VMware may be required to repurchase the notes at a repurchase price equal to 101% of the aggregate principal plus any accrued and unpaid interest on the date of repurchase. The Senior Notes rank equally in right of payment with VMware's other unsecured and unsubordinated indebtedness. The Senior Notes contain restrictive covenants that, in certain circumstances, limit VMware's ability to create certain liens, to enter into certain sale and leaseback transactions and to consolidate, merge, sell or otherwise dispose of all or substantially all of VMware's assets.

Refer to Note C for disclosure regarding the note payable to Dell.

Revolving Credit Facility

On September 12, 2017, VMware entered into an unsecured credit agreement establishing a revolving credit facility with a syndicate of lenders that provides the Company with a borrowing capacity of up to $1.0 billion, for general corporate purposes. Commitments under the revolving credit facility are available for a period of five years, which may be extended, subject to the satisfaction of certain conditions, by up to two one-year periods. As of July 31, 2020 and January 31, 2020, there was no outstanding borrowing under the revolving credit facility. The credit agreement contains certain representations, warranties and covenants. Commitment fees, interest rates and other terms of borrowing under the revolving credit facility may vary based on VMware's external credit ratings. The amount paid in connection with the ongoing commitment fee, which is payable quarterly in arrears, was not significant during the three and six months ended July 31, 2020 and August 2, 2019.

Senior Unsecured Term Loan Facility

On September 26, 2019, VMware entered into a senior unsecured term loan facility (the "Term Loan") with a syndicate of lenders that provided the Company with a borrowing capacity of up to $2.0 billion through February 7, 2020, for general corporate purposes. The Term Loan matures during the third quarter of fiscal 2021, on the 364th day following the initial funding under the Term Loan. The Term Loan bears interest at the London interbank offered rate plus 0.75% to 1.25%, or an alternate base rate plus 0.00% to 0.25%, depending on VMware's external credit ratings. As of July 31, 2020, the weighted-average interest rate on the outstanding Term Loan was 1.05%.

As of July 31, 2020 and January 31, 2020, the outstanding balance on the Term Loan of $1.5 billion, net of unamortized debt issuance costs, was included in current portion of long-term debt and other borrowings on the condensed consolidated balance sheets, with no remaining amount available for additional borrowings. The Term Loan contains certain representations, warranties and covenants. Interest expense for the Term Loan, including amortization of issuance costs, was not significant during the three months ended July 31, 2020 and was $14 million during the six months ended July 31, 2020.

I. Fair Value Measurements

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

Certain financial assets and liabilities are measured at fair value on a recurring basis. VMware determines fair value using the following hierarchy:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

VMware did not have any significant assets or liabilities that were classified as Level 3 of the fair value hierarchy for the periods presented, and there have been no transfers between fair value measurement levels during the periods presented.

The following tables set forth the fair value hierarchy of VMware's cash equivalents that were required to be measured at fair value as of the periods presented (tables in millions):

	July 31, 2020		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	$ 3,856	$ —	$ 3,856
Time deposits[1]	—	40	40
Total cash equivalents	$ 3,856	$ 40	$ 3,896

	January 31, 2020		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	$ 2,158	$ —	$ 2,158
Time deposits[1]	—	102	102
Total cash equivalents	$ 2,158	$ 102	$ 2,260

[1] Time deposits were valued at amortized cost, which approximated fair value.

The note payable to Dell, the Senior Notes and the Term Loan were not adjusted to fair value. The fair value of the note payable to Dell was approximately $276 million and $269 million as of July 31, 2020 and January 31, 2020, respectively. The fair value of the Senior Notes was approximately $5.3 billion and $4.1 billion as of July 31, 2020 and January 31, 2020, respectively. The fair value of the Term Loan approximated its carrying value as of July 31, 2020 and January 31, 2020 due to its short-term nature. Fair value for the note payable to Dell, the Senior Notes and the Term Loan was estimated primarily based on observable market interest rates (Level 2 inputs).

VMware offers a deferred compensation plan for eligible employees, which allows participants to defer payment for part or all of their compensation. There is no net impact to the condensed consolidated statements of income since changes in the fair value of the assets offset changes in the fair value of the liabilities. As such, assets and liabilities associated with this plan have not been included in the above tables. Assets associated with this plan were the same as the liabilities at $123 million and $106 million as of July 31, 2020 and January 31, 2020, respectively, and were included in other assets and other liabilities on the condensed consolidated balance sheets, respectively.

Equity Securities Without a Readily Determinable Fair Value

VMware's equity securities also include investments in privately held companies, which do not have a readily determinable fair value. As of July 31, 2020 and January 31, 2020, investments in privately held companies, which consisted primarily of equity securities, had a carrying value of $155 million and $159 million, respectively, and were included in other assets on the condensed consolidated balance sheets. Unrealized gains and losses recognized by the Company on these securities were not significant during the three and six months ended July 31, 2020. The Company recognized an unrealized gain of $23 million on these securities during the three and six months ended August 2, 2019. All gains and losses on these securities, whether realized or unrealized, are recognized in other income (expense), net on the condensed consolidated statements of income.

J. Derivatives and Hedging Activities

VMware conducts business on a global basis in multiple foreign currencies, subjecting the Company to foreign currency risk. To mitigate a portion of this risk, VMware utilizes hedging contracts as described below, which potentially expose the Company to credit risk to the extent that the counterparties may be unable to meet the terms of the agreements. VMware manages counterparty risk by seeking counterparties of high credit quality and by monitoring credit ratings, credit spreads and other relevant public information about its counterparties. VMware does not, and does not intend to, use derivative instruments for trading or speculative purposes.

Cash Flow Hedges

To mitigate its exposure to foreign currency fluctuations resulting from certain operating expenses denominated in certain foreign currencies, VMware enters into forward contracts that are designated as cash flow hedging instruments as the accounting criteria for such designation are met. Therefore, the effective portion of gains or losses resulting from changes in the fair value of these instruments is initially reported in accumulated other comprehensive loss on the condensed consolidated balance sheets and is subsequently reclassified to the related operating expense line item on the condensed consolidated statements of income in the same period that the underlying expenses are incurred. During the three and six months ended July 31, 2020 and August 2, 2019, the effective portion of gains or losses reclassified to the condensed consolidated statements of income was not significant. Interest charges or forward points on VMware's forward contracts were excluded from the assessment of hedge effectiveness and were recorded to the related operating expense line item on the condensed consolidated statements of income in the same period that the interest charges are incurred.

These forward contracts have contractual maturities of twelve months or less, and as of July 31, 2020 and January 31, 2020, outstanding forward contracts had a total notional value of $254 million and $480 million, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. The fair value of these forward contracts was not significant as of July 31, 2020 and January 31, 2020.

During the three and six months ended July 31, 2020 and August 2, 2019, all cash flow hedges were considered effective.

Forward Contracts Not Designated as Hedges

VMware has established a program that utilizes forward contracts to offset the foreign currency risk associated with net outstanding monetary asset and liability positions. These forward contracts are not designated as hedging instruments under applicable accounting guidance, and therefore all changes in the fair value of the forward contracts are reported in other income (expense), net on the condensed consolidated statements of income.

These forward contracts generally have a contractual maturity of one month, and as of July 31, 2020 and January 31, 2020, outstanding forward contracts had a total notional value of $3.8 billion and $1.1 billion, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. The fair value of these forward contracts was not significant as of July 31, 2020 and January 31, 2020.

During the three and six months ended July 31, 2020, VMware recognized losses of $48 million and $33 million, respectively, related to the settlement of forward contracts. The gains recognized during the three and six months ended August 2, 2019 were $26 million and $53 million, respectively. Gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

The combined gains and losses related to the settlement of forward contracts and the underlying foreign currency denominated assets and liabilities during the three and six months ended July 31, 2020 resulted in net gains of $12 million and $13 million, respectively. Net gains related to the settlement of forward contracts and the underlying foreign currency denominated assets and liabilities were $12 million and $18 million during the three and six months ended August 2, 2019, respectively. Net gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

K. Leases

VMware has operating and finance leases primarily related to office facilities and equipment, which have remaining lease terms of one month to 26 years. Lease expense recorded in the condensed consolidated statements of income was $53 million and $110 million during the three and six months ended July 31, 2020, respectively, and $50 million and $98 million during the three and six months ended August 2, 2019, respectively.

The components of lease expense during the periods presented were as follows (table in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Operating lease expense	$ 44	$ 41	$ 90	$ 80
Finance lease expense:				
Amortization of ROU assets	$ 1	$ 1	$ 3	$ 1
Interest on lease liabilities	1	—	1	—
Total finance lease expense	$ 2	$ 1	$ 4	$ 1
Short-term lease expense	$ —	$ —	$ 1	$ 1
Variable lease expense	$ 7	$ 8	$ 15	$ 16
Total lease expense	$ 53	$ 50	$ 110	$ 98

From time to time, VMware enters into lease arrangements with Dell. Lease expense incurred for arrangements with Dell was not significant during the periods presented.

The Company subleases certain leased office space to third parties when it determines there is excess leased capacity. Sublease income was not significant during the periods presented.

Supplemental cash flow information related to operating and finance leases during the period presented was as follows (table in millions):

	Six Months Ended	
	July 31, 2020	August 2, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 81	$ 83
Operating cash flows from finance leases	1	—
Financing cash flows from finance leases	1	1
ROU assets obtained in exchange for lease liabilities:		
Operating leases	$ 100	$ 114
Finance leases	1	63

Supplemental balance sheet information related to operating and finance leases as of the period presented was as follows (table in millions):

	July 31, 2020	
	Operating Leases	Finance Leases
ROU assets, non-current[1]	$ 908	$ 56
Lease liabilities, current[2]	$ 112	$ 4
Lease liabilities, non-current[3]	781	51
Total lease liabilities	$ 893	$ 55

	January 31, 2020	
	Operating Leases	Finance Leases
ROU assets, non-current[1]	$ 886	$ 58
Lease liabilities, current[2]	$ 109	$ 4
Lease liabilities, non-current[3]	746	55
Total lease liabilities	$ 855	$ 59

[1] ROU assets for operating leases are included in other assets and ROU assets for finance leases are included in property and equipment, net on the condensed consolidated balance sheets.

[2] Current lease liabilities are included primarily in accrued expenses and other on the condensed consolidated balance sheets. An immaterial amount is presented in due from related parties, net on the condensed consolidated balance sheets.

[3] Non-current operating lease liabilities are presented as operating lease liabilities on the condensed consolidated balance sheets. Non-current finance lease liabilities are included in other liabilities on the condensed consolidated balance sheets.

Lease term and discount rate related to operating and finance leases as of the period presented were as follows:

	July 31, 2020	January 31, 2020
Weighted-average remaining lease term (in years)		
Operating leases	12.7	13.3
Finance leases	8.8	9.2
Weighted-average discount rate		
Operating leases	3.7%	3.8%
Finance leases	2.9%	3.1%

The following represents VMware's future minimum lease payments under non-cancellable operating and finance leases as of the period presented (table in millions):

	July 31, 2020	
	Operating Leases	Finance Leases
2021	$ 63	$ 3
2022	154	6
2023	140	7
2024	111	7
2025	85	6
Thereafter	613	34
Total future minimum lease payments	1,166	63
Less: Imputed interest	(273)	(8)
Total lease liabilities[1]	$ 893	$ 55

[1] Total lease liabilities as of July 31, 2020 excluded legally binding lease payments for leases signed but not yet commenced of $265 million.

L. Stockholders' Equity

VMware Stock Repurchases

VMware purchases stock from time to time in open market transactions, subject to market conditions. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including VMware's stock price, cash requirements for operations and business combinations, corporate, legal and regulatory requirements and other market and economic conditions. VMware is not obligated to purchase any shares under its stock repurchase programs. Purchases may be discontinued at any time VMware believes additional purchases are not warranted. From time to time, VMware also purchases stock in private transactions, such as those with Dell. All shares repurchased under VMware's stock repurchase programs are retired.

During May 2019, VMware's board of directors authorized the repurchase of up to $1.5 billion of Class A common stock through January 29, 2021. During July 2020, VMware's board of directors extended authorization of the existing stock repurchase program through January 28, 2022 and authorized the repurchase of up to an additional $1.0 billion of Class A common stock through January 28, 2022. As of July 31, 2020, the cumulative authorized amount remaining for stock repurchases was $1.7 billion.

The following table summarizes stock repurchase activity during the periods presented (aggregate purchase price in millions, shares in thousands):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Aggregate purchase price[1]	$ 130	$ 446	$ 311	$ 1,037
Class A common stock repurchased	919	2,431	2,459	5,695
Weighted-average price per share	$ 141.04	$ 183.53	$ 126.30	$ 182.06

[1] The aggregate purchase price of repurchased shares is classified as a reduction to additional paid-in capital until the balance is reduced to zero and the excess is recorded as a reduction to retained earnings.

VMware Restricted Stock

VMware's restricted stock primarily consists of RSU awards granted to employees. The value of an RSU grant is based on VMware's stock price on the date of the grant. The shares underlying the RSU awards are not issued until the RSUs vest. Upon vesting, each RSU converts into one share of VMware's Class A common stock.

VMware's restricted stock also includes PSU awards granted to certain VMware executives and employees. PSU awards have performance conditions and, in certain cases, a time-based or market-based vesting component. Upon vesting, PSU awards convert into VMware's Class A common stock at various ratios ranging from 0.1 to 2.0 shares per PSU, depending upon the degree of achievement of the performance or market-based target designated by each award. If minimum performance thresholds are not achieved, then no shares are issued.

The following table summarizes restricted stock activity since January 31, 2020 (units in thousands):

	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Outstanding, January 31, 2020	17,474	$ 128.38
Granted	9,516	150.95
Vested	(5,497)	110.07
Forfeited	(1,285)	129.95
Outstanding, July 31, 2020	20,208	143.81

The aggregate vesting date fair value of VMware's restricted stock that vested during the six months ended July 31, 2020, was $751 million. As of July 31, 2020, restricted stock representing 20.2 million shares of VMware's Class A common stock were outstanding, with an aggregate intrinsic value of $2.8 billion based on VMware's closing stock price as of July 31, 2020.

Net Excess Tax Benefits

Net excess tax benefits recognized in connection with stock-based awards are included in income tax benefit on the condensed consolidated statements of income. Net excess tax benefits recognized during the three and six months ended July 31, 2020 were $16 million and $29 million, respectively, and were $35 million and $117 million during the three and six months ended August 2, 2019, respectively.

Accumulated Other Comprehensive Income (Loss)

The changes in components of accumulated other comprehensive income (loss) during the periods presented were as follows (tables in millions):

	Unrealized Gain (Loss) on Forward Contracts	Foreign Currency Translation Adjustments	Total
Balance, January 31, 2020	$ —	$ (4)	$ (4)
Unrealized gains (losses), net of tax provision (benefit) of ($1), $—, and ($1)	(5)	—	(5)
Other comprehensive income (loss), net	(5)	—	(5)
Balance, July 31, 2020	$ (5)	$ (4)	$ (9)

	Unrealized Gain (Loss) on Forward Contracts	Foreign Currency Translation Adjustment	Total
Balance, February 1, 2019	$ 2	$ (4)	$ (2)
Unrealized gains (losses), net of tax provision (benefit) of $—, $— and $—	6	—	6
Amounts reclassified from accumulated other comprehensive income (loss) to the condensed consolidated statements of income (loss), net of tax (provision) benefit of $—, $— and $—	(1)	—	(1)
Other comprehensive income (loss), net	5	—	5
Balance, August 2, 2019	$ 7	$ (4)	$ 3

The effective portion of gains or losses resulting from changes in the fair value of forward contracts designated as cash flow hedging instruments is reclassified to its related operating expense line item on the condensed consolidated statements of income in the same period that the underlying expenses are incurred. The amounts recorded to the related operating expense functional line items on the condensed consolidated statements of income were not significant to the individual functional line items during the periods presented.

M. Segment Information

VMware operates in one reportable operating segment; thus, all required financial segment information is included in the condensed consolidated financial statements. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker in order to allocate resources and assess performance. VMware's chief operating decision maker allocates resources and assesses performance based upon discrete financial information at the consolidated level.

Revenue by type during the periods presented was as follows (table in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Revenue:				
License	$ 719	$ 773	$ 1,379	$ 1,419
Subscription and SaaS	631	439	1,204	850
Total license and subscription and SaaS	1,350	1,212	2,583	2,269
Services:				
Software maintenance	1,270	1,172	2,515	2,319
Professional services	255	248	511	494
Total services	1,525	1,420	3,026	2,813
Total revenue	$ 2,875	$ 2,632	$ 5,609	$ 5,082

Revenue by geographic area during the periods presented was as follows (table in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
United States	$ 1,439	$ 1,317	$ 2,802	$ 2,512
International	1,436	1,315	2,807	2,570
Total	$ 2,875	$ 2,632	$ 5,609	$ 5,082

Revenue by geographic area is based on the ship-to addresses of VMware's customers. No individual country other than the U.S. accounted for 10% or more of revenue during the three and six months ended July 31, 2020 and August 2, 2019.

Long-lived assets by geographic area, which primarily include property and equipment, net, as of the periods presented were as follows (table in millions):

	July 31, 2020	January 31, 2020
United States	$ 864	$ 860
International	221	209
Total	$ 1,085	$ 1,069

As of July 31, 2020, the U.S. and India accounted for 80% and 10% of these assets, respectively. No individual country other than the U.S. accounted for 10% or more of these assets as of January 31, 2020.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis is provided in addition to the accompanying condensed consolidated financial statements and notes to assist in understanding our results of operations and financial condition. Financial information as of July 31, 2020 should be read in conjunction with our consolidated financial statements for the year ended January 31, 2020 contained in our Annual Report on Form 10-K filed on March 26, 2020.

In December 2019, VMware completed the acquisition of Pivotal Software, Inc. ("Pivotal"), which was, at the time, a subsidiary of VMware's parent company, Dell Technologies Inc. ("Dell"). The purchase of the controlling interest in Pivotal from Dell was accounted for as a transaction between entities under common control in accordance with Accounting Standards Codification 805-50, Business Combination - Related Issues, which requires retrospective combination of entities for all periods presented, as if the combination had been in effect since the inception of common control. As such, prior period financial information has been recast. The recast financial statements combine VMware's historical financial results with those of Pivotal.

Additionally, effective with the fourth quarter of fiscal 2020, VMware is presenting new revenue and cost of revenue line items entitled, "subscription and SaaS revenue" and "cost of subscription and SaaS revenue." Previously, subscription and software-as-a-service ("SaaS") revenue was referred to as "hybrid cloud subscription and SaaS revenue" and was allocated between license revenue and services revenue on the condensed consolidated statements of income. In light of the Company's recent acquisitions, management decided to separately present revenue recognized from subscription and SaaS offerings as management believes it provides a more meaningful representation of the nature of its revenue. Revenue and its related costs from prior periods were reclassified to conform to the current presentation.

Period-over-period changes are calculated based upon the respective underlying, non-rounded data. We refer to our fiscal years ended January 29, 2021 and January 31, 2020 as "fiscal 2021" and "fiscal 2020," respectively. Unless the context requires otherwise, we are referring to VMware, Inc. and its consolidated subsidiaries when we use the terms "VMware," the "Company," "we," "our" or "us."

Overview

We originally pioneered the development and application of virtualization technologies with x86 server-based computing, separating application software from the underlying hardware. Information technology ("IT") driven innovation continues to disrupt markets and industries. Technologies emerge faster than organizations can absorb, creating increasingly complex environments. IT is working at an accelerated pace to harness new technologies, platforms and cloud models, ultimately guiding businesses through a digital transformation. To take on these challenges, we are working with customers in the areas of hybrid and multi-cloud, modern applications, networking, security and digital workspaces. Our software provides a flexible digital foundation to enable customers in their digital transformations.

We help customers manage their IT resources across private clouds and complex multi-cloud, multi-device environments by offering solutions across three categories: Software-Defined Data Center ("SDDC"), Hybrid and Multi-Cloud Computing and Digital Workspace—End-User Computing ("EUC"). This portfolio supports and addresses the key IT priorities of our customers including accelerating their cloud journey, modernizing their applications, empowering digital workspaces, transforming networking and embracing intrinsic security. VMware enables customers to digitally transform their operations as they ready their applications, infrastructure and employees for constantly evolving business needs.

We sell our solutions using enterprise agreements ("EAs") or as part of our non-EA, or transactional, business. EAs are comprehensive volume license offerings, offered both directly by us and through certain channel partners that also provide for multi-year maintenance and support. We continue to experience strong renewals, including renewals of our EAs, resulting in additional license sales of both our existing and newer products and solutions.

SDDC or Software-Defined Data Center

Our SDDC technologies form the foundation of our customers' private cloud environments and provide the capabilities for our customers to extend their private cloud to the public cloud and to help them run, manage, secure and connect all their applications across all clouds and devices. During the six months ended July 31, 2020, we saw a decline in sales of our on-premises license sales, which were negatively impacted by the COVID-19 pandemic. Future sales growth rates may fluctuate period to period, depending upon the extent to which SDDC technologies are included in our larger EAs, and also upon the trajectory with which the economy recovers.

Hybrid and Multi-Cloud Computing

Our overarching cloud strategy contains three key components: (i) continue to expand beyond compute virtualization in the private cloud; (ii) extend the private cloud into the public cloud; and (iii) connect and secure endpoints across a range of public clouds. Subscription offerings were primarily comprised of VMware Cloud Provider Program ("VCPP") and included VMware Cloud Services, which enable customers to run, manage, connect and secure their applications across private and public clouds.

During the six months ended July 31, 2020, revenue growth in our subscription and SaaS offerings was primarily driven by our modern applications platform solutions, VMware Carbon Black Cloud and VCPP offerings. We expect both our VMware Carbon Black Cloud offerings and modern applications platform solutions to contribute to the growth of our revenue derived from subscription and SaaS offerings. In addition, we expect operating margin to be negatively impacted in fiscal 2021 as a result of our incremental investment in our subscription and SaaS portfolio, including the Carbon Black, Inc. and Pivotal acquisitions.

During the six months ended July 31, 2020, we saw an increase in the portion of our sales occurring through our subscription and SaaS offerings compared to the portion of our on-premises solutions sold with perpetual licenses. As this trend continues, a greater portion of our revenue will be recognized over time as subscription and SaaS revenue rather than license revenue, which is typically recognized in the fiscal period in which sales occur. As a result, the rate of growth in our license revenue, which has historically been viewed as a leading indicator of our business performance, may be less relevant and we believe that the overall growth rate of our combined license and subscription and SaaS revenue will become a better indicator of our future growth prospects.

Digital Workspace—End-User Computing

Our complete EUC solution, VMware Workspace ONE ("Workspace ONE"), is a digital workspace platform powered by Unified Endpoint Management and VMware Horizon. Our Unified Endpoint Management business model includes an on-premises solution that we offer through the sale of perpetual licenses, subscription and SaaS solutions. Total EUC sales, including on-premises license sales, declined during the six months ended July 31, 2020. In light of our accelerating go-to-market focus on annual contracts for our EUC offerings, EUC sales from subscription and SaaS solutions continued to increase during the six months ended July 31, 2020, driven by the adoption of our subscription offerings, such as Workspace ONE.

Dell Go-to-Market Initiatives

We continue joint marketing, sales, branding and product development efforts with Dell and other Dell companies to enhance the collective value we deliver to our mutual customers. During the three and six months ended July 31, 2020, revenue from Dell, including purchases of products and services directly from us, as well as through our channel partners, accounted for 34% and 33% of our consolidated revenue, respectively. These purchases included Dell as an original equipment manufacturer ("OEM"), which accounted for 12% of revenue from Dell, or 4% of our consolidated revenue, during the three and six months ended July 31, 2020. The remaining revenue from Dell consisted of Dell acting as a distributor to other non-Dell resellers, reselling products and services as a reseller or purchasing products and services for its own internal use. On certain transactions, Dell Financial Services ("DFS") also provided financing to our end users at our end users' discretion.

COVID-19 Impact

The worldwide spread of COVID-19 has resulted in, and may continue to cause, a global slowdown of economic activity, which is likely to decrease demand for a broad variety of goods and services, including from our customers, while also disrupting sales channels and marketing activities for an unknown period of time until the disease is contained. While the COVID-19 pandemic has not had a material adverse financial impact on our operations to date, the future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. We expect the economic effects of the COVID-19 pandemic to have a negative impact on our sales and our results of operations, the size and duration of which we are currently unable to predict. For example, license revenue decreased during the six months ended July 31, 2020 due in part to the effects of COVID-19. We also expect our operating margin to benefit from some of the short-term COVID-19 impacts on our operating expenses, including travel-, employee- and facilities-related costs.

We are closely monitoring the impact of the pandemic on all aspects of our business. During the three months ended July 31, 2020, a number of on-premises projects for our customers in the Americas experienced a slowdown that we believe is largely due to COVID-19, which negatively impacted our product sales, including core SDDC, VMware vSAN ("vSAN") and VMware NSX ("NSX").

Results of Operations

Approximately 70% of our sales are denominated in the United States ("U.S.") dollar. In certain countries, however, we also invoice and collect in various foreign currencies, principally euro, British pound, Japanese yen, Australian dollar, and Chinese renminbi. In addition, we incur and pay operating expenses in currencies other than the U.S. dollar. As a result, our financial statements, including our revenue, operating expenses, unearned revenue and the resulting cash flows derived from the U.S. dollar equivalent of foreign currency transactions, are affected by foreign exchange fluctuations.

Revenue

Our revenue during the periods presented was as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Revenue:								
License	$ 719	$ 773	$ (54)	(7)%	$ 1,379	$ 1,419	$ (40)	(3)%
Subscription and SaaS	631	439	192	44	1,204	850	353	42
Total license and subscription and SaaS	1,350	1,212	138	11	2,583	2,269	314	14
Services:								
Software maintenance	1,270	1,172	99	8	2,515	2,319	196	8
Professional services	255	248	7	3	511	494	17	3
Total services	1,525	1,420	105	7	3,026	2,813	213	8
Total revenue	$ 2,875	$ 2,632	$ 243	9	$ 5,609	$ 5,082	$ 527	10
Revenue:								
United States	$ 1,439	$ 1,317	$ 122	9 %	$ 2,802	$ 2,512	$ 290	12 %
International	1,436	1,315	121	9	2,807	2,570	237	9
Total revenue	$ 2,875	$ 2,632	$ 243	9	$ 5,609	$ 5,082	$ 527	10

Revenue from our subscription offerings consisted primarily of VMware’s VCPP cloud-based offerings that are billed to customers on a consumption basis and revenue from modern applications platform solutions and other offerings that are billed on a subscription basis. Revenue from our SaaS offerings consisted primarily of our Unified Endpoint Management mobile solution within Workspace ONE, our VMware Cloud on AWS offering, and newer SaaS offerings, such as our Carbon Black offerings, CloudHealth by VMware and VMware SD-WAN by VeloCloud.

License revenue relating to the sale of on-premises licenses that are part of a multi-year contract is generally recognized upon delivery of the underlying license, whereas revenue derived from our subscription and SaaS offerings is recognized on a consumption basis or over a period of time.

License Revenue

License revenue decreased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019 as a result of the economic impact of the COVID-19 pandemic on license sales, and due to a shift in demand from our on-premises solutions sold with perpetual licenses to cloud-based solutions. Additionally, as customers adopt our cloud-based offerings, license revenue may be lower and subject to greater fluctuation in the future, driven by a higher percentage of cloud-based offerings being sold as well as the variability of large deals between fiscal quarters, which deals historically have had a large license revenue impact.

Subscription and SaaS Revenue

Subscription and SaaS revenue increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. Revenue growth from our modern applications platform solutions, Workspace ONE and VMware Carbon Black Cloud offerings continued to contribute to subscription and SaaS revenue growth during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019.

Services Revenue

During the three and six months ended July 31, 2020, software maintenance revenue continued to benefit from maintenance contracts sold in previous periods. In each period presented, customers purchased, on a weighted-average basis, approximately three years of support and maintenance with each new license purchased.

Professional services revenue increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. Services we provide through our technical account managers and our continued focus on solution deployments, including our networking, security, cloud management and digital workspace offerings, contributed to the increase in professional services revenue. Our technology strategies and our offerings continued to resonate well with our customers and helped them maintain business continuity in light of the business challenges posed by the COVID-19 pandemic. We continue to also focus on enabling our partners to deliver professional services for our solutions, and as such, our professional services revenue may vary as we continue to leverage our partners. Timing of service engagements will also impact the amount of professional services revenue we recognize during a period.

Unearned Revenue

Unearned revenue as of the periods presented consisted of the following (table in millions):

	July 31, 2020	January 31, 2020
Unearned license revenue	$ 11	$ 19
Unearned subscription and SaaS revenue	1,619	1,534
Unearned software maintenance revenue	6,696	6,700
Unearned professional services revenue	1,059	1,015
Total unearned revenue	$ 9,385	$ 9,268

Unearned subscription and SaaS revenue is generally recognized over time as customers consume the services or ratably over the term of the subscription, commencing upon provisioning of the service. Previously, unearned subscription and SaaS revenue was allocated between unearned license revenue and unearned software maintenance revenue in prior periods and has been reclassified to conform with current period presentation.

Unearned software maintenance revenue is attributable to our maintenance contracts and is generally recognized over time on a ratable basis over the contract duration. The weighted-average remaining contractual term as of July 31, 2020 was approximately two years. Unearned professional services revenue results primarily from prepaid professional services and is generally recognized as the services are performed.

Remaining Performance Obligations and Backlog

Remaining Performance Obligations

Remaining performance obligations represent the aggregate amount of the transaction price in contracts allocated to performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations include unearned revenue, multi-year contracts with future installment payments and certain unfulfilled orders against accepted customer contracts at the end of any given period.

As of July 31, 2020, the aggregate transaction price allocated to remaining performance obligations was $10.3 billion, of which approximately 54% is expected to be recognized as revenue over the next twelve months and the remainder thereafter. As of January 31, 2020, the aggregate transaction price allocated to remaining performance obligations was $10.3 billion, of which approximately 54% was expected to be recognized as revenue during fiscal 2021, and the remainder thereafter.

Backlog

Backlog is comprised of unfulfilled purchase orders or unfulfilled executed agreements at the end of a given period and is net of related estimated rebates and marketing development funds. As of July 31, 2020, our total backlog was $36 million and our backlog related to licenses was $8 million. Backlog primarily consists of licenses, maintenance and services. For our backlog related to licenses, we generally expect to deliver and recognize as revenue during the following quarter. The amount excluded from the remaining performance obligations because such contracts are subject to cancellation until fulfillment of the performance obligation occurs was not material as of July 31, 2020.

As of January 31, 2020, total backlog was $18 million and our backlog related to licenses was $5 million. The amount excluded from the remaining performance obligations because such contracts are subject to cancellation until fulfillment of the performance obligation occurs was not material as of January 31, 2020.

The amount and composition of backlog will fluctuate period to period, and backlog is managed based upon multiple considerations, including product and geography. We do not believe the amount of backlog is indicative of future sales or revenue or that the mix of backlog at the end of any given period correlates with actual sales performance of a particular geography or particular products and services.

Cost of License Revenue, Cost of Subscription and SaaS Revenue, Cost of Services Revenue and Operating Expenses

Our cost of services revenue and operating expenses primarily reflected increasing cash-based employee-related expenses, driven by incremental growth in salaries and headcount, both organic and through acquisitions, across most of our income statement expense categories for the three and six months ended July 31, 2020.

Cost of License Revenue

Cost of license revenue primarily consists of the cost of fulfillment of our SD-WAN offerings, royalty costs in connection with technology licensed from third-party providers and amortization of intangible assets. The cost of fulfillment of our software and hardware SD-WAN offerings includes personnel costs and related overhead associated with delivery of our products.

Cost of license revenue during the periods presented was as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Cost of license revenue	$ 35	$ 38	$ (3)	(9)%	$ 73	$ 73	$ —	— %
Stock-based compensation	—	—	—	16	1	1	—	(4)
Total expenses	$ 35	$ 38	$ (3)	(9)	$ 74	$ 74	$ —	—
% of License revenue	*5%*	*5%*			*5%*	*5%*		

Cost of license revenue decreased during the three months ended July 31, 2020 compared to the three months ended August 2, 2019, and remained flat during the six months ended July 31, 2020 compared to the six months ended August 2, 2019. Cost of license revenue also remained consistent as a percentage of license revenue during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019.

Cost of Subscription and SaaS Revenue

Cost of subscription and SaaS revenue primarily includes personnel costs and related overhead associated with delivery of our products and all hosted services supporting our SaaS offerings. Additionally, cost of services revenue includes depreciation of equipment supporting our subscription and SaaS offerings.

Cost of subscription and SaaS revenue during the periods presented was as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Cost of subscription and SaaS revenue	$ 127	$ 94	$ 33	35%	$ 249	$ 185	$ 65	35%
Stock-based compensation	5	3	2	50	9	6	2	36
Total expenses	$ 132	$ 97	$ 35	36	$ 258	$ 191	$ 67	35
% of Subscription and SaaS revenue	*21%*	*22%*			*21%*	*22%*		

Cost of subscription and SaaS revenue increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. The increase was primarily due to increased amortization of intangible assets of $22 million and $37 million, respectively, during the three and six months ended July 31, 2020, as well as growth in costs associated with hosted services to support our SaaS offerings of $13 million and $32 million, respectively, during the three and six months ended July 31, 2020.

Cost of Services Revenue

Cost of services revenue primarily includes the costs of personnel and related overhead to deliver technical support for our products and costs to deliver professional services. Additionally, cost of services revenue includes depreciation of equipment supporting our service offerings.

Cost of services revenue during the periods presented was as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Cost of services revenue	$ 295	$ 286	$ 8	3%	$ 591	$ 567	$ 23	4%
Stock-based compensation	26	20	7	35	48	38	11	28
Total expenses	$ 321	$ 306	$ 15	5	$ 639	$ 605	$ 34	6
% of Services revenue	*21%*	*22%*			*21%*	*22%*		

Cost of services revenue increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. The increase was primarily due to growth in cash-based employee-related expenses of $26 million and $51 million, respectively, during the three and six months ended July 31, 2020, driven by incremental growth in headcount and salaries. The increase was also driven by increased equipment and depreciation of $11 million and increase of stock-based compensation of $11 million during the six months ended July 31, 2020, primarily driven by issuance of shares for recent acquisitions. These increases were partially offset by decreased travel-related costs of $15 million and $22 million, respectively, during the three and six months ended July 31, 2020, resulting from travel restrictions imposed in response to the COVID-19 pandemic as well as decreased facilities-related costs of $15 million during the six months ended July 31, 2020.

Research and Development Expenses

Research and development expenses include the personnel and related overhead associated with the development of our product software and service offerings. We continue to invest in our key growth areas, including NSX and vSAN, while also investing in areas that we expect to be significant growth drivers in future periods, such as VMware Cloud on AWS.

Research and development expenses during the periods presented were as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Research and development	$ 547	$ 505	$ 42	8%	$ 1,087	$ 993	$ 94	9%
Stock-based compensation	132	109	23	21	257	211	46	22
Total expenses	$ 679	$ 614	$ 65	11	$ 1,344	$ 1,204	$ 140	12
% of Total revenue	*24%*	*23%*			*24%*	*24%*		

Research and development expenses increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. The increase was primarily due to growth in cash-based employee-related expenses of $45 million and $102 million, respectively, during the three and six months ended July 31, 2020, driven by incremental growth in salaries and headcount, both organic and through acquisitions, as well as an increase of stock-based compensation of $23 million and $46 million, respectively, during the three and six months ended July 31, 2020 primarily driven by issuance of shares for recent acquisitions. The increase was also driven by increased equipment and depreciation of $10 million and $15 million, respectively, during the three and six months ended July 31, 2020. These increases were partially offset by decreased travel-related costs of $10 million and $16 million, respectively, during the three and six months ended July 31, 2020 resulting from travel restrictions imposed in response to the COVID-19 pandemic, as well as decreased facilities-related costs of $10 million during the six months ended July 31, 2020.

Sales and Marketing Expenses

Sales and marketing expenses include personnel costs, sales commissions and related overhead associated with the sale and marketing of our license, subscription and SaaS and services offerings, as well as the cost of product launches and marketing initiatives. A significant portion of our sales commissions are deferred and recognized over the expected period of benefit.

Sales and marketing expenses during the periods presented were as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Sales and marketing	$ 809	$ 820	$ (10)	(1)%	$ 1,655	$ 1,627	$ 28	2%
Stock-based compensation	88	68	20	30	159	129	30	23
Total expenses	$ 897	$ 888	$ 10	1	$ 1,814	$ 1,756	$ 58	3
% of Total revenue	*31%*	*34%*			*32%*	*35%*		

Sales and marketing expenses increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. The increase was primarily due to growth in cash-based employee-related expenses of $37 million and $82 million, respectively, driven by incremental growth in salaries and headcount, both organic and through acquisitions. The increase was also driven by an increase in stock-based compensation of $20 million and $30 million, respectively, during the three and six months ended July 31, 2020, primarily driven by issuance of shares for recent acquisitions. The increase during the six months ended July 31, 2020 was also driven by increased equipment and depreciation of $12 million. These increases were partially offset by decreased travel-related costs of $47 million and $72 million, respectively, during the three and six months ended July 31, 2020 resulting from travel restrictions imposed in response to the COVID-19 pandemic.

General and Administrative Expenses

General and administrative expenses include personnel and related overhead costs to support the business. These expenses include the costs associated with finance, human resources, IT infrastructure and legal, as well as expenses related to corporate costs and initiatives, including certain charitable donations to the VMware Foundation.

General and administrative expenses during the periods presented were as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
General and administrative	$ 235	$ 189	$ 47	25%	$ 432	$ 368	$ 64	17%
Stock-based compensation	42	34	8	22	91	64	27	42
Total expenses	$ 277	$ 223	$ 54	24	$ 523	$ 432	$ 91	21
% of Total revenue	*10%*	*8%*			*9%*	*9%*		

General and administrative expenses increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. The increase was primarily due to growth in cash-based employee-related expenses of $30 million and $31 million, respectively, during the three and six months ended July 31, 2020, driven by incremental growth in salaries and headcount, both organic and through acquisitions, as well as increased acquisition-related costs of $15 million and $42 million, respectively, during the three and six months ended July 31, 2020, primarily relating to the fiscal 2021 acquisitions. The increase was also driven by increased stock-based compensation expense of $27 million, primarily driven by issuance of shares for recent acquisitions, and an increase in facilities-related costs of $16 million during the six months ended July 31, 2020. These increases were partially offset by decreased travel-related costs resulting from travel restrictions imposed in response to the COVID-19 pandemic, as well as decreased third-party professional services costs during the six months ended July 31, 2020.

Interest Expense

Interest expense during the periods presented was as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Interest expense	$ 55	$ 34	$ 21	62%	$ 104	$ 68	$ 36	52%
% of Total revenue	*2%*	*1%*			*2%*	*1%*		

Interest expense increased during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019. The increase was primarily driven by the three series of unsecured senior notes issued during the first quarter of fiscal 2021 in the aggregate amount of $2.0 billion, and the senior unsecured term loan facility entered into during the third quarter of fiscal 2020 (the “Term Loan”).

Other Income (Expense), net

Other income (expense), net during the periods presented was as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	July 31, 2020	August 2, 2019	$ Change	% Change	July 31, 2020	August 2, 2019	$ Change	% Change
Other income (expense), net	$ 15	$ 41	$ (26)	(64)%	$ 8	$ 58	$ (49)	(85)%
% of Total revenue	*1%*	*2%*			*—%*	*1%*		

The change in other income (expense), net during the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019 was primarily driven by net unrealized gains related to our strategic investment in privately held companies recognized of $23 million during the six months ended August 2, 2019, partially offset by the loss on extinguishment of debt recognized during the three and six months ended July 31, 2020 upon redeeming our $1.3 billion unsecured senior note due August 21, 2020.

Income Tax Provision (Benefit)

The following table summarizes our income tax provision (benefit) during the periods presented (dollars in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Income tax provision (benefit)	$ 48	$ (4,798)	$ 31	$ (4,812)
Effective income tax rate	9.8%	N/M	3.5%	N/M

N/M - Effective tax rate is not considered meaningful.

Our quarterly effective income tax rate is based on our estimated annual income tax rate forecast and discrete tax items recognized in the period. The change in our effective income tax rate for the three and six months ended July 31, 2020 compared to the three and six months ended August 2, 2019 was primarily driven by a decrease in discrete tax benefits related to intra-group transfers of certain of our intellectual property rights. During the three and six months ended August 2, 2019, a discrete tax benefit of $4.9 billion was recognized with a deferred tax asset due to an intra-group transfer of certain of our intellectual property rights to our Irish subsidiary. During the six months ended July 31, 2020, a discrete tax benefit of $59 million was recognized with a deferred tax asset due to an intra-group transfer of Pivotal’s intellectual property rights to our Irish subsidiary. The change was also driven by a decrease in excess tax benefits recognized of $29 million during the six months ended July 31, 2020 as compared to excess tax benefits of $117 million during the six months ended August 2, 2019.

We are included in Dell’s consolidated tax group for U.S. federal income tax purposes and will continue to be included in Dell’s consolidated tax group for periods in which Dell beneficially owns at least 80% of the total voting power and value of our combined outstanding Class A and Class B common stock as calculated for U.S. federal income tax purposes. The percentage of voting power and value calculated for U.S. federal income tax purposes may differ from the percentage of outstanding shares beneficially owned by Dell due to the greater voting power of our Class B common stock as compared to our Class A common stock and other factors. Each member of a consolidated tax group during any part of a consolidated return year is jointly and severally liable for tax on the consolidated return of such year and for any subsequently determined deficiency thereon. Should Dell's ownership fall below 80% of the total voting power or value of our outstanding stock in any period, then we would no longer be included in the Dell consolidated tax group for U.S. federal income tax purposes, and our U.S. federal income tax would be reported separately from that of the Dell consolidated tax group.

Although our results are included in the Dell consolidated return for U.S. federal income tax purposes, our income tax provision or benefit is calculated primarily as though we were a separate taxpayer. However, under certain circumstances, transactions between us and Dell are assessed using consolidated tax return rules.

During the fourth quarter of fiscal 2020, we completed the acquisition of Pivotal. Pivotal will continue to file its separate tax return for U.S. federal income tax purposes as it left the Dell consolidated tax group at the time of Pivotal's initial public offering ("IPO") in April 2018.

Our effective tax rate in the future will depend upon the proportion of our income before provision for income taxes earned in the U.S. and in jurisdictions with a tax rate lower than the U.S. statutory rate. Our non-U.S. earnings are primarily earned by our subsidiaries organized in Ireland, where the rate of taxation is lower than our U.S. tax rate, and as such, our annual effective tax rate can be significantly affected by the composition of our earnings in the U.S. and non-U.S. jurisdictions. Our future effective tax rate may be affected by such factors as changes in tax laws, changes in our business or statutory rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation and the recognition of excess tax benefits or tax deficiencies within the income tax provision or benefit in the period in which they occur, the impact of accounting for business combinations, our acquisition of Pivotal, which was accounted for as a common control transaction, shifts in the amount of earnings in the U.S. compared with other regions in the world and overall levels of income before tax, changes in our international organization, as well as the expiration of statute of limitations and settlements of audits.

Our Relationship with Dell

The information provided below includes a summary of transactions with Dell and Dell's consolidated subsidiaries (collectively, "Dell").

Transactions with Dell

We engaged with Dell in the following ongoing related party transactions, which resulted in revenue and receipts, and unearned revenue for us:

- Pursuant to OEM and reseller arrangements, Dell integrates or bundles our products and services with Dell's products and sells them to end users. Dell also acts as a distributor, purchasing our standalone products and services for resale to end-user customers through VMware-authorized resellers. Revenue under these arrangements is presented net of related marketing development funds and rebates paid to Dell. In addition, we provide professional services to end users based upon contractual agreements with Dell.
- Dell purchases products and services from us for its internal use.
- From time to time, we and Dell enter into agreements to collaborate on technology projects, and Dell pays us for services or reimburses us for costs incurred by us, in connection with such projects.

During the three and six months ended July 31, 2020, revenue from Dell accounted for 34% and 33% of our consolidated revenue, respectively. During the three and six months ended July 31, 2020, revenue recognized on transactions where Dell acted as an OEM accounted for 12% of revenue from Dell, or 4% of our consolidated revenue.

During the three and six months ended August 2, 2019, revenue from Dell accounted for 30% and 29% of our consolidated revenue, respectively. During the three and six months ended August 2, 2019, revenue recognized on transactions where Dell acted as an OEM accounted for 12% of revenue from Dell, or 4% of our consolidated revenue.

Dell purchases our products and services directly from us, as well as through our channel partners. Information about our revenue and receipts, and unearned revenue from such arrangements, for the periods presented consisted of the following (table in millions):

	Revenue and Receipts				Unearned Revenue	
	Three Months Ended		Six Months Ended		As of	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019	July 31, 2020	January 31, 2020
Reseller revenue	$ 948	$ 778	$ 1,810	$ 1,443	$ 4,204	$ 3,787
Internal-use revenue	16	11	35	23	33	57
Collaborative technology project receipts	3	2	6	4	n/a	n/a

Sales through Dell as a distributor, which is included in reseller revenue, continues to grow rapidly.

Customer deposits resulting from transactions with Dell were $203 million and $194 million as of July 31, 2020 and January 31, 2020, respectively.

We engaged with Dell in the following ongoing related party transactions, which resulted in costs to us:

- We purchase and lease products and purchase services from Dell.
- From time to time, we and Dell enter into agreements to collaborate on technology projects, and we pay Dell for services provided to us by Dell related to such projects.
- In certain geographic regions where we do not have an established legal entity, we contract with Dell subsidiaries for support services and support from Dell personnel who are managed by us. The costs incurred by Dell on our behalf related to these employees are charged to us with a mark-up intended to approximate costs that would have been incurred had we contracted for such services with an unrelated third party. These costs are included as expenses on our condensed consolidated statements of income and primarily include salaries, benefits, travel and occupancy expenses. Dell also incurs certain administrative costs on our behalf in the U.S. that are recorded as expenses on our condensed consolidated statements of income.
- In certain geographic regions, Dell files a consolidated indirect tax return, which includes value added taxes and other indirect taxes collected by us from our customers. We remit the indirect taxes to Dell, and Dell remits the tax payment to the foreign governments on our behalf.
- From time to time, we invoice end users on behalf of Dell for certain services rendered by Dell. Cash related to these services is collected from the end user by us and remitted to Dell.
- From time to time, we enter into agency arrangements with Dell that enable us to sell our subscriptions and services, leveraging the Dell enterprise relationships and end customer contracts.

Information about our payments for such arrangements during the periods presented consisted of the following (table in millions):

	Three Months Ended		Six Months Ended	
	July 31, 2020	August 2, 2019	July 31, 2020	August 2, 2019
Purchases and leases of products and purchases of services(1)	$ 45	$ 56	$ 89	$ 136
Dell subsidiary support and administrative costs	15	27	42	64

(1) Amount includes indirect taxes that were remitted to Dell during the periods presented.

We also purchase Dell products through Dell's channel partners. Purchases of Dell products through Dell's channel partners were not significant during the periods presented.

From time to time, we and Dell also enter into joint marketing, sales, branding and product development arrangements, for which both parties may incur costs.

Dell Financial Services

DFS provided financing to certain of our end users at our end users' discretion. Upon acceptance of the financing arrangement by both our end users and DFS, amounts classified as trade accounts receivable are reclassified to due from related parties, net on the condensed consolidated balance sheets. Revenue recognized on transactions financed through DFS was recorded net of financing fees. Financing fees on arrangements accepted by both parties were $18 million and $31 million during the three and six months ended July 31, 2020, respectively, and $12 million and $25 million during the three and six months ended August 2, 2019, respectively.

Tax Sharing Agreement with Dell

Payments made to Dell pursuant to the tax sharing agreement were $142 million and $167 million during the three and six months ended July 31, 2020, respectively, and $52 million and $89 million during the three and six months ended August 2, 2019, respectively.

Payments from us to Dell under the tax sharing agreement relate to our portion of federal income taxes on Dell's consolidated tax return as well as state tax payments for combined states. The timing of the tax payments due to and from related parties is governed by the tax sharing agreement. Our portion of the mandatory one-time transition tax on accumulated earnings of foreign subsidiaries (the "Transition Tax") is governed by a letter agreement between Dell, EMC Corporation and us executed during the first quarter of fiscal 2020 (the "Letter Agreement"). In December 2019, we amended the tax sharing agreement with Dell in connection with, and effective as of, the Pivotal acquisition. The tax sharing agreement with Dell, as amended and subject to certain exceptions, generally limits our maximum annual tax liability to Dell to the amount we would owe on a separate tax return basis. Subject to this cap for periods following the Pivotal acquisition, the amounts that we pay to Dell for its portion of federal income taxes on Dell's consolidated tax return differ from the amounts we would owe on a separate tax return basis and the difference is recognized as a component of additional paid-in capital, generally in the period in which the consolidated tax return is filed. The difference between the amount of tax calculated on a separate tax return basis and the amount of tax calculated pursuant to the tax sharing agreement recorded in additional paid-in capital during the three and six months ended July 31, 2020 was $45 million. The amount recognized in additional paid-in capital during the three and six months ended August 2, 2019 was $85 million, primarily due to a reduction in Transition Tax liability based on the terms of the Letter Agreement and certain tax attribute determinations made by Dell.

As a result of the activity under the tax sharing agreement with Dell, amounts due to Dell were $521 million and $529 million as of July 31, 2020 and January 31, 2020, respectively, primarily related to our estimated tax obligation resulting from the Transition Tax. We expect to pay the remainder of our Transition Tax over a period of five years.

Pivotal Tax Sharing Agreement with Dell

Pivotal continues to file its separate tax return for U.S. federal income tax purposes, as it left the Dell consolidated tax group at the time of Pivotal's IPO in April 2018. This has reduced the amount of benefit or expense received by Pivotal since the IPO to the amount of benefit or expense Dell realizes from Pivotal's inclusion on unitary state tax returns. Pursuant to a tax sharing agreement, Pivotal historically received payments from Dell for the tax benefits derived from the inclusion of its losses in certain Dell U.S. federal and state group returns. Payments received from Dell were recognized as a component of additional paid-in capital.

In April 2019, Pivotal and Dell amended their tax sharing agreement with regard to the treatment of certain U.S. Tax Cuts and Jobs Act (the "2017 Tax Act") implications not explicitly covered by the original terms of the tax sharing agreement. The amendment resulted in $27 million recognized as a component of additional paid-in capital during the six months ended August 2, 2019 and it was not material during the three months ended August 2, 2019.

Due To/From Related Parties, Net

Amounts due to and from related parties, net as of the periods presented consisted of the following (table in millions):

	July 31, 2020	January 31, 2020
Due from related parties, current	$ 1,027	$ 1,618
Due to related parties, current[(1)]	130	161
Due from related parties, net, current	$ 897	$ 1,457

[(1)] Includes an immaterial amount related to our current operating lease liabilities due to related parties.

We also recognized an immaterial amount related to non-current operating lease liabilities due to related parties. This amount has been included in operating lease liabilities on the condensed consolidated balance sheets as of July 31, 2020 and January 31, 2020.

Amounts in due from related parties, net, excluding DFS and tax obligations, include the current portion of amounts due to and due from related parties. Amounts included in due from related parties, net are generally settled in cash within 60 days of each quarter-end.

Notes Payable to Dell

As of July 31, 2020 and January 31, 2020, we had an outstanding promissory note payable to Dell in the principal amount of $270 million due December 1, 2022. The note may be prepaid without penalty or premium. Interest is payable quarterly in arrears at the annual rate of 1.75%. During the three and six months ended July 31, 2020 and August 2, 2019, interest expense on the notes payable to Dell was not significant.

Liquidity and Capital Resources

As of the periods presented, we held cash and cash equivalents as follows (table in millions):

	July 31, 2020	January 31, 2020
Cash and cash equivalents	$ 4,703	$ 2,915

Cash equivalents primarily consisted of amounts invested in money market funds. We limit the amount of our investments with any single issuer and monitor the diversity of the portfolio and the amount of investments held at any single financial institution, thereby diversifying our credit risk.

We continue to expect that cash generated by operations will be our primary source of liquidity. We also continue to believe that existing cash, cash equivalents and our borrowing capacity, together with any cash generated from operations, will be sufficient to fund our operations for at least the next twelve months. While we believe these cash sources will be sufficient to fund our operations, our overall level of cash needs may be affected by capital allocation decisions that may include the number and size of acquisitions and stock repurchases, among other things. We remain committed to a balanced capital allocation policy through investing in our product and solution offerings, acquisitions and returning capital to stockholders through share repurchases. Additionally, given the unpredictable nature of our outstanding legal proceedings, an unfavorable resolution of one or more legal proceedings, claims, or investigations could have a negative impact on our overall liquidity.

The 2017 Tax Act imposed a Transition Tax and eliminated U.S. Federal taxes on foreign subsidiary distributions. The Transition Tax was calculated on a separate tax return basis. Our unpaid liabilities related to the Transition Tax as of July 31, 2020 was $564 million, which we expect to pay over the next five years pursuant to the Letter Agreement. Actual tax payments made to Dell pursuant to the tax sharing agreement may differ materially from our total estimated tax liability calculated on a separate tax return basis. The difference between our estimated liability and the amount paid to Dell is recognized as a component of additional paid-in capital, generally in the period in which the consolidated tax return is filed.

Our cash flows summarized for the periods presented were as follows (table in millions):

	Six Months Ended	
	July 31, 2020	August 2, 2019
Net cash provided by (used in):		
Operating activities	$ 2,094	$ 2,035
Investing activities	(488)	(538)
Financing activities	185	(1,237)
Net increase in cash, cash equivalents and restricted cash	$ 1,791	$ 260

Operating Activities

Cash provided by operating activities increased by $59 million during the six months ended July 31, 2020 compared to the six months ended August 2, 2019, primarily driven by increased in cash collections due to increased sales, partially offset by cash payments for employee-related expenses, including salaries, bonuses and commissions, resulting primarily from growth in headcount, as well as increased tax payments during the six months ended July 31, 2020.

Investing Activities

Cash used in investing activities decreased by $50 million during the six months ended July 31, 2020 compared to the six months ended August 2, 2019, primarily driven by a decrease in cash used in business combinations.

Financing Activities

Cash provided by financing activities increased by $1.4 billion during the six months ended July 31, 2020 compared to the six months ended August 2, 2019. The increase was driven primarily by the net cash proceeds received from the issuance of long-term debt of $2.0 billion, as well a decrease of $726 million in repurchases of shares of our Class A common stock. These activities were partially offset by the redemption of the $1.3 billion unsecured senior note due August 21, 2020 during the six months ended July 31, 2020.

Unsecured Senior Notes

The following table summarizes the principal on our two series of unsecured senior notes issued August 21, 2017 and our three series of unsecured senior notes issued April 7, 2020 (collectively, the "Senior Notes") as of July 31, 2020 (amounts in millions):

Senior Notes issued August 21, 2017:		
2.95% Senior Note Due August 21, 2022	$	1,500
3.90% Senior Note Due August 21, 2027		1,250
Senior Notes issued April 7, 2020:		
4.50% Senior Note Due May 15, 2025		750
4.65% Senior Note Due May 15, 2027		500
4.70% Senior Note Due May 15, 2030		750
Total principal amount	$	4,750

Interest on the Senior Notes issued on April 7, 2020 is payable semiannually in arrears, on May 15 and November 15 of each year, beginning November 15, 2020. The interest rate on each note issued on April 7, 2020 is subject to adjustment based on certain rating events. Interest on the Senior Notes issued on August 21, 2017 is payable semiannually in arrears, on February 21 and August 21 of each year. During the six months ended July 31, 2020 and August 2, 2019, $61 million was paid for interest related to the Senior Notes.

The Senior Notes also contain restrictive covenants that, in certain circumstances, limit our ability to create certain liens, to enter into certain sale and leaseback transactions and to consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

On May 11, 2020, we exercised a make-whole call and redeemed the $1.3 billion unsecured senior note due August 21, 2020 at a premium. We intend to use the remaining net proceeds of the Senior Notes for general corporate purposes, including mergers and acquisitions, repayment of other indebtedness or stock repurchases.

Revolving Credit Facility

On September 12, 2017, we entered into an unsecured credit agreement establishing a revolving credit facility with a syndicate of lenders that provides us with a borrowing capacity of up to $1.0 billion, for general corporate purposes. The credit agreement contains certain representations, warranties and covenants. Commitments under the revolving credit facility are available for a period of five years, which may be extended, subject to the satisfaction of certain conditions, by up to two one-year periods. As of July 31, 2020 and January 31, 2020, there was no outstanding borrowing under the revolving credit facility.

Senior Unsecured Term Loan Facility

On September 26, 2019, we entered into the Term Loan with a syndicate of lenders that provided us with a borrowing capacity of up to $2.0 billion through February 7, 2020, for general corporate purposes. The Term Loan matures during the third quarter of fiscal 2021, on the 364th day following the initial funding under the Term Loan. The Term Loan bears interest at the London interbank offered rate plus 0.75% to 1.25%, or an alternate base rate plus 0.00% to 0.25%, depending on our external credit ratings. As of July 31, 2020, the weighted-average interest rate on the outstanding Term Loan was 1.05%.

As of July 31, 2020 and January 31, 2020, the outstanding balance on the Term Loan of $1.5 billion, net of unamortized debt issuance costs, was included in current portion of long-term debt and other borrowings on the condensed consolidated balance sheets, with no remaining amount available for additional borrowings. The Term Loan contains certain representations, warranties and covenants. Interest paid for the Term Loan was not significant during the three months ended July 31, 2020 and was $13 million during the six months ended July 31, 2020.

Note Payable to Dell

Refer to "Our Relationship with Dell" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 for disclosure regarding our note payable to Dell.

Contractual Commitments

From time to time, we enter into arrangements with minimum purchase commitments in the ordinary course of business. New material purchase commitments in fiscal 2021 have totaled $1.2 billion. Minimum payments under these new commitments as of July 31, 2020 are $250 million for fiscal 2022, $250 million for fiscal 2023 and $700 million prior to the end of fiscal 2024.

Stock Repurchase Program

From time to time, we repurchase stock pursuant to authorized stock repurchase programs in open market transactions as permitted by securities laws and other legal requirements. We are not obligated to purchase any shares under our stock repurchase programs. The timing of any repurchases and the actual number of shares repurchased depends on a variety of factors, including our stock price, cash requirements for operations and business combinations, corporate and regulatory requirements and other market and economic conditions. Purchases may be discontinued at any time we believe additional purchases are not warranted. From time to time, we also purchase stock in private transactions, such as with Dell. All shares repurchased under our stock repurchase programs are retired.

Refer to Note L to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for stock repurchase authorizations approved by our board of directors for the periods presented.

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we are required to make estimates, assumptions and judgments that affect the amounts reported on our financial statements and the accompanying disclosures. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. We base our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. These estimates may change in future periods and will be recognized in the condensed consolidated financial statements as new events occur and additional information becomes known. Actual results could differ from those estimates and any such differences may be material to our financial statements. We believe that the critical accounting policies and estimates set forth within Part II, Item 7, "Critical Accounting Policies and Estimates" of our Annual Report on Form 10-K filed on March 26, 2020 involve a higher degree of judgment and complexity in their application than our other significant accounting policies. Our senior management has reviewed our critical accounting policies and related disclosures with the Audit Committee of the Board of Directors. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

As the impact of the COVID-19 pandemic continues to evolve, estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require increased judgment. These estimates and assumptions may change in future periods and will be recognized in the condensed consolidated financial statements as new events occur and additional information becomes known. To the extent our actual results differ materially from those estimates and assumptions, our future financial statements could be affected.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical fact could be deemed forward-looking statements, and words such as "expect," "anticipate," "target," "goal," "project," "intent," "plan," "believe," "momentum," "seek," "estimate," "continue," "potential," "future," "endeavor," "will," "may," "should," "could," "depend," "predict," and variations or the negative expression of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this report include statements relating to expected industry trends and conditions; future financial performance, trends or plans; anticipated impacts of developments in accounting rules and tax laws and rates; VMware's expectations regarding the timing of tax payments and the impacts of changes in VMware's corporate structure and alignment; plans for and anticipated benefits of VMware products, services and solutions and partner and alliance relationships; plans for, timing of and anticipated impacts and benefits of corporate transactions, acquisitions, stock repurchases and investment activities; the outcome or impact of pending litigation, claims or disputes; the impact of the COVID-19 pandemic on the global economy as well as our business operations, financial performance, results of operations and stock price; future plans with respect to Dell's ownership interest in us, including any possible spin-off of its ownership to Dell stockholders and any potential related transactions such as a special cash dividend to be paid by us and the sources of funding for any such special cash dividend; and any statements of assumptions underlying any of the foregoing. These statements are based on current expectations about the industries in which VMware operates and the beliefs and assumptions of management. These forward-looking statements involve risks and uncertainties and the cautionary statements set forth above and those contained in the section of this report entitled "Risk Factors" identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof. We assume no obligation to, and do not currently intend to, update these forward-looking statements.

Available Information

Our website is located at www.vmware.com, and our investor relations website is located at http://ir.vmware.com. Our goal is to maintain the investor relations website as a portal through which investors can easily find or navigate to pertinent information about us, all of which is made available free of charge, including:

- our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file that material with or furnish it to the Securities and Exchange Commission ("SEC");
- announcements of investor conferences, speeches and events at which our executives discuss our products, services and competitive strategies;
- webcasts of our quarterly earnings calls and links to webcasts of investor conferences at which our executives appear (archives of these events are also available for a limited time);
- additional information on financial metrics, including reconciliations of non-GAAP financial measures discussed in our presentations to the nearest comparable GAAP measure;
- press releases on quarterly earnings, product and service announcements, legal developments and international news;
- corporate governance information including our certificate of incorporation, bylaws, corporate governance guidelines, board committee charters, business conduct guidelines (which constitutes our code of business conduct and ethics) and other governance-related policies;
- other news, blogs and announcements that we may post from time to time that investors might find useful or interesting; and
- opportunities to sign up for email alerts and RSS feeds to have information pushed in real time.

The information found on our website is not part of, and is not incorporated by reference into, this or any other report we file with, or furnish to, the SEC. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes to our market risk exposures during the six months ended July 31, 2020. See Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K filed on March 26, 2020 for a detailed discussion of our market risk exposures.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934, amended (the "Exchange Act"), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended July 31, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to monitor for and assess any effects that the COVID-19 pandemic may have on the design or operating effectiveness of our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Our management, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note D to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of legal proceedings. See also the risk factor entitled "We are involved in litigation, investigations and regulatory inquiries and proceedings that could negatively affect us" in Part II, Item 1A of this Quarterly Report on Form 10-Q for a discussion of potential risks to our results of operations and financial condition that may arise from legal proceedings.

ITEM 1A. RISK FACTORS

The risk factors that appear below could materially affect our business, financial condition and operating results. The risks and uncertainties described below are not the only risks and uncertainties we face. Our business is also subject to general risks and uncertainties that affect many other companies. Specific risk factors related to our status as a controlled subsidiary of Dell Technologies Inc. ("Dell") including uncertainty with respect to Dell's exploration of potential alternatives with respect to its ownership interest in us such as a spin-off that could involve a special cash dividend, overlapping business opportunities, Dell's ability to control certain transactions and resource allocations and related persons transactions with Dell and its other affiliated companies are set forth below under the heading "Risks Related to Our Relationship with Dell." These risk factors also describe specific risks related to the global COVID-19 pandemic. The impact of COVID-19 may exacerbate other risks discussed in this section which could in turn have a material adverse effect on our business operations, financial performance, results of operations and stock price. For additional information regarding the impact of COVID-19 on our business, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 of this Quarterly Report on Form 10-Q.

Risks Related to Our Business

We remain unable to predict the extent to which the global COVID-19 pandemic may adversely impact our business operations, financial performance, results of operations and stock price.

The COVID-19 pandemic and efforts to control its spread have significantly curtailed the movement of people, goods and services worldwide and caused economic downturns in the regions in which we sell our products and services and conduct our business operations. The magnitude and duration of the pandemic and the resulting decline in business activity cannot currently be estimated with any degree of certainty and threatens to (1) negatively impact the demand for our products and services, (2) restrict our sales operations and marketing efforts, (3) disrupt the supply chain of hardware needed to operate our software-as-a-service ("SaaS") offerings, offer hardware appliances that integrated with our software products or run our business, (4) adversely impact the operations of our business partners who support our technology and sales ecosystems, and (5) disrupt our ability to conduct product development and other important business activities.

In response to the COVID-19 pandemic,

- Certain industry events that we sponsor or at which we present and certain customer events have been canceled, postponed or moved to virtual-only experiences, including our annual United States ("U.S.") and regional VMworld trade shows, which have historically been our most significant marketing and customer outreach events where we annually make important new product announcements, and which have been changed to virtual-only events, and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future; and
- In addition, substantially all of our employees worldwide have worked remotely for an extended period of time, and while we have re-opened some of our facilities and we expect to gradually re-open additional facilities with appropriate social distancing and health practices when and as permitted by local governmental authorities, we are allowing most employees to work from home for the foreseeable future until they feel it is safe to return to their workplaces.

While the COVID-19 pandemic has not had a material adverse financial impact on our operations to date, we expect the COVID-19 pandemic to have a negative impact on our sales and our results of operations in future periods, the size and duration of which we remain unable to predict. For example, license revenue decreased during the six months ended July 31, 2020 due in part to the effects of COVID-19. During the three months ended July 31, 2020, a number of on-premises projects for our customers in the Americas experienced a slowdown that we believe is largely due to COVID-19, which negatively impacted our product sales, including core software-defined data center ("SDDC"), VMware vSAN ("vSAN") and NSX.

Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets, which has and may continue to adversely impact our stock price and our ability to access the equity or debt capital markets on attractive terms or at all for a period of time, which could have an adverse effect on our liquidity position.

Our success depends increasingly on customer acceptance of our newer products and services.

Our products and services are primarily based on server virtualization and related compute technologies used for virtualizing on-premises data center servers, which form the foundation for private cloud computing. As the market for server virtualization continues to mature, the rate of growth in license sales of VMware vSphere ("vSphere") has declined. We are increasingly directing our product development and marketing efforts toward products and services that enable businesses to utilize virtualization as the foundation for private, public, hybrid and multi-cloud-based computing and mobile computing, including our vSphere-based SDDC products such as vRealize management, vSAN storage virtualization, NSX virtual networking, as well as our Horizon client virtualization, Unified Endpoint Management mobile device management, and our managed subscription services such as VMware Cloud on AWS, VMware Cloud on AWS Outposts and our VMware Cloud on Dell EMC. In October 2019, we completed the acquisition of Carbon Black, Inc. ("Carbon Black"), which will form the nucleus of VMware's new set of enterprise security solutions focused on helping to provide advanced cybersecurity protection to customers. We have also been introducing SaaS versions of our on-premises products, including VMware Workspace ONE ("Workspace ONE") offerings, and investing in a range of SaaS and cloud-native technologies and products, including those acquired through our Heptio Inc., CloudHealth Technologies, Inc., and VeloCloud Networks, Inc. and Pivotal Software, Inc. ("Pivotal") acquisitions. These cloud and SaaS initiatives present new and difficult technological, operational and compliance challenges, and significant investments continue to be required to develop or acquire solutions to address those challenges. Our success depends on our current and future customers perceiving technological and operational benefits and cost savings associated with adopting our private, public, hybrid and multi-cloud solutions and our client virtualization and mobile device management solutions. As the market for our server virtualization products continues to mature, and the scale of our business continues to increase, our rate of revenue growth increasingly depends upon the success of our newer product and service offerings. To the extent that adoption rates for our newer products and services are not sufficient to offset declines in revenue growth for our established server virtualization offerings, our overall revenue growth rates may slow materially or our revenue may decline substantially. Additionally, we may fail to realize returns on our investments in new initiatives and our operating results could be materially adversely affected.

A significant decrease in demand for our server virtualization products would adversely affect our operating results.

A significant portion of our revenue is derived, and will for the foreseeable future continue to be derived, from our server virtualization products. As more businesses achieve high levels of virtualization in their data centers, the market for our vSphere product continues to mature. Additionally, as businesses increasingly utilize public cloud and SaaS-based offerings, they are building more of their new compute workloads off-premises and are increasingly shifting some of their existing and many of their new workloads to public cloud providers, thereby limiting growth, and potentially reducing the market for on-premises deployments of vSphere. Although sales of vSphere have declined as a portion of our overall business, and we expect this trend to continue, vSphere remains key to our future growth as it serves as the foundation for our newer SDDC, network virtualization and our newer subscription and SaaS offerings. Although we have launched, and are continuing to develop, products to extend our vSphere-based SDDC offerings to the public cloud, due to our product concentration, a significant decrease in demand for our server virtualization products would adversely affect our operating results.

We face intense competition that could adversely affect our operating results.

The virtualization, container, cloud computing, end-user computing, security and software-defined data center industries are interrelated and rapidly evolving, and we face intense competition across all the markets for our products and services. Many of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than we do. Additionally, the adoption of public cloud, micro-services, containers, and open source technologies has the potential to erode our profitability.

We face competition from, among others:

Providers of public cloud infrastructure and SaaS-based offerings. As businesses increasingly utilize public cloud and SaaS-based offerings, they are building more of their new compute workloads off-premises and may also shift some of their existing workloads. As a result, the demand for on-premises information technology ("IT") resources is expected to slow, and our products and services will need to increasingly compete for customers' IT workloads with off-premises public cloud and SaaS-based offerings. If our private, hybrid and multi-cloud products and services fail to address evolving customer requirements, the demand for VMware's virtualization products and services may decline, and we could experience lower growth. Additionally, VMware Cloud Provider Program ("VCPP") offerings from our partners may compete directly with infrastructure-as-a-service ("IaaS") offerings from various public cloud providers such as Amazon Web Services ("AWS") and Microsoft. Many of these cloud providers are partnering with on-premises hardware vendors to deliver their cloud platform as an on-premises solution, including AWS Outposts and Azure Stack. In fiscal 2018, we entered into a strategic alliance with AWS to deliver a vSphere-based cloud service, VMware Cloud on AWS, running in AWS data centers available in certain geographies. In fiscal 2020, we also announced partnerships with Microsoft (Azure VMware Solution by CloudSimple), Google (Google Cloud VMware Solution by CloudSimple), and Oracle (Oracle Cloud VMware Solution) under the framework of our VCPP that enable customers to run native VMware-based workloads on Azure, Google Cloud, and Oracle Cloud. Our partnerships with these public cloud providers may be seen as competitive with each other, with other VCPP partners and with AWS, while some partners may elect to include solutions such as VMware Cloud on AWS as part of their managed services provider offerings. In addition, in November 2018, when AWS announced AWS Outposts, we extended our collaboration with AWS by previewing offerings that will run on AWS Outposts, currently available to try as part of the VMware Cloud on AWS Outposts Beta program. To the extent customers choose to operate native AWS environments (or similar non-VMware environments, such as Azure Stack) in their data centers in lieu of purchasing VMware's on-premises and hybrid and multi-cloud products, our operating results could be materially adversely affected.

Providers of enterprise security offerings. With the close of VMware's acquisition of Carbon Black in October 2019, we launched a new set of enterprise security solutions that includes the Carbon Black endpoint security platform and the intrinsic security elements of our existing NSX virtual networking, Workspace ONE end user and our compute offerings. The cybersecurity market is large, highly competitive, fragmented and subject to rapidly evolving technology, shifting customer needs and the frequent introductions of new solutions. Competitors in the end point security space include legacy antivirus solution providers such as McAfee and NortonLifeLock established software and infrastructure providers such as Blackberry Limited (after purchasing Cylance, Inc.) and Microsoft as well as next-generation endpoint security providers such as CrowdStrike. In addition, new startup companies and established companies have entered or are currently attempting to enter the next-generation endpoint security market. While we believe that the intrinsic security elements in our existing offerings coupled with our Carbon Black endpoint security offerings and new combined offerings we expect to develop and introduce in the future will enable us to provide an integrated security offering with significant advantages over our competitors' current offerings, our ability to gain traction and market share as a new entrant into this well-established market segment is uncertain. If our efforts to enter the enterprise security market segment are unsuccessful, our operating results could be materially adversely affected.

Large, diversified enterprise software and hardware companies. These competitors supply a wide variety of products and services to, and have well-established relationships with, our current and prospective end users. For example, small- to medium-sized businesses and companies in emerging markets that are evaluating the adoption of virtualization-based technologies and solutions may be inclined to consider Microsoft solutions because of their existing use of Windows and Office products. Some of these competitors have in the past and may in the future take advantage of their existing relationships to engage in business practices that make our products and services less attractive or more expensive to our end users. For example, in August 2019, Microsoft modified its on-premises licensing terms to require end users who wish to deploy Microsoft software on certain dedicated hosted cloud services other than Microsoft's Azure cloud service, including VMware Cloud on AWS, to purchase additional rights from Microsoft. Other competitors have limited or denied support for their applications running in VMware virtualization environments. In addition, these competitors could integrate competitive capabilities into their existing products and services and make them available without additional charge. For example, Oracle provides free server virtualization software intended to support Oracle and non-Oracle applications, Microsoft offers its own server, network, and storage virtualization software packaged with its Windows Server product as well as built-in virtualization in the client version of Windows and Cisco includes network virtualization technology in many of their data center networking platforms. As a result, existing and prospective VMware customers may elect to use products that are perceived to be "free" or "very low cost" instead of purchasing VMware products and services for certain applications where they do not believe that more advanced and robust capabilities are required.

Companies offering competing platforms based on open source technologies. Open source technologies for virtualization, containerization and cloud platforms, such as Xen, KVM, Docker, rkt, OpenShift, Mesos, Kubernetes and OpenStack, and other open source software-based products, solutions and services developed by enterprise IT vendors that target data center virtualization and private cloud, such as Red Hat (now a part of IBM) and Nutanix, may reduce the demand for our solutions, put pricing pressure on our offerings and enable competing vendors to leverage open source technologies to compete directly with us. In addition, one of the characteristics of open source software is that, subject to specified restrictions, anyone may modify and redistribute existing open source software and use it to compete in the marketplace. Such competition can develop with a smaller degree of overhead and lead time than traditional proprietary software companies require. New platform technologies and standards based on open source software are consistently being developed and can gain popularity quickly. Improvements in open source software could cause customers to replace software purchased from us with open-source software. VMware is delivering container technologies and Cloud Native Application technologies portfolio with VMware Tanzu. We have also increased our level of commitment to open source projects and communities like the Cloud Native Computing Foundation that are designed to increase the rate at which customers adopt micro-services architectures. The adoption of distributed micro-service application architectures, and their alignment with container technologies, represents an emerging area of competition. As we continue to invest in these areas, we will experience increasing competitive overlap with other cloud native vendors like Red Hat and the large providers of public cloud infrastructure. Such competitive pressure or the availability of new open source software may result in reduced sales, increasing pricing pressure, increased sales and marketing expenses and lower operating margins, any one of which may adversely affect our operating results.

Other industry alliances. Many of our competitors have entered into or extended partnerships or other strategic relationships to offer more comprehensive virtualization and cloud computing solutions than they individually had offered. We expect these trends to continue as companies attempt to strengthen or maintain their positions in the evolving virtualization infrastructure and enterprise IT solutions industry. These alliances may result in more compelling product and service offerings than we offer.

Our partners and members of our developer and technology partner ecosystem. We face competition from our partners. For example, third parties currently selling our products and services could build and market their own competing products and services or market competing products and services of other vendors. Additionally, as formerly distinct sectors of enterprise IT such as software-based virtualization and hardware-based server, networking and storage solutions converge, we also increasingly compete with companies who are members of our developer and technology partner ecosystem. For example, in July 2019, one of our important partners and customers, IBM, closed its acquisition of Red Hat, one of our competitors in the cloud native applications space. Consequently, we may find it more difficult to continue to work together productively on other projects, and the advantages we derive from our ecosystem could diminish.

This competition could result in increased pricing pressure and sales and marketing expenses, thereby materially reducing our operating margins, and could also prevent our new products and services from gaining market acceptance, thereby harming our ability to increase, or causing us to lose, market share.

Competition for our target employees is intense and costly, and we may not be able to attract and retain highly skilled employees.

To execute on our strategy, we must continue to attract and retain highly qualified personnel. Competition for these personnel is intense, especially for senior sales executives and engineers with significant experience designing and developing software and cloud-based offerings. We may not be successful in attracting and retaining qualified personnel. We have experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. Research and development personnel are also aggressively recruited by startup and emerging growth companies, which are especially active in many of the technical areas and geographic regions in which we conduct product and service development. Competition for our key personnel results in increased costs in the form of cash and stock-based compensation and can have a dilutive impact on our stock. Additionally, changes in immigration and work permit laws and regulations or the administration or interpretation of such laws or regulations could impair our ability to attract and retain highly qualified employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could suffer.

Adverse economic conditions may harm our business.

Our business depends on the overall demand for IT and on the economic health of our current and prospective customers. The purchase of our products and services is often discretionary and may involve a significant commitment of capital and other resources. Weak economic conditions or significant uncertainty regarding the stability of financial markets, including as a result of volatility in the stock market, changes in tariffs and trade agreements or the imposition of fines or government sanctions, could adversely impact our business, financial condition and operating results in a number of ways, including by lengthening sales cycles, affecting the size of enterprise agreements (“EAs”) that customers will commit to, reducing the level of our non-EA transactional sales, lowering prices for our products and services, reducing unit sales and reducing the rate of adoption of our products and services by new customers and the willingness of current customers to purchase upgrades to our existing products and services. For example, the COVID-19 pandemic has depressed economic activity worldwide and the timing and strength of an economic recovery is highly uncertain and likely to vary significantly by region. Additionally, a recurrence of the sovereign debt crisis in Europe and repercussions from the United Kingdom’s (“U.K.”) exit from the European Union (“EU”) (“Brexit”) would threaten to suppress demand and our customers’ access to credit in that region which is an important market for our products and services. In addition, political and economic instability created by COVID-19, Brexit and trade tensions between the U.S. and its trading partners have caused and may continue to cause significant volatility in global financial markets. In response to sustained economic uncertainty, many national and local governments that are current or prospective customers for our products and services, including the U.S. federal government, may need to make significant changes in their spending priorities, which could reduce the amount of government spending on IT and the potential demand for our products and services from the government sector.

Regional economic uncertainty can also result in general and ongoing tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy and significant volatility in the credit, equity and fixed income markets. Changes in governmental fiscal, monetary and tax policies may also impact interest rates on credit and debt, which have been at relatively low levels for several years. Additionally, the business downturn caused by the COVID-19 pandemic is likely to adversely impact the businesses and financial health of many of our customers and hurt their creditworthiness. As a result, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services. Increases in our cost of borrowing could also impact our ability to access capital markets should we wish to raise additional funding for business investments, which could adversely affect our ability to repay or refinance our outstanding indebtedness, fund future product development and acquisitions or conduct stock buybacks.

The loss of key management personnel could harm our business.

We depend on the continued services of key management personnel. We generally do not have employment or non-compete agreements with our employees, and, therefore, they could terminate their employment with us at any time without penalty and could pursue employment opportunities with any of our competitors. In addition, we do not maintain any key-person life insurance policies. The loss of key management personnel could harm our business.

We may not be able to respond to rapid technological changes with new solutions and services offerings.

The software-defined data center, hybrid and multi-cloud computing and end-user computing industries are characterized by rapid technological change, changing customer needs, frequent new software product introductions and evolving industry standards. The introduction of third-party solutions embodying new technologies and the emergence of new industry standards could make our existing and future software solutions obsolete and unmarketable. Cloud computing has proven to be a disruptive technology that is altering the way that businesses consume, manage and provide physical IT resources, applications, data and IT services. We may not be able to establish or sustain our thought leadership in the cloud computing and enterprise software fields, and our customers may not view our products and services as cost effective, innovative and best-of-breed, which could result in a reduction in market share and our inability to command a pricing premium over competitor products and services. We may not be able to develop updated products and services that keep pace with technological developments and emerging industry standards, that address the increasingly sophisticated needs of our customers or that interoperate with new or updated operating systems and hardware devices. We may also fail to adequately anticipate and prepare for the commercialization of emerging technologies such as blockchain and the development of new markets and applications for our technology such as the Internet of Things and “edge” computing and thereby fail to take advantage of new market opportunities or fall behind early movers in those markets.

Our ability to react quickly to new technology trends and customer requirements is negatively impacted by the length of our development cycle for new products and services and product and service enhancements, which has frequently been longer than we originally anticipated. This is due in part to the increasing complexity of our product offerings as we increase their interoperability, and enable and maintain their compatibility with multiple IT resources such as public clouds utilized by our customers, which can significantly increase the development time and effort necessary to achieve the interoperability of our offerings while maintaining product quality. When we release significant new versions of our existing offerings, the complexity of our products may require existing customers to remove and replace prior versions in order to take full advantage of substantial new features and capabilities, which may subdue initial demand for the new versions or, conversely, depress demand for existing versions until the customer is ready to purchase and install the newest release. If we are unable to evolve our solutions and offerings in time to respond to and remain ahead of new technological developments, our ability to retain or increase market share and revenue in the software-defined data center, hybrid and multi-cloud computing and end-user computing industries could be materially adversely affected. With respect to our SDDC products, if we fail to introduce compelling new features in future upgrades to our vSphere product line, manage the transition to hybrid and multi-cloud platforms, develop new or tightly integrate existing applications for our virtualization technology that address customer requirements for integration, automation and management of their IT systems with public cloud resources, overall demand for products and services based on vSphere may decline. Additionally, if we fail to realize returns on investments in our newer NSX virtual networking, hyperconverged infrastructure, subscription and SaaS, and edge computing initiatives as well as our recently launched enterprise security and modern applications platform solutions, our operating margins and results of operations will be adversely impacted.

Breaches of our cybersecurity systems or the systems of our vendors, partners and suppliers could seriously harm our business.

We depend upon our IT systems and the systems of SaaS providers to conduct virtually all of our business operations, ranging from our internal operations and product development activities to our marketing and sales efforts and communications with our customers and business partners. Consequently, cyber risks represent a large and growing risk to our business. We are increasingly developing and maintaining large data sets and relying on machine learning, artificial intelligence and analytics to provide services to our customers and partners. Unauthorized parties (which may have included nation states and individuals sponsored by them) have penetrated our network security and our website in the past and such unauthorized parties may do so in the future. Employees or contractors have introduced vulnerabilities in, and enabled the exploitation of, our IT environments in the past and may do so in the future. The COVID-19 pandemic has forced most or all of our employees to shift to work-from-home arrangements, which further increases our vulnerability to email phishing, social engineering and similar cyber-attacks aimed at employees and contractors working remotely. These cyber-attacks, which are increasing in number and technical sophistication, threaten to misappropriate our proprietary information, cause interruptions of our IT services and commit fraud. Because the techniques used by unauthorized persons to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these tactics. Further, if unauthorized access or sabotage remains undetected for an extended period of time, the effects of such breach could be exacerbated. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of our systems and processes. Our exposure to cybersecurity threats and negative consequences of cybersecurity breaches will likely increase as our customers conduct more purchase and service transactions online, and as we store increasing amounts of customer data and host or manage parts of customers' businesses in cloud-based IT environments. Additionally, with our recent acquisition of endpoint security provider Carbon Black and the launch of our new set of enterprise security solutions, our products may be targeted by computer hackers seeking to compromise product security.

We are increasingly being targeted for financial gain and fraud by criminal entities. Utilizing techniques such as email, telephone and postal mail solicitation, criminals seek to extort or steal funds from companies and employees. We have also outsourced a number of our business functions to third parties, and we rely upon distributors, resellers, system vendors and systems integrators to sell our products and services. Accordingly, if our cybersecurity systems and those of our contractors, partners and vendors fail to protect against breaches, our ability to conduct our business could be damaged in a number of ways, including:

- sensitive data regarding our business, including intellectual property and other proprietary data, could be stolen;
- our electronic communications systems, including email and other methods, could be disrupted, and our ability to conduct our business operations could be seriously damaged until such systems can be restored and secured;
- our ability to process customer orders and electronically deliver products and services could be degraded, and our distribution channels could be disrupted, resulting in delays in revenue recognition;
- defects and security vulnerabilities could be exploited or introduced into our software products or our subscription and SaaS offerings and impair or disrupt their availability, thereby damaging the reputation and perceived reliability and security of our products and services and potentially making the data systems of our customers vulnerable to further data loss and cyber incidents; and
- personally identifiable or confidential data of our customers, employees and business partners could be stolen or lost.

Should any of the above events occur, or are perceived to have occurred, we could be subject to significant claims for liability from our customers, partners, vendors, or employees (among others), we could face regulatory actions and sanctions from governmental agencies under privacy, data protection or other laws, our ability to protect our intellectual property rights could be compromised, our reputation and competitive position could be materially harmed, we could face material losses as the result of successful financial cyber-fraud schemes and we could incur significant costs in order to upgrade our cybersecurity systems, remediate damages, and defend the Company in any legal, regulatory, or legislative proceedings. Consequently, our business, financial condition and operating results could be materially adversely affected.

Our operating results may fluctuate significantly.

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and our past results should not be relied upon as an indication of our future performance. In addition, a significant portion of our quarterly sales typically occurs during the last two weeks of the quarter, which generally reflects customer buying patterns for enterprise technology. As a result, our quarterly operating results are difficult to predict even in the near term. If our revenue or operating results fall below the expectations of investors or securities analysts or below any guidance we may provide to the market, the price of our Class A common stock would likely decline substantially.

Factors that may cause fluctuations in our operating results include, among others, the factors described elsewhere in this risk factors section and the following:

- fluctuations in demand, adoption rates, sales cycles and pricing levels for our products and services;
- variations in customer choices among our on-premises and subscription and SaaS offerings, which can impact our rates of total revenue and license revenue growth;
- changes in customers' budgets for information technology purchases and in the timing of their purchasing decisions;
- the timing of announcements or releases of new or upgraded products and services by us or by our competitors;
- the timing and size of business realignment plans and restructuring charges;
- our ability to maintain scalable internal systems for reporting, order processing, license fulfillment, product delivery, purchasing, billing and general accounting, among other functions;

- our ability to control costs, including our operating expenses;
- the credit risks associated with our distributors, who account for a significant portion of our product revenue and accounts receivable, and our customers;
- the timing of when sales orders are processed, which can cause fluctuations in our backlog and impact our bookings and timing of revenue recognition;
- seasonal factors such as the end of fiscal period budget expenditures by our customers and the timing of holiday and vacation periods;
- renewal rates and the amounts of the renewals for EAs as original EA terms expire;
- the timing and amount of internally developed software development costs that may be capitalized;
- unplanned events that could affect market perception of the quality or cost-effectiveness of our products and solutions;
- increased volatility in the provision for income taxes in periods in which transfers of intellectual property between our legal entities occur;
- fluctuations in the severity and duration of the COVID-19 pandemic and resulting restrictions on business activity which may vary significantly by region; and
- our ability to accurately predict the degree to which customers will elect to purchase our subscription-based offerings in place of licenses to our on-premises offerings.

Acquisitions and divestitures could harm our business and operating results.

We have acquired in the past, and plan to acquire in the future, other businesses, products or technologies. In October 2019, we completed our acquisition of Carbon Black, and, in December 2019, we completed our acquisition of Pivotal. We also from time to time sell or divest businesses, products and technologies. Acquisitions and divestitures involve significant risks and uncertainties, which include:

- disrupting our ongoing operations and diverting management from day-to-day responsibilities;
- increasing our expenses, and adversely impacting our business, financial condition and operating results, including, for example, the dilutive impact on our operating margin and earnings per share that we expect from our acquisitions of Carbon Black and Pivotal;
- the costs of integrating business operations and on-boarding personnel, particularly for larger acquisitions such as Carbon Black and Pivotal;
- failure of an acquired business to further our business strategy;
- uncertainties in achieving the expected benefits of an acquisition or disposition, including enhanced revenue, technology, human resources, cost savings, operating efficiencies and other synergies;
- reducing cash available for operations, stock repurchase programs and other uses and resulting in potentially dilutive issuances of equity securities or the incurrence of additional debt;
- incurring amortization expense related to identifiable intangible assets acquired that could impact our operating results;
- difficulty integrating the operations, systems, technologies, products and personnel of acquired businesses effectively;
- the need to provide transition services in connection with a disposition that may result in the diversion of resources and focus;
- difficulty achieving expected business results due to a lack of experience in new markets, products or technologies or the initial dependence on unfamiliar distribution partners or vendors;
- retaining and motivating key personnel from acquired companies;
- declining employee morale and retention issues affecting employees of businesses that we acquire or dispose of, which may result from changes in compensation, or changes in management, reporting relationships, future prospects or the direction of the acquired or disposed business;
- assuming the liabilities of an acquired business, including acquired litigation-related liabilities and regulatory compliance issues, and potential litigation or regulatory action arising from a proposed or completed acquisition;
- lawsuits resulting from an acquisition or disposition;

- maintaining good relationships with customers or business partners of an acquired business or our own customers as a result of any integration of operations or the divestiture of a business upon which our customers rely;
- unidentified issues not discovered during the diligence process, including issues with the acquired or divested business's intellectual property, product quality, security, privacy practices, accounting practices, regulatory compliance or legal contingencies;
- maintaining or establishing acceptable standards, controls, procedures or policies with respect to an acquired business;
- risks relating to the challenges and costs of closing a transaction;
- the accounting consequences of certain acquisitions, which may vary by deal structure; and
- the need to later divest acquired assets at a loss if an acquisition does not meet our expectations.

We are exposed to foreign exchange risks.

Because we conduct business in currencies other than the U.S. dollar but report our operating results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. For example, political and economic instability created by Brexit has resulted in significant volatility in the value of the British pound and other currencies including the euro, while the impact of the COVID-19 pandemic may introduce further volatility as the ability to control the pandemic and implement sustained economic recoveries may vary significantly from country to country. During the six months ended July 31, 2020, approximately 30% of our sales were invoiced and collected in non-U.S. dollar denominated currencies. The realized gain or loss on foreign currency transactions is dependent upon the types of foreign currency transactions that we enter into, the exchange rates associated with these transactions and changes in those rates, the net realized gain or loss on our foreign currency forward contracts, and other factors. Although we hedge a portion of our foreign currency exposure, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies have adversely affected, and may adversely affect in the future, our operating results. The financial uncertainty introduced by the COVID-19 pandemic may make it more difficult for us to accurately forecast future transactions in foreign currencies and cause us to have to modify hedging positions, thereby adversely impacting the efficacy of our foreign currency hedging strategy and our operating results. Any future weakening of foreign currency exchange rates against the U.S. dollar would likely result in additional adverse impact on our revenue.

We operate a global business that exposes us to additional risks.

Our international activities account for a substantial portion of our revenue and profits, a substantial portion of our employees work in non-U.S locations, and we plan to further expand internationally. In addition, our investment portfolio includes investments in non-U.S. financial instruments and holdings in non-U.S. financial institutions, including European institutions. In addition to the risks described elsewhere in these risk factors, our international operations subject us to a variety of risks, including:

- difficulties in enforcing contracts and collecting accounts receivable and longer payment cycles, especially in emerging markets;
- difficulties in delivering support, training and documentation in certain foreign markets;
- tariffs and trade barriers, which could increase due to the current geopolitical climate, and other regulatory or contractual limitations on our ability to sell or develop our products and services in certain foreign markets;
- changes and instability in government policies and international trade arrangements that could adversely affect the ability of U.S.-based companies to conduct business in non-U.S. markets;
- economic or political instability and security concerns in countries that are important to our international sales and operations;
- difficulties in transferring funds from certain countries;
- increased compliance risks, particularly in emerging markets; and
- difficulties in maintaining appropriate controls relating to revenue recognition practices.

For example, we currently comply with a number of EU regulations that govern our sales, facilities and employees located in the U.K. There continues to be considerable regulatory uncertainty regarding the impact of Brexit on the laws and regulations that we will need to comply with in the U.K. post-Brexit.

Another example is the ongoing efforts of the Chinese government to more closely regulate network security. In that respect, a Cyber Security Law came into effect on June 1, 2017. The Cyber Security Law promotes utilization of "secure and reliable" network products and services, requires the sale of certain key network equipment and network security products to be subject to security certification, and imposes data localization measures and various network security measures relevant to a vaguely-defined scope of "critical information infrastructure." Among those network security measures is a requirement that network products and services procured by operators of "critical information infrastructure" that might affect national security undergo a formal security assessment. Implementing measures governing this security assessment came into effect on June 1, 2020. Draft regulations contemplate more far-reaching data localization measures, which would require a security assessment be conducted for any business in China and not merely operators of critical information infrastructure to share personal information or a vaguely-defined scope of "important information" with overseas parties. On July 3, 2020, China's legislature released a first draft of additional legislation, a Data Security Law, that has the potential to further regulate a broad range of "data activities," a term that covers collection, storage, processing, use, provision and publication of, and the conduct of transactions in relation to, data.

Also, on January 1, 2016, an Anti-Terrorism Law came into effect in China that gives local public security and state security authorities the broad discretionary authority to require companies to provide access to their equipment and decryption support in particular cases. Failure to comply with such requests can result in fines and imprisonment. In addition, a broad range of businesses are required to verify the identities of customers and are prohibited from providing services to customers whose identities are unclear or who refuse to cooperate in the verification process. If we are not able to, or choose not to, comply with these and other information and network security standards that the Chinese government might implement in the future, our business in China may suffer.

There is also significant uncertainty about the future relationship between the U.S. and various other countries, most significantly China, with respect to trade policies, treaties, government regulations, sanctions and tariffs. The current U.S. presidential administration is pursuing substantial changes to U.S. foreign trade policy with respect to China, the EU, Mexico and other countries, including the possibility of imposing greater restrictions on international trade, restrictions on sales and technology transfers, including with those countries and companies determined to be involved in activities contrary to the national security or foreign or economic policy interests of the U.S., and significant increases of tariffs on goods imported into the U.S. Given the relatively fluid regulatory environment in both China and the U.S. and uncertainty regarding how the U.S. and foreign governments, most particularly China, will act with respect to tariffs, international trade agreements and policies and national security interests, a trade war, further governmental action related to tariffs or international trade policies, or additional tax or other regulatory changes or enforcement practices could occur in the future that could directly and adversely impact our financial results and results of operations.

Furthermore, if we fail to comply with U.S. legal and regulatory requirements governing the foreign activities of U.S. corporations, such as export control requirements and the Foreign Corrupt Practices Act, or with local regulatory requirements in non-U.S. jurisdictions, we may be exposed to significant fines and penalties and reputational harm. These risks will increase as we expand our operations in locations with a higher incidence of corruption and fraudulent business practices.

In addition, network security concerns could make foreign customers reluctant to purchase products and services from U.S.-based technology companies and impair our growth rate in foreign markets.

Our failure to manage any of these risks successfully could negatively affect our reputation and adversely affect our operating results.

We have outstanding indebtedness in the form of unsecured notes and may incur other debt in the future, which may adversely affect our financial condition and future financial results.

We have $4.8 billion in unsecured notes outstanding as well as an additional unsecured promissory note with an outstanding principal amount of $270 million owed to Dell. We also have a $1.0 billion unsecured revolving credit facility, which is currently undrawn, and a $2.0 billion senior unsecured 364-day term loan facility, which, as of July 31, 2020, had an outstanding balance of $1.5 billion (collectively, the "Credit Facilities").

Additionally, in July 2020, Dell announced that it was exploring its strategic alternatives with respect to its ownership interest in us, including a possible spin-off of its ownership interest to Dell stockholders, and that as part of that exploration it also expected to explore certain terms and conditions that could include negotiating a special cash dividend to be paid by VMware on a pro rata basis to all VMware stockholders that VMware would fund, in part, through the incurrence of additional indebtedness.

Our current and any future debt may adversely affect our financial condition and future financial results by, among other things:

- requiring the dedication of a portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of expected cash flow available for other purposes, including capital expenditures and acquisitions; and
- limiting our flexibility in planning for, or reacting to, changes in our business and our industry.

The terms of our unsecured notes and Credit Facilities impose restrictions on us and require us to maintain compliance with specified and customary covenants. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. If we breach any of the covenants and do not obtain a waiver from the lenders or note holders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

In addition, any actual or anticipated changes to our credit ratings, including any announcement that our credit ratings are under review by any rating agency, may negatively impact the value and liquidity of both our debt and equity securities. Under certain circumstances, if our credit ratings are downgraded or other negative action is taken, the interest rate payable by us and the cost of borrowing under our Credit Facilities could increase. Downgrades in our credit ratings could also affect the terms of and restrict our ability to obtain additional financing in the future. In addition, upon the occurrence of certain downgrades of the ratings of our unsecured notes, we may be required to repurchase our unsecured notes at a repurchase price equal to 101% of the aggregate principal plus any accrued and unpaid interest on the date of purchase.

Additionally, our parent company, Dell, currently has a significant level of debt financing. Accordingly, negative changes to Dell's credit rating could also negatively impact our credit rating and the value and liquidity of any future debt we might raise. Refer to "Liquidity and Capital Resources" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 of this Quarterly Report on Form 10-Q for more information on our outstanding indebtedness.

Our current research and development efforts may not produce significant revenue for several years, if at all.

Developing our products and services is expensive. In particular, developing and launching disruptive technologies in new areas, as we are continuing to do with our NSX virtual networking, hyperconverged infrastructure, subscription and SaaS, security and modern applications platform initiatives, requires significant investments of resources and often entails greater risk than incremental investments in existing products and services. Our investment in research and development may not result in marketable products or services or may result in products and services that generate less revenue than we anticipate. Our research and development expenses were approximately 24% of our total revenue during the six months ended July 31, 2020. Our future plans include significant investments in software research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we may not receive significant revenue from these investments for several years, if at all.

We are involved in litigation, investigations and regulatory inquiries and proceedings that could negatively affect us.

From time to time, we are involved in various legal, administrative and regulatory proceedings, claims, demands and investigations relating to our business, which may include claims with respect to commercial, product liability, intellectual property, securities, cybersecurity, privacy, data protection, antitrust, breach of contract, employment, class action, whistleblower, mergers and acquisitions and other matters. In the ordinary course of business, we also receive inquiries from and have discussions with government entities regarding the compliance of our contracting, finance, and sales practices with laws and regulations.

We have been, and expect to continue to be, subject to intellectual property infringement claims, including claims by entities that do not have operating businesses of their own and therefore may limit our ability to seek counterclaims for damages and injunctive relief. In addition to monetary judgments, a judgment could also include an injunction or other court order that could prevent us from offering our products. In addition, we might be required to seek a license for the use of such intellectual property, which may not be available on commercially reasonable terms or at all. Alternatively, we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Third parties may also assert infringement claims against our customers and channel partners, which could require us to initiate or defend potentially protracted and costly litigation on their behalf, regardless of the merits of these claims, because we generally indemnify our customers and partners from claims of infringement of proprietary rights of third parties in connection with the use of our products. These matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Allegations made in the course of regulatory or legal proceedings may also harm our reputation, regardless of whether there is merit to such claims. Furthermore, because litigation and the outcome of regulatory proceedings are inherently unpredictable, our business, financial condition or operating results could be materially affected by an unfavorable resolution of one or more of these proceedings, claims, demands or investigations.

Refer to Note D to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of certain claims and litigation.

We may not be able to adequately protect our intellectual property rights.

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. As such, despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to prevent misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the U.S. In addition, we rely on confidentiality and license agreements with third parties in connection with their use of our products and technology. There is no guarantee that such parties will abide by the terms of such agreements or that we will be able to adequately enforce our rights, in part because we rely on "click-wrap" and "shrink-wrap" licenses in some instances.

Detecting and protecting against the unauthorized use of our products, technology proprietary rights and intellectual property rights is expensive, difficult, uncertain and, in some cases, impossible. Litigation is necessary from time to time to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property, which could result in a substantial loss of our market share.

Our use of "open source" software in our products could negatively affect our ability to sell our products and subject us to litigation.

Many of our products and services incorporate so-called "open source" software, and we may incorporate open source software into other products and services in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. Open source licensors generally do not provide warranties or assurance of title or controls on origin of the software, which exposes us to potential liability if the software fails to work or infringes the intellectual property of a third party.

We monitor our use of open source software in an effort to avoid subjecting our products to conditions we do not intend and avoid exposing us to unacceptable financial risk. However, the processes we follow to monitor our use of open source software could fail to achieve their intended result. In addition, although we believe that we have complied with our obligations under the various applicable licenses for open source software that we use, there is little or no legal precedent governing the interpretation of terms in most of these licenses, which increases the risk that a court could interpret the licenses differently than we do.

From time to time, we receive inquiries or claims from authors or distributors of open source software included in our products regarding our compliance with the conditions of one or more open source licenses. An adverse outcome to a claim could require us to:

- pay significant damages;
- stop distributing our products that contain the open source software;
- revise or modify our product code to remove alleged infringing code;
- release the source code of our proprietary software; or
- take other steps to avoid or remedy an alleged infringement.

We have faced and successfully defended against allegations of copyright infringement and failing to comply with the terms of the open source General Public License v.2, but we can provide no assurances that we will not face similar lawsuits with respect to our use of open source software in the future, nor what the outcome of any such lawsuits may be.

The evolution of our business requires more complex go-to-market strategies, which involve significant risk.

Our increasing focus on developing and marketing IT management and automation and IaaS (including software-defined networking, VCPP-integrated virtual desktop and mobile device, cloud and SaaS) offerings that enable customers to transform their IT systems requires a greater focus on marketing and selling product suites and more holistic solutions, rather than selling on a product-by-product basis. Consequently, we have developed, and must continue to develop, new strategies for marketing and selling our offerings. In addition, marketing and selling new technologies to enterprises requires significant investment of time and resources in order to educate customers on the benefits of our new product offerings. These investments can be costly and the additional effort required to educate both customers and our own sales force can distract from their efforts to sell existing products and services. From time to time, we may choose to reorganize our go-to-market teams in an effort to better leverage investments in our sales efforts by increasing efficiencies and improving customer coverage. These reorganizations can cause short-term disruptions that may negatively impact sales over one or more fiscal periods. For example, during the first quarter of fiscal 2020, our sales in the Americas grew more slowly than in other geographies, which may have been due in part to a reorganization of our go-to-market resources in that region. There is no assurance that this reorganization or similar reorganizations will not negatively impact sales in future quarters. Further, upon entering into new industry segments, we may choose to go to market with hardware appliances that are integrated with our software—as we did when we entered into the SD-WAN space through our acquisitions of VeloCloud Networks, Inc. and Nyansa, Inc.—which requires us to rapidly develop, deploy and scale new hardware procurement, supply chain and inventory management processes and product support services and integrate them into our ongoing business systems and controls. Similarly, our plans to launch managed subscription services such as VMware Cloud on AWS and VMware Cloud on Dell EMC will require us to implement new methods to deliver and monitor end user services and adjust our model for releasing product upgrades.

Our success depends upon our ability to develop appropriate business and pricing models.

If we cannot adapt our business models to keep pace with industry trends, including the industry-wide transition to cloud-based computing, our revenue could be negatively impacted. Certain of our product initiatives, such as our VCPP and SaaS offerings, have a subscription model. As we increase our adoption of subscription-based pricing models for our products, we may fail to set pricing at levels appropriate to maintain our revenue streams or our customers may choose to deploy products from our competitors that they believe are priced more favorably. In addition, we may fail to accurately predict subscription renewal rates or their impact on operating results, and because revenue from subscriptions is recognized for our services over the term of the subscription, downturns or upturns in sales may not be immediately reflected in our results. Additionally, as customers transition to our subscription and SaaS products and services, our revenue and license revenue growth rate may be adversely impacted during the period of transition as we will recognize less revenue up front than we would otherwise recognize as part of the multi-year license contracts through which we typically sell our established offerings. For example, effective with the fourth quarter of fiscal 2020, we commenced reporting revenue from our subscription and SaaS as a separate revenue line item, breaking out components that had previously been included in our license revenue and services revenue. Prior period amounts have been reclassified to conform with current period presentation. As a result, the rate of growth in our license revenue, which has been viewed as a leading indicator of our business performance may appear to be negatively impacted while the growth in subscription and SaaS revenue may not appear as robust because such revenue is recognized ratably over time as customers consume our subscription-based products. Finally, as we offer more services that depend on converting users of free services to users of premium services and converting purchasers of our on-premises products to our SaaS offerings, and as such services grow in size, our ability to maintain or improve and to predict conversion rates will become more important.

Our products and services are highly technical and may contain or be subject to other suppliers' errors, defects or security vulnerabilities.

Our products and services are highly technical and complex and, when deployed, have contained and may contain errors, defects or security vulnerabilities. Some errors in our products or services may only be discovered after a product or service has been installed and used by customers. Undiscovered vulnerabilities in our products or services could expose our customers to hackers or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attack our products or services. Further, our use of open-source software in our offerings can make our products and services vulnerable to additional security risks not posed by proprietary products. In the past, VMware has been made aware of public postings by hackers of portions of our source code. It is possible that the released source code could expose unknown security vulnerabilities in our products and services that could be exploited by hackers or others. VMware products and services are also subject to known and unknown security vulnerabilities resulting from integration with products or services of other companies (such as applications, operating systems or semiconductors). For example, vulnerabilities in certain microprocessors were publicly announced in 2018 under the names Spectre, Meltdown and Foreshadow. Actual or perceived errors, defects or security vulnerabilities in our products or services could harm our reputation and lead some customers to return products or services, reduce or delay future purchases or use competitive products or services, all of which could negatively impact our business, operating results and stock price.

Our subscription and SaaS offerings, which constitute a growing portion of our business, and our initiatives to extend our data center virtualization and container platforms into the public cloud, involve various risks, including, among others, reliance on third-party providers for data center space and colocation services and on public cloud providers to prevent service disruptions.

As we continue to develop and offer subscription and SaaS versions of our products, we will need to continue to evolve our processes to meet a number of regulatory, intellectual property, contractual and service compliance challenges. These challenges include compliance with licenses for open source and third-party software embedded in our subscription and SaaS offerings, maintaining compliance with export control and privacy regulations, including HIPAA, protecting our services from external threats, maintaining the continuous service levels and data security expected by our customers, preventing the inappropriate use of our services and adapting our go-to-market efforts. The expansion of our subscription and SaaS offerings also requires significant investments, and our operating margins, results of operations and operating cash flows may be adversely affected if our new offerings are not widely adopted by customers.

Additionally, our subscription and SaaS offerings rely upon third-party providers to supply data center space, equipment maintenance and other colocation services and our initiatives to extend our virtualization and container platforms into the public cloud rely upon the ability of our public cloud and VCPP partners to maintain continuous service availability and protect customer data on their services. The economic downturn caused by the COVID-19 pandemic could threaten the financial health of some of our third-party providers and adversely impact their ability to maintain agreed-upon service levels. Although we have entered into various agreements for the lease of data center space, equipment maintenance and other services, third parties could fail to live up to the contractual obligations under those agreements. The failure of a third-party provider to prevent service disruptions, data losses or security breaches may require us to issue credits or refunds or indemnify or otherwise be liable to customers or third parties for damages that may occur and contractual provisions with our third-party providers and public cloud partners may limit our recourse against the third-party provider or public cloud partner responsible for such failure. Additionally, if these third-party providers fail to deliver on their obligations, our reputation could be damaged, our customers could lose confidence in us and our ability to maintain and expand our subscription and SaaS offerings would be impaired.

Failure to effectively manage our product and service lifecycles could harm our business.

As part of the natural lifecycle of our products and services, we periodically inform customers that products or services will be reaching their end of life or end of availability and will no longer be supported or receive updates and security patches. To the extent these products or services remain subject to a service contract with the customer, we offer to transition the customer to alternative products or services. Failure to effectively manage our product and service lifecycles could lead to customer dissatisfaction and contractual liabilities, which could adversely affect our business and operating results.

Our success depends on the interoperability of our products and services with those of other companies.

The success of our products depends upon the cooperation of hardware and software vendors to ensure interoperability with our products and offer compatible products and services to end users. In addition, we have begun to extend the functionality of various products to work with native public cloud applications, which may require the cooperation of public cloud vendors. To the extent that hardware, software and public cloud vendors perceive that their products and services compete with ours or those of our controlling stockholder, Dell, they may have an incentive to withhold their cooperation, decline to share access or sell to us their proprietary APIs, protocols or formats, or engage in practices to actively limit the functionality, compatibility and certification of our products. In addition, vendors may fail to certify or support or continue to certify or support our products for their systems. If any of the foregoing occurs, our product development efforts may be delayed or foreclosed and it may be difficult and more costly for us to achieve functionality and service levels that would make our services attractive to end users, any of which could negatively impact our business and operating results.

Disruptions to our distribution channels, including our various routes to market through Dell, could harm our business.

Our future success is highly dependent on our relationships with distributors, resellers, system vendors and systems integrators, which account for a significant portion of our revenue. Recruiting and retaining qualified channel partners and training them in the use of our technology and product offerings requires significant time and resources. Our failure to maintain good relationships with channel partners would likely lead to a loss of end users of our products and services, which would adversely affect our revenue. We generally do not have long-term contracts or minimum purchase commitments with our distributors, resellers, system vendors and systems integrators, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours. Additionally, the economic downturn caused by the COVID-19 pandemic could threaten the financial health of some of our channel partners and adversely impact their ability to conduct sales activities and provide support for our customers.

One of our distributors accounted for 10% or more of our consolidated revenue during the six months ended July 31, 2020. Although we believe that we have in place, or would have in place by the date of any such termination, agreements with replacement distributors sufficient to maintain our revenue from distribution, if we were to lose the distribution services of a significant distributor, such loss could have a negative impact on our operating results until such time as we arrange to replace these distribution services with the services of existing or new distributors.

Additionally, sales via our various route-to-market relationships with Dell accounted for 33% of our consolidated revenue during the six months ended July 31, 2020 and transactions where Dell acted as an original equipment manufacturer (“OEM”) accounted for 12% of the revenue from Dell, or 4% of our consolidated revenue. Such routes to market include Dell selling joint solutions as an OEM, acting as a distributor to other non-Dell resellers, reselling products and services as a reseller or purchasing products and services for its own internal use. Any disruption or significant change to our relationship with Dell or the terms upon which they sell and distribute our products and services could have a negative impact on our operating results until such time as we arrange to replace these distribution services with the services of existing or new distributors.

Joint ventures may not yield expected benefits and outcomes.

As we expand our offerings into new technologies such as the public cloud and seek more efficient methods of marketing our products and services in regions where local partners can operate more easily, we sometimes rely upon joint ventures with established providers of IT products and services in particular regions, for example as go-to-market and channel partners. Joint ventures are inherently risky and the requirements for close ongoing cooperation and commitments from the joint venture partners to devote adequate resources often present significant challenges. Joint ventures can also be difficult to manage, given the potentially different interests of joint venture partners. Accordingly, there can be no guarantee that our joint ventures will achieve their intended objectives. If we are unable to continue our strategic alignment with joint venture partners or obtain the cooperation and commitments we are relying upon, our ability to successfully expand our offerings globally and in certain regions may diminish.

Non-compliance or perceived non-compliance with existing and evolving international and domestic privacy and data protection laws, regulations and standards could result in liability and adversely impact our business.

Our business is subject to regulation by various federal, state and international governmental agencies responsible for monitoring and enforcing privacy and data protection laws. The regulatory framework for privacy issues worldwide is rapidly evolving, as many new laws, regulations and standards regarding the collection, location, use and disclosure of personal information are being adopted, and existing laws and regulations may be subject to new and changing interpretations, creating uncertainty and additional legal obligations for ourselves, our partners, vendors and customers for the foreseeable future. For example, the EU's General Data Protection Regulation (the "GDPR") came into force in May 2018 and established new requirements applicable to the handling of personal data; the California Consumer Privacy Act, which came into effect in January 2020, broadly defines personal information and provides California consumers increased privacy rights and protections; and the EU's proposed e-Privacy Regulation regulates the use of information for marketing purposes and the tracking of individuals' online activities. Additionally, the application of law and regulations to our role as a provider of cloud-based compute infrastructure delivered by third party cloud providers is uncertain. We expect that there will continue to be new proposed laws, regulations and industry standards, including self-regulatory standards advocated by industry groups, concerning privacy, data protection and transfers, and information security in the U.S., EU and other jurisdictions globally, and we cannot yet determine the impacts such future laws, regulations and standards may have on our business or the businesses of our partners, vendors and customers.

We continue to make investments in and enhance our policies and controls across our business relating to how we and our business partners protect, collect and use customer and employee personal data, as U.S. and international regulatory frameworks evolve. Ongoing compliance efforts may increase the cost and complexity of our business relationships and the delivery of our products and services and may negatively impact our business, our ability to run promotions and effectively market our offerings, and the demand for our products and services.

Any failure or perceived failure by us or our business partners to comply with such federal, state or international privacy or data protection laws and regulations, the privacy commitments contained in our contracts or the privacy policies we have posted on our website could subject us to investigations, sanctions, enforcement actions, disgorgement of profits, fines, damages, civil and criminal liability, penalties or injunctions. For example, failure to comply with the EU's GDPR requirements may lead to fines of up to €20 million or 4% of the annual global revenues of the infringer, whichever is greater. Additionally, as a technology provider, our customers expect that we can demonstrate compliance with current data privacy and data protection laws and regulations, and our inability or perceived inability to do so may adversely impact sales of our products and services, particularly to customers in highly-regulated industries. As a result, our reputation and brand may be harmed, we could incur significant costs, and financial and operating results could be materially adversely affected.

If we fail to comply with our customer contracts or government contracting regulations, our business could be adversely affected.

Contracts, including contracts entered into by companies we acquire, with many customers include unique and specialized performance requirements. In particular, our contracts with federal, state, local and non-U.S. governmental customers and our arrangements with distributors and resellers who may sell directly to governmental customers are subject to various procurement regulations, contract provisions and other requirements relating to their formation, administration and performance. Any failure by us to comply with provisions in our customer contracts or any violation of government contracting regulations could result in the imposition of various civil and criminal penalties, which may include termination of contracts, forfeiture of profits, suspension of payments and, in the case of our government contracts, fines and suspension from future government contracting. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its accuracy, may damage our business and affect our ability to compete for new contracts. In the ordinary course of business, we also receive inquiries from and have ongoing discussions with government entities regarding the compliance of our contracting and sales practices with laws and regulations. A failure in the future to comply with federal and state governmental contracting requirements could result in the termination of customer contracts, our suspension from government work, the imposition of fines or other government sanctions or an inability to compete for new contracts, any of which could adversely affect our business, operating results or financial condition.

If our goodwill or amortizable intangible assets become impaired, we may be required to record a significant charge to earnings.

We may not realize all the economic benefit from our business acquisitions, which could result in an impairment of goodwill or intangibles. As of July 31, 2020, goodwill and amortizable intangible assets were $9.5 billion and $1.1 billion, respectively. We review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We test goodwill for impairment at least annually. Factors that may lead to impairment include a substantial decline in stock price and market capitalization or cash flows, reduced future cash flow estimates related to the assets and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, which would negatively impact our operating results.

Problems with our information systems could interfere with our business and could adversely impact our operations.

We rely on our information systems and those of third parties for processing customer orders, delivering products, providing services and support to our customers, billing and tracking our customer orders, fulfilling contractual obligations, performing accounting operations and otherwise running our business. If our systems fail, our disaster and data recovery planning and capacity may prove insufficient to enable timely recovery of important functions and business records. Any disruption in our information systems and those of the third parties upon whom we rely could have a significant impact on our business.

In addition, we continuously work to enhance our information systems, such as our enterprise resource planning software. The implementation of these types of enhancements is frequently disruptive to the underlying business of an enterprise, which may especially be the case for us due to the size and complexity of our business. Implementation may disrupt internal controls and business processes and could introduce unintended vulnerability to error.

Additionally, our information systems may not support new business models and initiatives and significant investments could be required in order to upgrade them. For example, during the first quarter of fiscal 2020 we implemented a new lease accounting software in order to facilitate the preparation of financial information related to the adoption of accounting standard updates.

We may have exposure to additional tax liabilities, and our operating results may be adversely impacted by higher than expected tax rates.

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the U.S. and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenue and expenses in different jurisdictions and the timing of recognizing revenue and expenses. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. We are subject to income and indirect tax examinations. The Internal Revenue Service (“IRS”) has started its examination of fiscal years 2015 through 2019 for the Dell consolidated group, which VMware was part of beginning in Dell’s fiscal year 2017. In addition, we are under corporate income tax audits in various states and non-U.S. jurisdictions. While we believe we have complied with all applicable income tax laws, a governing tax authority could have a different interpretation of the law and may assess us with additional taxes. In addition, regulatory guidance is still forthcoming with respect to the 2017 Tax Cuts and Jobs Act (“2017 Tax Act”) and such guidance may adversely impact our tax provision. Any assessment of additional taxes could materially affect our financial condition and operating results.

Our future effective tax rate may be affected by such factors as changes in tax laws, changes in our business or statutory rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation and the recognition of excess tax benefits or tax deficiencies within the income tax provision or benefit in the period in which they occur, the impact of accounting for business combinations, our acquisition of Pivotal, which was accounted for as a common control transaction, shifts in the amount of earnings in the U.S. compared with other regions in the world and overall levels of income before tax, changes in our international organization, as well as the expiration of statute of limitations and settlements of audits.

In addition, in the ordinary course of our global business, there are many intercompany transactions, including the transfer of intellectual property, where the ultimate tax determination is uncertain. Although we believe that our tax estimates are reasonable, the final determination of tax audits or tax disputes may differ from what is reflected in our historical income tax provisions or benefits and accruals.

Our effective tax rate in the future will depend upon the proportion of our income before provision for income taxes earned in the U.S. and in jurisdictions with a tax rate lower than the U.S. statutory rate. Our non-U.S. earnings are primarily earned by our subsidiaries organized in Ireland, where the rate of taxation is lower than our U.S. tax rate, and as such, our annual effective tax rate can be significantly affected by the composition of our earnings in the U.S. and non-U.S. jurisdictions. During October 2014, Ireland announced revisions to its tax regulations that will require foreign earnings of our subsidiaries organized in Ireland to be taxed at higher rates. We will be impacted by the changes in tax laws in Ireland beginning in 2021. In addition, we will be impacted by changes in tax laws in Bermuda and may be impacted by changes in other jurisdictions in 2019 and through 2021. We may proactively make structural changes in Ireland that may reduce the impact to our future tax rates. Currently, there are certain structural changes in Ireland that may be available to multinational companies. However, due to the acquisition of EMC Corporation (“EMC”), VMware’s parent company, by Dell effective September 7, 2016 (the “Dell Acquisition”), we could be subject to higher tax obligations in the event we executed similar structural changes.

Any other significant changes to U.S. or international tax laws could have a material impact on our effective tax rate, financial condition, operating results and timing and amount of tax payments.

In addition, numerous other countries have recently enacted or are considering enacting changes to tax laws, administrative interpretations, decisions, policies and positions. These changes could adversely affect our effective tax rate or result in higher cash tax liabilities.

Natural disasters, catastrophic events or geo-political conditions could disrupt our business.

Our worldwide operations are dependent on our network infrastructure, internal technology systems and website. Significant portions of our intellectual property and personnel, including our corporate headquarters, are located in the San Francisco Bay Area, a region known for seismic activity. We also have operations in various domestic and international locations that expose us to additional diverse risks. A significant natural disaster, such as an earthquake, fire, flood or other act of God, or pandemics, such as the recent outbreak of COVID-19, could have a material adverse impact on our business and operating results. Abrupt political change, terrorist activity and armed conflict pose a risk of general economic disruption in affected countries, and disease pandemics could temporarily sideline a substantial part of our or our customers' workforce at any particular time, any of which could disrupt our business. Furthermore, some of our new product initiatives and business functions are hosted and carried out by third parties that may be vulnerable to disruptions of these sorts, many of which may be beyond our control. Unanticipated disruptions in services provided through localized physical infrastructure, such as utility or telecommunication outages, or pandemics, such as the recent outbreak of COVID-19, or other unanticipated catastrophes, can curtail the functioning of local offices as well as critical components of our information systems, and adversely affect our ability to process orders, provide services, respond to customer requests and maintain local and global business continuity. To the extent that such disruptions result in delays or cancellations of customer orders, or the deployment or availability of our products and services, our revenue would be adversely affected. Additionally, any such catastrophic event could cause us to incur significant costs to repair damages to our facilities, equipment and infrastructure.

Changes in accounting principles and guidance could result in unfavorable accounting charges or effects.

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the U.S. These principles are subject to interpretation by the Securities and Exchange Commission and various bodies formed to create and interpret appropriate accounting principles and guidance. A change in these principles or guidance, or in their interpretations, may have a material effect on our reported results, as well as our processes and related controls, and may retroactively affect previously reported results.

Risks Related to Our Relationship with Dell

Our relationship with Dell may adversely impact our business and stock price.

As of July 31, 2020, Dell beneficially owned 30,678,605 shares of our Class A common stock and all 307,221,836 shares of our Class B common stock, representing 80.4% of the total outstanding shares of common stock or 97.4% of the voting power of outstanding common stock held by EMC, and we are considered a "controlled" company under the rules of the New York Stock Exchange ("NYSE"). Accordingly, strategic and business decisions made by Dell can impact our strategic and business decisions and relationships, and public speculation regarding Dell's strategic direction and prospects, as well as our relationship with Dell, can cause our stock price to fluctuate.

For example, in July 2020, Dell announced that it was exploring its strategic alternatives with respect to its ownership interest in us, including a possible spin-off of its ownership interest to Dell stockholders and that as part of that exploration it also expected to explore certain terms and conditions that could include negotiating a special cash dividend to be paid by VMware on a pro rata basis to all VMware stockholders that VMware would fund, in part, through the incurrence of additional indebtedness. Previously, during 2018, Dell had conducted a review of its strategic alternatives that led to Dell's exchange of its Class V common stock designed to track our financial performance for its Class C common stock and our payment of a special cash dividend totaling $11.0 billion. Throughout that year, the stock price of our Class A common stock experienced periods of significant volatility related to public speculation regarding the outcome of Dell's strategic review and the likelihood of its success. Additionally, speculation regarding how our relationship with Dell might be affected by Dell's status as a publicly traded company or additional strategic transactions involving Dell, such as our acquisition of Pivotal in December 2019, creates uncertainty for our stockholders, customers, partners and employees, which could negatively impact sales, make it difficult to attract and retain employees and distract management's focus from executing on other strategic initiatives.

A number of other factors relating to our relationship with Dell could adversely affect our business or our stock price in the future, including:

- Dell is able to control matters requiring our stockholders' approval, including the election of a majority of our directors as described in the risk factors below.

- Dell could implement changes to our business, including changing our commercial relationship with Dell or taking other corporate actions, such as participating in business combinations, that our other stockholders may not view as beneficial.
- We have arrangements with a number of companies that compete with Dell, and our relationship with Dell could adversely affect our relationships with these companies or other customers, suppliers and partners.
- Since the Dell Acquisition, the portion of our bookings that are realized through Dell sales channels has grown more rapidly than our sales through non-Dell resellers and distributors, and we expect this trend to continue. To the extent that we find ourselves relying more heavily upon Dell for our channel sales, Dell's leverage over our sales and marketing efforts may increase and our ability to negotiate favorable go-to-market arrangements with Dell and with other channel partners may decline. During the six months ended July 31, 2020, revenue from Dell, including purchases of products and services directly from us, as well as through our channel partners, accounted for 33% of our consolidated revenue, which included revenue from Dell selling joint solutions as an OEM, acting as a distributor to other non-Dell resellers, reselling products and services as a reseller or purchasing products and services for its own internal use. On certain transactions, Dell Financial Services also provided financing to our end users at our end users' discretion.
- Dell has a right to approve certain matters under our certificate of incorporation, including acquisitions or investments in excess of $100 million, and Dell may choose not to consent to matters that our board of directors believes are in the best interests of VMware.
- Synergies and benefits that we expect from our relationship with Dell may not be realized.
- Dell is highly leveraged and commits a substantial portion of its cash flows to servicing its indebtedness. Dell's significant debt could create the perception that Dell may exercise its control over us to limit our growth in favor of its other businesses or cause us to transfer cash to Dell and incur additional indebtedness. In addition, if Dell defaults, or appears in danger of defaulting, on its indebtedness, uncertainty as to the impact of such a default on VMware could disrupt our business.
- Investor perceptions of Dell's performance, future plans and prospects could contribute to volatility in the price of our Class A common stock.
- Some of our products compete directly with products sold or distributed by Dell, which could result in reduced sales.

Holders of our Class A common stock have limited ability to influence matters requiring stockholder approval.

As of July 31, 2020, Dell controlled 80.4% of the total outstanding shares of common stock, including all of our outstanding Class B common stock, representing 97.4% of the voting power of our total outstanding common stock. Through its control of the Class B common stock, which is generally entitled to 10 votes per share, Dell controls the vote to elect all of our directors and to approve or disapprove all other matters submitted to a stockholder vote.

Prior to a distribution by Dell to its stockholders under Section 355 of the Internal Revenue Code of 1986, as amended (a "355 Distribution"), shares of Class B common stock transferred to any party other than a successor-in-interest or a subsidiary of EMC automatically convert into Class A common stock. Dell's voting control over VMware will continue so long as the shares of Class B common stock it controls continue to represent at least 20% of our outstanding stock. If its ownership falls below 20% of the outstanding shares of our common stock, all outstanding shares of Class B common stock will automatically convert to Class A common stock. If Dell effects a 355 Distribution at a time when it holds shares of Class B common stock, its stockholders will receive Class B common stock. These shares will remain entitled to 10 votes per share, holders of these shares will remain entitled to elect 80% of the total number of directors on our board of directors and the holders of our Class A common stock will continue to have limited ability to influence matters requiring stockholder approval and have limited ability to elect members of our board of directors. Following a 355 Distribution, shares of Class B common stock may convert to Class A common stock if such conversion is approved by VMware stockholders after the 355 Distribution and we have obtained a private letter ruling from the IRS. In January 2014, the IRS announced in Revenue Procedure 2014-3 that, generally, it would no longer issue private letter rulings on 355 Distributions.

Dell has the ability to prevent us from taking actions that might be in our best interest.

Under our certificate of incorporation and the master transaction agreement we entered into with EMC, we must (subject to certain exceptions) obtain the consent of EMC (which is controlled by Dell) or its successor-in-interest, as the holder of our Class B common stock, prior to taking specified actions, such as acquiring other companies for consideration in excess of $100 million, issuing stock or other VMware securities, except pursuant to employee benefit plans (provided that we obtain Class B common stockholder approval of the aggregate annual number of shares to be granted under such plans), paying dividends, entering into any exclusive or exclusionary arrangement with a third party involving, in whole or in part, products or services that are similar to EMC's or amending certain provisions of our charter documents. In addition, we have agreed that for so long as EMC or its successor-in-interest continues to own greater than 50% of the voting control of our outstanding common stock, we will not knowingly take or fail to take any action that could reasonably be expected to preclude the ability of EMC or its successor-in-interest (including Dell) to undertake a tax-free spin-off. If Dell does not provide any requisite consent allowing us to conduct such activities when requested, we will not be able to conduct such activities. As a result, we may have to forgo capital raising or acquisition opportunities that would otherwise be available to us, and we may be precluded from pursuing certain growth initiatives.

By becoming a stockholder in our company, holders of our Class A common stock are deemed to have notice of and have consented to the provisions of our certificate of incorporation and the master transaction agreement with respect to the limitations that are described above.

Dell has the ability to prevent a change-in-control transaction and may sell control of VMware without benefiting other stockholders.

Dell's voting control and its additional rights described above give Dell the ability to prevent transactions that would result in a change of control of VMware, including transactions in which holders of our Class A common stock might otherwise receive a premium for their shares over the then-current market price. In addition, Dell is not prohibited from selling a controlling interest in us to a third party and may do so without the approval of the holders of our Class A common stock and without providing for a purchase of any shares of Class A common stock held by persons other than Dell. Accordingly, shares of Class A common stock may be worth less than they would be if Dell did not maintain voting control over us or if Dell did not have the additional rights described above.

If Dell's level of ownership significantly increases, Dell could unilaterally effect a merger of VMware into Dell without a vote of VMware stockholders or the VMware Board of Directors at a price per share that might not reflect a premium to then-current market prices.

As of July 31, 2020, Dell controlled 80.4% of VMware's outstanding common stock, and Dell's percentage ownership of VMware common stock could increase as a result of repurchases by VMware of its Class A common stock or purchases by Dell. Section 253 of the Delaware General Corporation Law permits a parent company, when it owns 90% or more of each class of a subsidiary's stock that generally would be entitled to vote on a merger of that subsidiary with the parent, to unilaterally effect a merger of the subsidiary into the parent without a vote of the subsidiary's board or stockholders. Accordingly, if Dell becomes the holder of at least 90% of VMware's outstanding stock, neither VMware's board of directors nor VMware's stockholders would be entitled to vote on a merger of VMware into Dell (the "short-form merger"). Moreover, a short-form merger is not subject to the stringent "entire fairness" standard and the parent company is not required to negotiate with a special committee of disinterested directors that would serve to approximate arm's length negotiations designed to ensure that a fair price is paid. Rather, a minority stockholder's sole remedy in the context of a short-form merger is to exercise appraisal rights under Delaware law. In such a proceeding, petitioning stockholders may be awarded more or less than the merger price or the amount they would have received in a merger negotiated between the parent and a disinterested special committee advised by independent financial and legal advisors. Pursuant to a letter agreement entered into by VMware and Dell on July 1, 2018, until the ten-year anniversary of the agreement, Dell may not purchase or otherwise acquire any shares of common stock of VMware if such acquisition would cause the common stock of VMware to no longer be publicly traded on a U.S. securities exchange or VMware to no longer be required to file reports under Sections 13 and 15(d) of the Exchange Act, in each case, unless such transaction has been approved in advance by a special committee of the VMware Board of Directors comprised solely of independent and disinterested directors or such acquisition of VMware common stock is required in order for VMware to continue to be a member of the affiliated group of corporations filing a consolidated tax return with Dell.

We engage in related persons transactions with Dell that may divert our resources, create opportunity costs and prove to be unsuccessful.

We currently engage in a number of related persons transactions with Dell that include joint product development, go-to-market, branding, sales, customer service activities, real estate and various support services, and we expect to engage in additional related persons transactions with Dell to leverage the benefits of our strategic alignment. For example, in December 2019, we acquired Pivotal, a then majority owned subsidiary of Dell and a company in which we held a significant ownership interest. Additionally, in December 2019, personnel in the Dell Technologies Consulting group who provide professional services for VMware product offerings to Dell customers transferred to VMware's professional services group.

We believe that these related persons transactions provide us a unique opportunity to leverage the respective technical expertise, product strengths and market presence of Dell and its subsidiaries for the benefit of our customers and stockholders while enabling us to compete more effectively with competitors who are much larger than us. However, these transactions may prove not to be successful and may divert our resources or the attention of our management from other opportunities. Negotiating and implementing these arrangements can be time consuming and cause delays in the introduction of joint product and service offerings and disruptions to VMware's business. We cannot predict whether our stockholders and industry or securities analysts who cover us will react positively to announcements of new related persons transactions with Dell, and such announcements could have a negative impact on our stock price. Our participation in these transactions may also cause certain of our other vendors and ecosystem partners who compete with Dell and its subsidiaries to also view us as their competitors.

Our business and Dell's businesses overlap, and Dell may compete with us, which could reduce our market share.

We and Dell are IT infrastructure companies providing products and services that overlap in various areas, including software-based storage, management, hyperconverged infrastructure and cloud computing. Dell competes with us in these areas now and may engage in increased competition with us in the future. In addition, the intellectual property agreement that we have entered into with EMC (which is controlled by Dell) provides EMC the ability to use our source code and intellectual property, which, subject to limitations, it may use to produce certain products that compete with ours. EMC's rights in this regard extend to its majority-owned subsidiaries, which could include joint ventures where EMC holds a majority position and one or more of our competitors hold minority positions.

Dell could assert control over us in a manner that could impede our growth or our ability to enter new markets or otherwise adversely affect our business. Further, Dell could utilize its control over us to cause us to take or refrain from taking certain actions, including entering into relationships with channel, technology and other marketing partners, enforcing our intellectual property rights or pursuing business combinations, other corporate opportunities (which EMC is expressly permitted to pursue under the circumstances set forth in our certificate of incorporation) or product development initiatives that could adversely affect our competitive position, including our competitive position relative to that of Dell in markets where we compete with Dell. In addition, Dell maintains significant partnerships with certain of our competitors, including Microsoft.

Dell's competition in certain markets may affect our ability to build and maintain partnerships.

Our existing and potential partner relationships may be negatively affected by our relationship with Dell. We partner with a number of companies that compete with Dell in certain markets in which Dell participates. Dell's control of EMC's majority ownership in us may affect our ability to effectively partner with these companies. These companies may favor our competitors because of our relationship with Dell.

Dell competes with certain of our significant channel, technology and other marketing partners, including IBM and Hewlett-Packard. Pursuant to our certificate of incorporation and other agreements that we have with EMC, EMC and Dell may have the ability to impact our relationship with those of our partners that compete with EMC or Dell, which could have a material adverse effect on our operating results and our ability to pursue opportunities that may otherwise be available to us.

We could be held liable for the tax liabilities of other members of Dell's consolidated tax group, and compared to our historical results as a member of the EMC consolidated tax group, our tax liabilities may increase, fluctuate more widely and be less predictable.

We have historically been included in EMC's consolidated group for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups that include EMC or certain of its subsidiaries for state and local income tax purposes, and since the Dell Acquisition, we have been included in Dell's consolidated tax group. Effective as of the close of the Dell Acquisition, we amended our tax sharing agreement with EMC to include Dell. Although our tax sharing agreement provides that our tax liability is calculated primarily as though VMware were a separate taxpayer, certain tax attributes and transactions are assessed using consolidated tax return rules as applied to the Dell consolidated tax group and are subject to other specialized terms under the tax sharing agreement. Pursuant to our agreement, we and Dell generally will make payments to each other such that, with respect to tax returns for any taxable period in which we or any of our subsidiaries are included in Dell's consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Dell or its subsidiaries, the amount of taxes to be paid by us will be determined, subject to certain consolidated return adjustments, as if we and each of our subsidiaries included in such consolidated, combined or unitary group filed our own consolidated, combined or unitary tax return. Consequently, compared to our historical results as a member of the EMC consolidated tax group, the amount of our tax sharing payment compared to our separate return basis liability may increase, vary more widely from period to period and be less predictable. Additionally, the impact of the 2017 Tax Act upon consolidated groups is highly complex and uncertain and its impact must be further interpreted in the context of the tax sharing agreement to determine VMware's tax sharing payment. In April 2019, VMware, Dell and EMC entered into a letter agreement that governs our portion of the one-time transition tax imposed by the 2017 Tax Act on accumulated earnings of foreign subsidiaries.

When we become subject to federal income tax audits as a member of Dell's consolidated group, the tax sharing agreement provides that Dell has authority to control the audit and represent Dell and our interests to the IRS. Accordingly, if we and Dell or its successor-in-interest differ on appropriate responses and positions to take with respect to tax questions that may arise in the course of an audit, our ability to affect the outcome of such audits may be impaired. In addition, if Dell effects a 355 Distribution or other transaction that is subsequently determined to be taxable, we could be liable for all or a portion of the tax liability, which could have a material adverse effect on our operating results and financial condition.

We have been included in the EMC consolidated group for U.S. federal income tax purposes since our acquisition by EMC in 2004, and will continue to be included in Dell's consolidated group for periods in which Dell or its successor-in-interest beneficially owns at least 80% of the total voting power and value of our outstanding stock. Each member of a consolidated group during any part of a consolidated return year is jointly and severally liable for tax on the consolidated return of such year and for any subsequently determined deficiency thereon. Similarly, in some jurisdictions, each member of a consolidated, combined or unitary group for state, local or foreign income tax purposes is jointly and severally liable for the state, local or foreign income tax liability of each other member of the consolidated, combined or unitary group. Accordingly, for any period in which we are included in the Dell consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Dell and its subsidiaries, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of any such group.

During the fourth quarter of fiscal 2020, we completed the acquisition of Pivotal. Pivotal will continue to file its separate tax return for U.S. federal income tax purposes as it left the Dell consolidated tax group at the time of Pivotal's initial public offering ("IPO") in April 2018. Pursuant to a tax sharing agreement, Pivotal historically received payments from Dell for the tax benefits derived from the inclusion of its losses in certain Dell U.S. federal and state group returns. This has reduced the amount of benefit or expense received by Pivotal since the IPO to the amount of benefit or expenses Dell realizes from Pivotal's inclusion on unitary state tax returns.

In December 2019, VMware amended the tax sharing agreement with Dell in connection with, and effective as of, the Pivotal acquisition. The tax sharing agreement with Dell, as amended and subject to certain exceptions, generally limits VMware's maximum annual tax liability to Dell to the amount VMware would owe on a separate tax return basis.

Also, under the tax sharing agreement, if it is subsequently determined that the tracking stock issued in connection with the Dell Acquisition and which Dell subsequently eliminated through a share exchange constitutes a taxable distribution, we could be liable for all or a portion of the tax liability, which could have a material adverse effect on our operating results and financial condition.

We have limited ability to resolve favorably any disputes that arise between us and Dell.

Disputes may arise between Dell and us in a number of areas relating to our ongoing relationships, including our reseller, technology and other business agreements with Dell, areas of competitive overlap, strategic initiatives, requests for consent to activities specified in our certificate of incorporation and the terms of our intercompany agreements. We may not be able to resolve any potential conflicts with Dell, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party.

While we are controlled by Dell, we may not have the leverage to negotiate renewals or amendments to these agreements, if required, on terms as favorable to us as those we would negotiate with an unaffiliated third party, if at all.

Some of our directors have potential conflicts of interest with Dell.

The Chairman of our Board of Directors, Michael Dell, is also Chairman and CEO of Dell and is a significant stockholder of Dell, and one of our directors, Egon Durbin, is member of the Dell board of directors and managing partner of Silver Lake Partners, which is a significant stockholder of Dell. Another of our directors also holds shares of Dell common stock. Dell, through its controlling voting interest in our outstanding common stock, is entitled to elect 8 of our 9 directors and possesses sufficient voting control to elect the remaining director. Ownership of Dell common stock by our directors and the presence of executive officers or directors of Dell on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and Dell that could have different implications for Dell than they do for us. Our Board has approved resolutions that address corporate opportunities that are presented to our directors that are also directors or officers of Dell. These provisions may not adequately address potential conflicts of interest or ensure that potential conflicts of interest will be resolved in our favor. As a result, we may not be able to take advantage of corporate opportunities presented to individuals who are directors of both us and Dell and we may be precluded from pursuing certain growth initiatives.

We are a "controlled company" within the meaning of the New York Stock Exchange rules and, as a result, are relying on exemptions from certain corporate governance requirements that provide protection to stockholders of companies that are not "controlled companies."

Dell owns more than 50% of the total voting power of our common stock and, as a result, we are a "controlled company" under the NYSE corporate governance standards. As a controlled company, we are exempt under the NYSE standards from the obligation to comply with certain NYSE corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of independent directors;
- that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and

- for an annual performance evaluation of the nominating and governance committee and compensation committee.

While we have voluntarily caused our Compensation and Corporate Governance Committee to currently be composed entirely of independent directors, reflecting the requirements of the NYSE, we are not required to maintain the independent composition of the committee. As a result of our use of the "controlled company" exemptions, holders of our Class A common stock will not have the same protection afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

Dell's ability to control our board of directors may make it difficult for us to recruit independent directors.

So long as Dell beneficially owns shares of our common stock representing at least a majority of the votes entitled to be cast by the holders of outstanding voting stock, Dell can effectively control and direct our board of directors. Further, the interests of Dell and our other stockholders may diverge. Under these circumstances, it may become difficult for us to recruit independent directors.

Our historical financial information as a majority-owned subsidiary may not be representative of the results of a completely independent public company.

The financial information covering the periods included in this report does not necessarily reflect what our financial condition, operating results or cash flows would have been had we been a completely independent entity during those periods. In certain geographic regions where we do not have an established legal entity, we contract with Dell subsidiaries for support services and Dell personnel who are managed by us. The costs incurred by Dell on our behalf related to these employees are passed on to us and we are charged a mark-up intended to approximate costs that would have been charged had we contracted for such services with an unrelated third party. These costs are included as expenses on our condensed consolidated statements of income. Additionally, we engage with Dell in related party transactions, including agreements regarding the use of Dell's and our intellectual property and real estate, agreements regarding the sale of goods and services to one another, and agreements for Dell to resell and distribute our products and services to third party customers. If Dell were to distribute its shares of our common stock to its stockholders or otherwise divest itself of all or a significant portion of its VMware shares, there would be numerous implications to us, including the fact that we could lose the benefit of these arrangements with Dell. There can be no assurance that we would be able to renegotiate these arrangements with Dell or replace them on the same or similar terms. Additionally, our business could face significant disruption and uncertainty as we transition from these arrangements with Dell. Moreover, our historical financial information is not necessarily indicative of what our financial condition, operating results or cash flows would be in the future if and when we contract at arm's length with independent third parties for the services we have received and currently receive from Dell. During the three and six months ended July 31, 2020, we recognized revenue of $964 million and $1.8 billion, respectively, and as of July 31, 2020, $4.2 billion of sales were included in unearned revenue from such transactions with Dell. For additional information, refer to "Our Relationship with Dell" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 and Note C to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Risks Related to Owning Our Class A Common Stock

The price of our Class A common stock has fluctuated significantly in recent years and may fluctuate significantly in the future.

The trading price of our Class A common stock has fluctuated significantly in the past and could fluctuate substantially in the future due to the factors discussed in this Risk Factors section and elsewhere in this report.

Dell, which beneficially owned 80.4% of our outstanding stock as of July 31, 2020, is not restricted from selling its shares and is entitled to certain registration rights. If a significant number of shares enters the public trading markets in a short period of time, the market price of our Class A common stock may decline. In addition, if our Class B common stock is distributed to Dell stockholders and remains outstanding, it would trade separately from and potentially at a premium to our Class A common stock, and could thereby contribute additional volatility to the price of our Class A common stock.

Broad market and industry factors may also decrease the market price of our Class A common stock, regardless of our actual operating performance. The stock market in general and technology companies in particular have often experienced extreme price and volume fluctuations. Our public float is also relatively small due to Dell's holdings, which can result in greater volatility in our stock compared to that of other companies with a market capitalization similar to ours. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted, including against us, and, if not resolved swiftly, can result in substantial costs and a diversion of management's attention and resources.

If securities or industry analysts change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our Class A common stock is influenced by the research and reports that industry or securities analysts publish about us, our business, our market or our competitors. If any of the analysts who cover us change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline.

Anti-takeover provisions in Delaware law and our charter documents could discourage takeover attempts.

As our controlling stockholder, Dell has the ability to prevent a change in control of VMware. Provisions in our certificate of incorporation and bylaws may also have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the division of our board of directors into three classes, with each class serving for a staggered three-year term, which prevents stockholders from electing an entirely new board of directors at any annual meeting;
- the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors;
- following a 355 Distribution of Class B common stock by Dell to its stockholders, the restriction that a beneficial owner of 10% or more of our Class B common stock may not vote in any election of directors unless such person or group also owns at least an equivalent percentage of Class A common stock or obtains approval of our board of directors prior to acquiring beneficial ownership of at least 5% of Class B common stock;
- the prohibition of cumulative voting in the election of directors or any other matters, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement for advance notice for nominations for election to the board of directors or for proposing matters that can be acted upon at a stockholders' meeting;
- the ability of the board of directors to issue, without stockholder approval, up to 100,000,000 shares of preferred stock with terms set by the board of directors, which rights could be senior to those of common stock; and
- in the event that Dell or its successor-in-interest no longer owns shares of our common stock representing at least a majority of the votes entitled to be cast in the election of directors, stockholders may not act by written consent and may not call special meetings of the stockholders.

In addition, we have elected to apply the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts and could reduce the price that investors might be willing to pay for shares of our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Public Offering of Common Stock

None.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchaser

From time to time, we repurchase stock pursuant to authorized stock repurchase programs in open market transactions as permitted by securities laws and other legal requirements. We are not obligated to purchase any shares under our stock repurchase programs. The timing of any repurchases and the actual number of shares repurchased depends on a variety of factors, including our stock price, cash requirements for operations and business combinations, corporate and regulatory requirements and other market and economic conditions. Purchases may be discontinued at any time we believe additional purchases are not warranted. From time to time, we also purchase stock in private transactions, such as with Dell. All shares repurchased under our stock repurchase programs are retired.

Purchases of Class A common stock during the three months ended July 31, 2020 were as follows:

	Total Number of Shares Purchased	Average Price Paid Per Share[(1)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs[(2)]
May 2 – May 29, 2020	501,681	$ 136.32	501,681	$ 751,028,761
May 30 – June 26, 2020	120,115	149.84	120,115	733,030,760
June 27 – July 31, 2020	297,092	145.39	297,092	1,689,836,121
	918,888	$ 141.02	918,888	1,689,836,121

(1) The average price paid per share excludes commissions.

(2) Represents the cumulative amount remaining for stock repurchases under the May 2019 and July 2020 authorizations, which expire at the end of fiscal 2022. Amounts remaining exclude commissions. Refer to Note L to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information.

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ITEM 6. EXHIBITS

The Company hereby files, furnishes or incorporates by reference the exhibits listed below:

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation	10-Q	001-33622	3.1	6/9/17
3.2	Amended and Restated Bylaws	8-K	001-33622	3.1	2/23/17
10.16+*	Form of Performance Stock Unit Agreement, as amended May 29, 2020				
31.1*	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2*	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1ǂ	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2ǂ	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase				
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)				

+ Indicates management contract or compensatory plan or arrangement

* Filed herewith

ǂ Furnished herewith

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	VMWARE, INC.
Dated: September 4, 2020	By: /s/ J. Andrew Munk
	J. Andrew Munk **Chief Accounting Officer** **(Principal Accounting Officer)**

EXHIBIT 10.16

VMWARE, INC.

2007 EQUITY AND INCENTIVE PLAN

PERFORMANCE STOCK UNIT AGREEMENT

I. NOTICE OF GRANT

Unless otherwise defined in this notice of grant ("**Notice of Grant**") and Performance Stock Unit Agreement ("**Agreement**"), the capitalized terms used herein have the meanings set forth in the VMware, Inc. 2007 Amended and Restated Equity and Incentive Plan (the "**Plan**").

Name: ____ ("Participant")

The Participant has been granted an award (the "**Award**") of Performance Stock Units (the "**PSUs**"), subject to the terms and conditions of this Notice of Grant, the Plan and this Agreement. Except as set forth in Sections 2(b) and 4 of the Agreement, the number of shares earned pursuant to the Award will equal the number of shares subject to the PSUs set forth below multiplied by the conversion ratio determined by the Administrator (the "**Conversion Ratio**") at the end of the Award Performance Period in accordance with the schedule attached as **Exhibit A** to this Agreement (the "**Performance Schedule**").

Date of Grant: ____

Number of PSUs: ____

Award Performance Period: ____

Vesting Schedule:

The Award will vest in full on ________ __, 20__ (the "**Vesting Date**"), subject to the Participant's continuing employment with the Company or any Subsidiary through the Vesting Date in accordance with Sections 2(a) and 2(c) of the Agreement.

II. AGREEMENT

1. Grant of the PSUs. The Company has granted the Participant the number of PSUs set forth in the Notice of Grant. However, unless and until the PSUs have vested, the Participant will have no right to the payment or receipt of any Stock subject thereto. Prior to actual payment or receipt of any Stock, the PSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

2. Vesting of PSUs.

(a) Subject to Sections 2(b), 2(c), 4(c), 4(d) and 4(e) below, the Participant will vest in the PSUs in accordance with the vesting schedule set forth in the Notice of Grant, except, that, if the Participant incurs a termination of employment for any reason other than due to Participant's death or termination by the Company or Subsidiary due to "disability" (as defined under the applicable long-term disability plan of the Company or Subsidiary, or, if there is no such plan, as determined by the Board or the Committee (each, the "**Administrator**")), such that the Participant is no longer employed by the Company or any Subsidiary, the Participant's right to vest in the PSUs and to receive the Stock related thereto will terminate effective as of the date that Participant ceases to be so employed (the "**Termination Date**") and thereafter, the Participant will have no further rights to such unvested PSUs or the related Stock. In such case, any unvested PSUs held by the Participant immediately following such termination of employment will be deemed forfeited.

(b) If the Participant's employment is terminated by reason of death or by the Company due to disability, then, unless otherwise set forth in **Exhibit A**:

1) vesting in this Award will accelerate fully with respect to the number of unvested PSUs subject to any Completed Performance Period.

2) if the Vesting Date is scheduled to occur prior to or on the first anniversary of the Termination Date, vesting in this Award will further accelerate on a pro rata basis with respect to the number of unvested PSUs subject to any Incomplete Performance Period, with such pro rata calculation derived by dividing number of days that have elapsed as of the Termination Date since the start of any such Incomplete Performance Periods by the total number of days in the Incomplete Performance Period.

3) The Conversion Ratio utilized to convert PSUs into shares will be calculated based on the actual achievement of the performance metrics set forth in **Exhibit A** as determined by the Administrator as of the Termination Date, except that if the Conversion Ratio depends upon the calculation of one or more separate performance metrics for which achievement has not been determined as of the Termination Date, vesting will be accelerated for the number of shares that would have vested had target performance been achieved for such separate performance metric(s).

4) If this Award has more than one Vesting Date, then the pro rata calculation set forth in Section 2(b)(2) for Incomplete Performance Periods will be applied only with respect to the number of PSUs scheduled to vest on Vesting Dates scheduled to occur prior to or on the first anniversary of the Termination Date.

5) Definitions.

(1) "**Completed Performance Period**" means a Performance Period that is completed prior to or on the Termination Date.

(2) "**Incomplete Performance Period**" means any Performance Period that has not been completed prior to the Termination Date.

(3) "**Performance Period**" means any individual performance period embedded within the Award Performance Period or, if there are no such embedded performance period, the Award Performance Period.

(c) Solely for purposes of this Agreement, the Company, in its sole discretion, may consent to treating employment of the Participant by Dell Technologies Inc. (the "**Parent**"), or by an Affiliate in which the Company and Parent hold, directly or indirectly, an aggregate of at least 80% of the equity or voting interest, the same as if the Participant is employed by the Company in accordance with procedures approved by the Committee, except that if the Participant is an officer subject to Section 16 of the Exchange Act, such consent must be approved by the Committee.

3. Issuance of Stock. No Stock will be issued to the Participant prior to the date on which the PSUs vest. After any PSUs vest and subject to the terms of this Agreement, including without limitation Section 8 hereof, the Company will cause to be issued (either in book-entry form or otherwise) to the Participant or the Participant's beneficiaries, as the case may be, that number of shares of Stock corresponding to the number of such vested PSUs as soon as administratively practicable following vesting, but in no event will the issuance of such shares be made subsequent to March 15th of the year following the year in which the shares vested. No fractional shares of Stock will be issued under this Agreement. Notwithstanding any provision in the Plan to the contrary and subject only to changes in Stock, as set forth in Section 9 hereof, the PSUs will be settled only in shares of Stock.

4. Change in Control.

(a) Change in Control during Award Performance Period. In the event of a Change in Control during the Award Performance Period, the Award Performance Period and all Incomplete Performance Periods will terminate immediately prior to consummation of the Change in Control. The Administrator will determine the Conversion Ratio prior to the consummation of the Change in Control pursuant to instructions set forth in the Performance Schedule. If the Performance Schedule does not set forth the means for calculating the Conversion Ratio in the event of a Change in Control, then the Conversion Ratio will equal one share per each vested PSU. **"Change in Control"** has the meaning set forth in **Exhibit A** to this Agreement.

(b) Change in Control following Award Performance Period. In the event of a Change in Control following completion of the Award Performance Period, the Administrator will determine the Conversion Ratio prior to the consummation of the Change in Control based on actual performance pursuant to instructions set forth in the Performance Schedule.

(c) Vesting. Following a Change in Control, this Award will continue to vest in accordance with the original vesting schedule set forth in Section I above, except that if this Award is not assumed or replaced in accordance with the provisions of the Plan regarding the effect of mergers and consolidations on Awards, then immediately prior to the Change in Control, the Award will vest as to a number of shares equal to the total number of PSUs subject to this Award multiplied by the Conversion Ratio.

(d) Termination Due to Death or Disability Following Change in Control. If, following a Change in Control the Participant's vesting in this Award is accelerated in accordance with Section 2(b) above due to termination of employment by reason of death or by the Company due to disability, then:

1) the number of unvested PSUs that are subject to Performance Periods that constituted Completed Performance Periods prior to the Change of Control will fully accelerate;

2) the number of unvested PSUs that are subject to Performance Periods that constituted Incomplete Performance Periods prior to the Change in Control that when this Award was granted were scheduled to be completed prior to or on the Termination Date will fully accelerate;

3) the number of unvested PSUs that are subject to Performance Periods that constituted Incomplete Performance Periods prior to the Change of Control that when this Award was granted were scheduled to be completed after the Termination Date and to vest prior to or on the first anniversary of the Termination Date will accelerate on a pro rata basis to the extent set forth in Section 2(b) above; and

4) any unvested PSUs that are subject to Performance Periods that constituted Incomplete Performance Periods prior to the Change in Control that when this Award was granted were scheduled to be completed after the Termination Date and to vest after the first anniversary of the Termination Date will be not accelerate.

In each such case, the Conversion Ratio for the number of PSUs accelerated will be determined in accordance with Section 4(a) above.

5. Participation in Executive Severance Plan and Change in Control Plan. If, at the time that Participant's employment is terminated, the Participant is a participant in either or both the Company's Executive Severance Plan and Change-in-Control Plan (each, an "**Executive**

Plan") and Participant's incurs an "Involuntary Termination" of employment (as defined in the applicable Executive Plan), then this Award will accelerate in accordance with the terms of the Executive Plan then applicable to Participant, or as otherwise set forth in **Exhibit A** attached hereto.

6. Death of Participant. Any distribution or delivery to be made to the Participant under this Agreement will, if the Participant is then deceased, be made to the administrator or executor of the Participant's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Leave of Absence; Reduction in Service Level. In accordance with the provisions of the Plan regarding the effect of a leave of absence or a reduction in service level on an outstanding Award, the Committee may determine, in its sole discretion (i) whether, and the extent to which, a leave of absence will cause a reduction or other change in this Award, (ii) whether, and the extent to which, a reduction in service level (for example, from full-time to part-time employment), will cause a reduction, or other change, in an Award, and (iii) whether a leave of absence or reduction in service level will be deemed a termination of employment for the purpose of this Award. Any changes to this Award pursuant to the Plan and this Section 7 of the Agreement will not result in an increase in the amount of the Award or otherwise accelerate its payment. The Committee will also determine all other matters relating to whether the employment or service of Participant is continuous for purposes of this Award.

8. Taxes.

(a) Generally. The Participant is ultimately liable and responsible for all taxes owed in connection with the PSUs, regardless of any action the Company or any entity employing the Participant (the "**Employer**") takes with respect to any tax withholding obligations that arise in connection with the PSUs. Neither the Company nor the Employer make any representation or undertaking regarding the treatment of any tax withholding in connection with the grant or vesting of the PSUs or the subsequent sale of Stock issuable pursuant to the PSUs. The Company and the Employer do not commit and are under no obligation to structure the PSUs to reduce or eliminate the Participant's tax liability.

(b) Payment of Withholding Taxes. Notwithstanding any contrary provision of this Agreement, no Stock will be issued to the Participant, unless and until satisfactory arrangements (as determined by the Administrator) have been made by the Participant with respect to the payment of any taxes that the Company determines must be withheld with respect to the PSUs. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may satisfy such tax withholding obligations, in whole or in part, by withholding otherwise deliverable Stock having an aggregate Fair Market Value sufficient to satisfy (but, unless otherwise consented to by the Participant, not exceeding) the minimum amount required to be withheld or by the sale of shares of Stock to generate sufficient cash proceeds to satisfy any such tax withholding obligation, except that if Participant is an officer subject to Section 16 of the Exchange Act, only such minimum amount will be withheld and such amount will be satisfied by withholding otherwise-deliverable Stock, unless otherwise approved by the Committee. Upon any such withholding, any and all rights of Participant to such withheld Stock will be deemed to be forfeited to the Company. The Participant hereby authorizes the Administrator to take any steps as may be necessary to effect any such sale and agrees to pay any costs associated therewith, including without limitation any applicable broker's fees. In addition, and to the maximum extent permitted by law, the Company may exercise the right to retain, without notice, from salary or other amounts payable to the Participant, cash having a value sufficient to satisfy any tax withholding obligations that cannot be satisfied by the withholding or sale of otherwise deliverable shares of Stock.

9. Changes in Stock. If any extraordinary dividend or other extraordinary distribution (whether in the form of cash, Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of Stock or other securities of the Company, or other similar corporate transaction or event affecting the Stock occurs such that an adjustment or change is determined by the Administrator (in its sole discretion) to be necessary or appropriate, the Administrator will proportionately adjust this Award in accordance with the terms of the Plan, including adjustments in the number and kind of shares of Stock or other property the Participant would have received upon vesting of the PSUs, except that the number of shares of Stock into which the PSUs may be converted will always be a whole number.

10. Rights as Stockholder. Neither the Participant nor any person claiming under or through the Participant will have any of the rights or privileges of a stockholder of the Company in respect of any Stock deliverable hereunder unless and until certificates representing such Stock (which may be in book-entry form) have been issued and recorded in the records of the Company or its transfer agents or registrars and delivered to the Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the Participant will have all the rights of a stockholder of the Company with respect to voting such Stock and receipt of dividends and distributions on such Stock.

11. No Effect on Employment. The transactions contemplated hereunder and the vesting schedule set forth in the Notice of Grant do not: (i) constitute an express or implied promise of continued employment for any period of time, (ii) interfere with right of the Company, the Parent or any Subsidiary or Affiliate to terminate the Participant's employment at any time in accordance with applicable law, or (iii) entitle the Participant to any additional rights under the Plan or under any other welfare or benefit plan of the Company, the Parent or any Subsidiary or Affiliate.

12. Nature of Grant. In accepting the PSUs, the Participant acknowledges that: (a) the grant of the PSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of PSUs, or benefits in lieu of PSUs even if PSUs have been granted repeatedly in the past; (b) all decisions with respect to future Awards of PSUs, if any, will be made by the Company in its sole discretion; (c) the future value of the underlying Stock is unknown and cannot be predicted with certainty; (d) in consideration of the Award of PSUs, no claim or entitlement to compensation or damages will arise from termination of the PSUs or any

diminution in value of the PSUs or Stock received when the PSUs vest resulting from the Participant's termination of employment by the Employer (for any reason whatsoever and whether or not in breach of local employment laws), and the Participant irrevocably releases the Company, the Parent, the Subsidiary and Affiliate from any such claim that may arise; (e) in the event of involuntary termination of the Participant's employment (whether or not in breach of local employment laws), the Participant's right to receive PSUs and vest under the Plan, if any, will terminate effective as of the date that the Participant is no longer actively employed and will not be extended by any notice period mandated under local law or contract, and the Company will have the exclusive discretion to determine when the Participant is no longer actively employed for purposes of the PSUs; (f) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Stock; and (g) the Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

13. Blackout Periods. The Participant acknowledges that, to the extent the vesting of any PSUs occurs during a "blackout" period wherein certain employees, including the Participant, are precluded from selling Stock, the Administrator retains the right, in its sole discretion, to defer the delivery of the Stock pursuant to the PSUs, except that the Administrator may not exercise its right to defer the Participant's receipt of such Stock if such shares of Stock are specifically covered by a trading plan of the Participant that conforms to the requirements of Rule 10b5-1 of the Exchange Act and the Company's policies and procedures with respect to Rule 10b5-1 trading plans and such trading plan causes such shares to be exempt from any applicable blackout period then in effect. If the receipt of any shares of Stock is deferred hereunder due to the existence of a regularly scheduled blackout period, such shares will be issued to the Participant on the first business day following the termination of such regularly scheduled blackout period, except that in no event will the issuance of such shares be deferred subsequent to March 15th of the year following the year in which such shares vest. If the receipt of any shares of Stock is deferred hereunder due to the existence of a special blackout period, such shares will be issued to the Participant on the first business day following the termination of such special blackout period as determined by the Company's General Counsel or his or her delegate, except that in no event will the issuance of such shares be deferred subsequent to March 15th of the year following the year in which such shares vest. Notwithstanding the foregoing, any deferred shares of Stock will be issued promptly to the Participant prior to the termination of the blackout period in the event the Participant ceases to be subject to the blackout period. The Participant hereby represents that he or she accepts the effect of any such deferral under relevant federal, state and local tax laws or otherwise.

14. Award is Not Transferable. Except to the limited extent provided in Section 6 above, this Award of PSUs and the rights and privileges conferred hereby may not be transferred, assigned, pledged or hypothecated in any way by the Participant (whether by operation of law or otherwise) and may not be subject to sale under execution, attachment or similar process until the Participant has been issued the Stock. Upon any attempt by the Participant to transfer, assign, pledge, hypothecate or otherwise dispose of this Award, or any right or privilege conferred

hereby, or upon any attempted sale under any execution, attachment or similar process, this Award and the rights and privileges conferred hereby immediately will become null and void.

15. Data Privacy. The Participant hereby explicitly and unambiguously consents to the collection, use and disclosure, in electronic or other form, of his or her personal information ("**Data**") by and among, as applicable, the Employer, the Company, the Parent and any Subsidiary or Affiliate for the purpose of implementing, administering and managing the Participant's participation in the Plan as described in this Agreement and any other PSU grant materials, or as reasonably necessary to comply with applicable laws and regulations or to respond to lawful requests for information, such as subpoenas and court orders.

The Participant understands that the Company and the Employer may collect, store, process, and disclose certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, Social Security number or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all PSUs or any entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the purpose of implementing, administering and managing the Plan, or as reasonably necessary to comply with applicable laws and regulations or to respond to lawful requests for information, such as subpoenas and court orders.

The Participant understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in the Participant's country or elsewhere, and that the recipients' countries may have data privacy laws and protections that differ from those in the Participant's country. The Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a third party. Further, the Participant understands that the Participant is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing his or her consent is that the Company would not be able to grant the Participant PSUs or other equity awards or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan.

The Participant understands that Participant can obtain additional information about Company's collection, storage, use, and disclosure of personal information in association with the implementation, administration, and management of the Plan, including information regarding rights that Participant may have with regard to such personal information, by consulting with Participant's local human resources representative.

16. Entire Agreement. This Agreement, subject to the terms and conditions of the Plan and the Notice of Grant, represents the entire agreement between the parties with respect to the PSUs.

17. Binding Agreement. Subject to the limitations on the transferability of this Award contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

18. Additional Conditions to Issuance of Certificates for Stock. The Company is not required to issue any certificate or certificates for Stock hereunder prior to fulfillment of all the following conditions: (a) the admission of such Stock to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Stock under any state, federal or foreign law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Administrator, in its absolute discretion, deems necessary or advisable; (c) the obtaining of any approval or other clearance from any state, federal or foreign governmental agency, which the Administrator, in its absolute discretion, determines to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of vesting of the PSUs as the Administrator may establish from time to time for reasons of administrative convenience.

19. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

20. Administrator Authority. Participant acknowledges that determination of the number of shares of Stock earned under this Award is subject to determination by the Administrator of achievement of the performance targets set forth on the Performance Schedule. The Administrator has the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Participant, the Company, the Employer and all other interested persons. No member of the Administrator is personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

21. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

22. Cancellation, Rescission and Recoupment of Award. Participant hereby acknowledges that this Award and any shares of Stock issued pursuant to this Award are subject to cancellation, rescission, clawback, repayment or other action at the discretion of the Board or the Committee as set forth in the provisions of the Plan regarding the clawback or recoupment of Awards in accordance with any clawback policy adopted by the Company pursuant to the listing standards of any national securities exchange or association on which the Company’s securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law, in the event of a restatement of incorrect financial results or if Participant is terminated for Cause. In addition, the Administrator has the discretion to require Participant to reimburse the Company for all or any portion of the Stock issued pursuant to this Award, or the value thereof, if:

(a) the payment was predicated upon the achievement of certain financial results that were subsequently the subject of a material financial restatement;

(b) in the view of the Board or the Committee, the Participant engaged in fraud or misconduct that caused or partially caused the need for a material financial restatement by the Company or any substantial affiliate; and

(c) a lower vesting would have occurred based upon the restated financial results.

In each such instance, upon the determination of the Committee to require recoupment of a previously issued number of shares of Stock under this Agreement, the Company will, to the extent practicable and allowable under applicable laws, require reimbursement of any number of shares of Stock, or the value thereof, issued for the relevant period that exceeded the lower number of shares of Stock that would have been issued based on the restated financial results, except that the Company may not seek to recover shares of Stock issued more than three years prior to the date the applicable restatement is disclosed.

23. Section 409A Exemption. It is intended that the Award satisfy, to the greatest extent possible, the exemption from the application of Section 409A of the Code provided under Treasury Regulation Section 1.409A-1(b)(4) ("**Section 409A**") and comply with Section 409A, and the Award will be so interpreted and administered. Notwithstanding the foregoing, if the Company determines that the Award may not either be exempt from or compliant with Section 409A, the Company may, with the Participant's prior written consent, adopt such amendments to this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Company determines are necessary or appropriate to (i) exempt the Award from Section 409A and preserve the intended tax treatment of the Award, or (ii) comply with the requirements of Section 409A, it being understood that the Company has no obligation to adopt any such amendment, policy or procedure or take any such other action, and in any event, no such action will reduce the amount of compensation that is owed to the Participant under this Award without the Participant's prior written consent.

24. Agreement Severable. If any provision in this Agreement is held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

25. Notice of Governing Law. This Agreement will be governed by the internal substantive laws, but not the choice of law rules, of the State of Delaware.

26. Waiver; Cumulative Rights. The failure or delay of either party to require performance by the other party of any provision hereof will not affect its right to require performance of such provision unless and until such performance has been waived in writing. Each and every right hereunder is cumulative and may be exercised in part or in whole from time to time.

27. Notices. Any notice that either party hereto may be required or permitted to give the other must be in writing and may be delivered personally or by mail, postage prepaid, addressed to the Company, at the address provided below, and the Participant at his or her address as shown on the Company's or the Employer's payroll records, or to such other address as the Participant, by notice to the Company, may designate in writing from time to time.

To the Company: VMware, Inc.
3401 Hillview Avenue
Palo Alto, CA 94304
Attention: Legal Department

The Participant's signature below indicates the Participant's agreement and understanding that this Award is subject to and governed by the terms and conditions of the Plan and this Agreement including, without limitation, Section 22 above. The Participant acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, which are incorporated herein by reference. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement.

PARTICIPANT

Signature

Print Name

Date: ________________________

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick Gelsinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VMware, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	September 4, 2020	By:	/s/ Patrick Gelsinger
			Patrick Gelsinger **Chief Executive Officer** **(Principal Executive Officer)**

Exhibit 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Zane Rowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VMware, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 4, 2020

By: /s/ Zane Rowe

Zane Rowe
Chief Financial Officer and Executive Vice President
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Patrick Gelsinger, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report of VMware, Inc. on Form 10-Q for the fiscal quarter ended July 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of VMware, Inc.

Date:	September 4, 2020	By:	/s/ Patrick Gelsinger
			Patrick Gelsinger **Chief Executive Officer** **(Principal Executive Officer)**

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Zane Rowe, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report of VMware, Inc. on Form 10-Q for the fiscal quarter ended July 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of VMware, Inc.

Date:	September 4, 2020	By:	/s/ Zane Rowe
			Zane Rowe **Chief Financial Officer and Executive Vice President** **(Principal Financial Officer)**