

**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 August 2, 2019

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

(State or other jurisdiction of
incorporation or organization)

94-3292913

(I.R.S. Employer
Identification Number)

3401 Hillview Avenue

Palo Alto, CA

(Address of principal executive offices)

94304

(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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 30, 2019, the number of shares of common stock, par value \$0.01 per share, of the registrant outstanding was 408,632,211, of which 108,632,211 shares were Class A common stock and 300,000,000 shares were Class B common stock.

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VMware, Avi Networks, AetherPal, CloudHealth, Workspace ONE, VMware Cloud, Horizon, Horizon Suite, NSX, VMware vSAN, VMware Foundation, vSphere, vRealize, Heptio, VeloCloud, vCloud, and vCloud Air, 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	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Revenue ⁽¹⁾ :				
License	\$ 1,011	\$ 900	\$ 1,879	\$ 1,674
Services	1,428	1,274	2,826	2,509
Total revenue	2,439	2,174	4,705	4,183
Operating expenses ⁽²⁾ :				
Cost of license revenue	50	45	101	90
Cost of services revenue	315	260	617	511
Research and development	554	481	1,087	934
Sales and marketing	797	696	1,575	1,403
General and administrative	200	182	387	351
Realignment and loss on disposition	—	1	—	3
Operating income	523	509	938	891
Investment income	14	57	28	105
Interest expense	(34)	(34)	(67)	(67)
Other income (expense), net	(502)	240	(359)	1,018
Income before income tax	1	772	540	1,947
Income tax provision (benefit)	(4,925)	128	(4,890)	361
Net income	<u>\$ 4,926</u>	<u>\$ 644</u>	<u>\$ 5,430</u>	<u>\$ 1,586</u>
Net income per weighted-average share, basic for Classes A and B	\$ 12.02	\$ 1.58	\$ 13.24	\$ 3.91
Net income per weighted-average share, diluted for Classes A and B	\$ 11.83	\$ 1.56	\$ 13.01	\$ 3.85
Weighted-average shares, basic for Classes A and B	409,761	407,112	410,088	406,040
Weighted-average shares, diluted for Classes A and B	416,288	413,286	417,488	412,389

⁽¹⁾ Includes related party revenue as follows (refer to Note C):

License	\$ 378	\$ 308	\$ 673	\$ 475
Services	356	228	686	433

⁽²⁾ Includes stock-based compensation as follows:

Cost of license revenue	\$ —	\$ —	\$ 1	\$ —
Cost of services revenue	17	12	33	24
Research and development	101	90	196	174
Sales and marketing	60	49	115	95
General and administrative	30	26	57	46

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	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Net income	\$ 4,926	\$ 644	\$ 5,430	\$ 1,586
Other comprehensive income (loss):				
Changes in market value of available-for-sale securities:				
Unrealized gains (losses), net of tax provision (benefit) of \$—, \$2, \$— and (\$3)	—	6	(1)	(9)
Changes in market value of effective foreign currency forward contracts:				
Unrealized gains (losses), net of tax provision (benefit) of \$— for all periods	3	1	7	(12)
Reclassification of (gains) losses realized during the period, net of tax (provision) benefit of \$— for all periods	(2)	(3)	(1)	1
Net change in market value of effective foreign currency forward contracts	1	(2)	6	(11)
Total other comprehensive income (loss)	1	4	5	(20)
Total comprehensive income, net of taxes	\$ 4,927	\$ 648	\$ 5,435	\$ 1,566

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)

	August 2, 2019	February 1, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,948	\$ 2,830
Short-term investments	—	19
Accounts receivable, net of allowance for doubtful accounts of \$3 and \$2	1,515	1,576
Due from related parties, net	754	937
Other current assets	412	289
Total current assets	5,629	5,651
Property and equipment, net	1,225	1,133
Other assets	2,290	1,853
Deferred tax assets	5,128	103
Intangible assets, net	447	541
Goodwill	5,653	5,381
Total assets	\$ 20,372	\$ 14,662
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 151	\$ 135
Accrued expenses and other	1,544	1,593
Unearned revenue	4,163	3,968
Total current liabilities	5,858	5,696
Note payable to Dell	270	270
Long-term debt	3,976	3,972
Unearned revenue	3,370	3,010
Income tax payable	833	889
Operating lease liabilities	588	—
Other liabilities	278	274
Total liabilities	15,173	14,111
Contingencies (refer to Note J)		
Stockholders' equity:		
Class A common stock, par value \$0.01; authorized 2,500,000 shares; issued and outstanding 109,494 and 110,715 shares	1	1
Class B convertible common stock, par value \$0.01; authorized 1,000,000 shares; issued and outstanding 300,000 shares	3	3
Additional paid-in capital	—	531
Accumulated other comprehensive income	7	2
Retained earnings	5,188	14
Total stockholders' equity	5,199	551
Total liabilities and stockholders' equity	\$ 20,372	\$ 14,662

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

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

	Six Months Ended	
	August 2, 2019	August 3, 2018
Operating activities:		
Net income	\$ 5,430	\$ 1,586
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	352	307
Stock-based compensation	402	339
Deferred income taxes, net	(5,032)	225
Unrealized (gain) loss on equity securities, net	386	(1,006)
(Gain) loss on disposition of assets, revaluation and impairment, net	(3)	(7)
Other	3	3
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	64	172
Other current assets and other assets	(381)	(173)
Due to/from related parties, net	177	44
Accounts payable	14	95
Accrued expenses and other liabilities	23	37
Income taxes payable	(11)	69
Unearned revenue	548	191
Net cash provided by operating activities	<u>1,972</u>	<u>1,882</u>
Investing activities:		
Additions to property and equipment	(158)	(121)
Purchases of available-for-sale securities	—	(778)
Sales of available-for-sale securities	—	161
Maturities of available-for-sale securities	—	1,102
Purchases of strategic investments	(8)	(3)
Proceeds from disposition of assets	20	32
Business combinations, net of cash acquired, and purchases of intangible assets	(384)	(26)
Net cash paid on disposition of a business	(5)	(6)
Net cash provided by (used in) investing activities	<u>(535)</u>	<u>361</u>
Financing activities:		
Proceeds from issuance of common stock	106	99
Repurchase of common stock	(1,037)	—
Shares repurchased for tax withholdings on vesting of restricted stock	(351)	(191)
Principal payments on finance lease obligations	(1)	—
Net cash used in financing activities	<u>(1,283)</u>	<u>(92)</u>
Net increase in cash, cash equivalents and restricted cash	154	2,151
Cash, cash equivalents and restricted cash at beginning of the period	2,894	6,003
Cash, cash equivalents and restricted cash at end of the period	<u>\$ 3,048</u>	<u>\$ 8,154</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 64	\$ 64
Cash paid for taxes, net	188	74
Non-cash items:		
Changes in capital additions, accrued but not paid	\$ (5)	\$ 9

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

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

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Three Months Ended August 2, 2019								
Balance, May 3, 2019	110	\$ 1	300	\$ 3	\$ 30	\$ 521	\$ 6	\$ 561
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	—	—	208
Credit from tax sharing arrangement	—	—	—	—	85	—	—	85
Total other comprehensive income (loss)	—	—	—	—	—	—	1	1
Net income	—	—	—	—	—	4,926	—	4,926
Balance, August 2, 2019	109	\$ 1	300	\$ 3	\$ —	\$ 5,188	\$ 7	\$ 5,199

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Six Months Ended August 2, 2019								
Balance, February 1, 2019	111	\$ 1	300	\$ 3	\$ 531	\$ 14	\$ 2	\$ 551
Cumulative effect of adoption of new accounting pronouncements	—	—	—	—	—	3	—	3
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	—	—	402
Credit from tax sharing arrangement	—	—	—	—	85	—	—	85
Total other comprehensive income (loss)	—	—	—	—	—	—	5	5
Net income	—	—	—	—	—	5,430	—	5,430
Balance, August 2, 2019	109	\$ 1	300	\$ 3	\$ —	\$ 5,188	\$ 7	\$ 5,199

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Three Months Ended August 3, 2018								
Balance, May 4, 2018	104	\$ 1	300	\$ 3	\$ 992	\$ 8,718	\$ (54)	\$ 9,660
Proceeds from issuance of common stock	1	—	—	—	8	—	—	8
Issuance of restricted stock	3	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	—	—	—	—	(98)	—	—	(98)
Stock-based compensation	—	—	—	—	177	—	—	177
Amount due from tax sharing arrangement	—	—	—	—	(3)	—	—	(3)
Total other comprehensive income (loss)	—	—	—	—	—	—	4	4
Net income	—	—	—	—	—	644	—	644
Balance, August 3, 2018	108	\$ 1	300	\$ 3	\$ 1,076	\$ 9,362	\$ (50)	\$ 10,392

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Six Months Ended August 3, 2018								
Balance, February 2, 2018	104	\$ 1	300	\$ 3	\$ 844	\$ 7,791	\$ (15)	\$ 8,624
Cumulative effect of adoption of new accounting pronouncements	—	—	—	—	—	(15)	(15)	(30)
Proceeds from issuance of common stock	1	—	—	—	99	—	—	99
Issuance of restricted stock	4	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(1)	—	—	—	(203)	—	—	(203)
Stock-based compensation	—	—	—	—	339	—	—	339
Amount due from tax sharing arrangement	—	—	—	—	(3)	—	—	(3)
Total other comprehensive income (loss)	—	—	—	—	—	—	(20)	(20)
Net income	—	—	—	—	—	1,586	—	1,586
Balance, August 3, 2018	108	\$ 1	300	\$ 3	\$ 1,076	\$ 9,362	\$ (50)	\$ 10,392

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 their business through a digital transformation. To take on these challenges, VMware is working with customers in the areas of hybrid cloud, multi-cloud, modern applications, networking and security, and digital workspaces. VMware’s software provides a flexible digital foundation to help 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”).

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 2020. 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 Form 10-K filed on March 29, 2019.

Effective September 7, 2016, Dell Technologies Inc. (“Dell”) (formerly Denali Holding Inc.) acquired EMC Corporation (“EMC”), VMware’s parent company, including EMC’s majority control of VMware (the “Dell Acquisition”). As of August 2, 2019, Dell controlled 80.8% of VMware’s outstanding common stock and 97.5% 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. Transactions prior to the effective date of the Dell Acquisition represent transactions only with EMC and its consolidated subsidiaries.

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. 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 second quarter of fiscal 2020, the Company completed an intra-group transfer of certain of its intellectual property rights (the “IP”) to its Irish subsidiary, where its international business is headquartered (the “IP Transfer”). The

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

transaction will change the Company's mix of international income from a lower non-U.S. tax jurisdiction to Ireland, which is subject to a statutory tax rate of 12.5%. However, the Company does not expect its effective income tax rate to increase significantly in fiscal 2020, as it expects the income earned in Ireland will largely be offset by certain tax deductions.

A discrete tax benefit of \$4.9 billion was recognized as a deferred tax asset during the second quarter of fiscal 2020. This deferred tax asset was recognized as a result of the book and tax basis difference on the IP transferred to Ireland. The tax amortization related to the IP transferred will be recognized in future periods and any amortization that is unused in a particular year can be carried forward indefinitely under Irish tax laws. The deferred tax asset and the tax benefit were measured based on the Irish tax rate expected to apply in the years the asset will be recovered. The Company expects to realize the deferred tax asset resulting from the IP Transfer and will assess the realizability of the deferred tax asset periodically. The impact of the transaction to net cash provided by or used in operating, investing and financing activities on the condensed consolidated statements of cash flows during the six months ended August 2, 2019 was not material.

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.

Significant Accounting Policies

During February 2016, the Financial Accounting Standards Board issued ASU 2016-02, Leases ("Topic 842"). The updated standard requires the recognition of a liability for lease obligations and corresponding right-of-use ("ROU") assets on the balance sheet, and disclosures of certain information regarding leasing arrangements. VMware adopted this standard effective February 2, 2019 and applied it retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings. The Company elected to apply practical expedients upon transition to this standard, which allowed the Company to use the beginning of the period of adoption as the date of initial application, and to not reassess lease classification, treatment of initial direct costs, or whether an existing or expired contract contains a lease. Prior period amounts were not recast under this standard.

Upon adoption, VMware recognized ROU assets of \$666 million, a liability for lease obligations of \$629 million, and an immaterial cumulative-effect adjustment to retained earnings, net of taxes, as of February 2, 2019. The updated standard did not have a material impact on the condensed consolidated statements of income or net cash provided by or used in operating, investing and financing activities on the condensed consolidated statements of cash flows.

Significant accounting policies applicable to leases reflect the adoption of Topic 842. There were no other changes to VMware's significant accounting policies described in the Form 10-K filed on March 29, 2019 that have had a material impact on the Company's condensed consolidated financial statements and related notes.

Leases

VMware determines if an arrangement contains a lease at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all economic benefits from and has the ability to direct the use of the asset. ROU assets resulting from operating leases are included in other assets, and operating lease liabilities are included in accrued expenses and other and operating lease liabilities on the condensed consolidated balance sheets. ROU assets resulting from finance leases are included in property and equipment, net, and finance lease liabilities are included in accrued expenses and other and other liabilities on the condensed consolidated balance sheets. The current portion of finance lease liabilities included in accrued expenses and other was not material as of August 2, 2019.

Lease assets and liabilities are measured at the present value of the future minimum lease payments over the lease term at commencement date using the incremental borrowing rate. The incremental borrowing rate is generally determined using factors such as the Treasury yields, the Company's credit rating and interest rates of similar debt instruments with comparable credit ratings, among others.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that VMware will exercise that option. Lease expense resulting from the minimum lease payments is amortized on a straight-line basis over the remaining lease term. VMware elected the practical expedient to exclude leasing arrangements with a duration of less than 12 months.

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

The Company's lease agreements generally do not contain any material residual value guarantees or material restrictive covenants. Certain lease agreements may contain lease and non-lease components, such as common-area maintenance costs. The Company elected to account for these components as a single lease component in determining the lease liability. Variable lease payments, which are primarily comprised of common-area maintenance, utilities and real estate taxes that are passed on from the lessor in proportion to the space leased by the Company, are recognized in operating expenses in the period in which the obligation for those payments was incurred.

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

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 \$29 million and \$24 million as of August 2, 2019 and February 1, 2019, respectively. Contract asset balances will fluctuate based upon the timing of 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 August 2, 2019, customer deposits related to customer prepayments and cloud credits of \$218 million were included in accrued expenses and other, and \$100 million were included in other liabilities on the condensed consolidated balance sheets. As of February 1, 2019, customer deposits related to customer prepayments of \$238 million were included in accrued expenses and other, and \$60 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 August 2, 2019 and February 1, 2019 were not significant. Deferred commissions included in other assets were \$783 million and \$756 million as of August 2, 2019 and February 1, 2019, respectively.

Amortization expense for deferred commissions was included in sales and marketing on the condensed consolidated statements of income and was \$76 million and \$151 million during the three and six months ended August 2, 2019, respectively, and \$61 million and \$128 million during the three and six months ended August 3, 2018, respectively.

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

Unearned Revenue

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

	August 2, 2019	February 1, 2019
Unearned license revenue	\$ 338	\$ 255
Unearned software maintenance revenue	6,357	5,972
Unearned professional services revenue	838	751
Total unearned revenue	<u>\$ 7,533</u>	<u>\$ 6,978</u>

Unearned license revenue is primarily related to the allocated portion of VMware's software-as-a-service ("SaaS") offerings and 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 ratably basis over the contract duration. The weighted-average remaining contractual term as of August 2, 2019 was approximately two years. In addition, unearned software maintenance revenue also includes the allocated portion of VMware's SaaS offerings. Unearned professional services revenue results primarily from prepaid professional services and is generally recognized as the services are performed.

The following tables summarize unearned revenue activity during the periods presented (table in millions):

	Three Months Ended	
	May 3, 2019	August 2, 2019
Balance, beginning of the period	\$ 6,978	\$ 7,119
Current period billings	1,506	1,827
Revenue recognized from amounts previously classified as unearned revenue ⁽¹⁾	(1,365)	(1,420)
Other	—	7
Balance, end of the period	<u>\$ 7,119</u>	<u>\$ 7,533</u>

	Three Months Ended	
	May 4, 2018	August 3, 2018
Balance, beginning of the period	\$ 5,839	\$ 5,756
Current period billings	1,210	1,507
Revenue recognized from amounts previously classified as unearned revenue ⁽¹⁾	(1,215)	(1,233)
Other	(78)	—
Balance, end of the period	<u>\$ 5,756</u>	<u>\$ 6,030</u>

⁽¹⁾ Revenue recognized from amounts previously classified as unearned revenue did not include revenue for performance obligations that were fully satisfied upon delivery, such as on-premises license.

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 August 2, 2019, the aggregate transaction price allocated to remaining performance obligations was \$8.0 billion, of which approximately 54% is expected to be recognized as revenue over the next 12 months and the remainder thereafter. As of February 1, 2019, the aggregate transaction price allocated to remaining performance obligations was \$7.7 billion, of which approximately 56% was expected to be recognized as revenue during fiscal year 2020, and the remainder thereafter.

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C. Related Parties

The information provided below includes a summary of the transactions entered into with Dell and Dell's consolidated subsidiaries, including EMC (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 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.
- Pursuant to an ongoing distribution agreement, VMware acts as the selling agent for certain products and services of Pivotal Software, Inc. ("Pivotal"), a subsidiary of Dell, in exchange for an agency fee. Under this agreement, cash is collected from the end user by VMware and remitted to Pivotal, net of the contractual agency fee.
- 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.

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	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018	August 2, 2019	February 1, 2019
Reseller revenue	\$ 729	\$ 531	\$ 1,347	\$ 892	\$ 2,771	\$ 2,375
Internal-use revenue	5	5	11	12	18	13
Agency fee revenue	—	—	1	4	—	—
Collaborative technology project receipts	2	1	4	1	n/a	n/a

Customer deposits resulting from transactions with Dell were \$123 million and \$85 million as of August 2, 2019 and February 1, 2019, 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.

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- 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.

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

	Three Months Ended		Six Months Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Purchases and leases of products and purchases of services ⁽¹⁾	\$ 55	\$ 42	\$ 135	\$ 91
Dell subsidiary support and administrative costs	20	26	46	54

⁽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 user 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 of \$12 million and \$25 million during the three and six months ended August 2, 2019, respectively, and \$9 million and \$25 million during the three and six months ended August 3, 2018, respectively.

Tax Sharing Agreement with Dell

The following table summarizes the payments made to Dell pursuant to a tax sharing agreement during the periods presented (table in millions):

	Three Months Ended		Six Months Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Payments from VMware to Dell, net	\$ 52	\$ —	\$ 89	\$ 3

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"). 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 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 determination made by Dell. The amount recognized in additional paid-in capital during the three and six months ended August 3, 2018 was not significant.

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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):

	August 2, 2019	February 1, 2019
Due from related parties, current	\$ 934	\$ 1,079
Due to related parties, current ⁽¹⁾	180	142
Due from related parties, net, current ⁽²⁾	\$ 754	\$ 937
Income tax related asset, net, current	\$ 26	\$ —
Income tax due to related parties, non-current	492	646

⁽¹⁾ Includes an immaterial amount related to the Company's current operating lease liabilities due to related parties as of August 2, 2019.

⁽²⁾ 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 August 2, 2019.

Amounts included in due from related parties, net, excluding DFS and tax obligations, includes 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

On January 21, 2014, VMware entered into a note exchange agreement with its parent company providing for the issuance of three promissory notes in the aggregate principal amount of \$1.5 billion, which consisted of outstanding principal due on the following dates: \$680 million due May 1, 2018, \$550 million due May 1, 2020 and \$270 million due December 1, 2022.

On August 21, 2017, VMware repaid two of the notes payable to Dell in the aggregate principal amount of \$1.2 billion, representing repayment of the note due May 1, 2018 at par value and repayment of the note due May 1, 2020 at a discount. The remaining note payable of \$270 million due December 1, 2022 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 August 2, 2019 and August 3, 2018, interest expense on the notes payable to Dell was not significant.

Pivotal

Prior to Pivotal's initial public offering on April 20, 2018, VMware's previously held preferred shares were converted to shares of non-trading Class B common stock, resulting in VMware having a financial interest of 17% and a voting interest of 24% in Pivotal as of February 1, 2019. As of August 2, 2019, VMware had a financial interest of 16% and a voting interest of 24% in Pivotal. Refer to Note H for information regarding VMware's investment in Pivotal.

D. Business Combinations, Definite-Lived Intangible Assets, Net and Goodwill**Business Combinations***Acquisition of Avi Networks, Inc.*

During the second quarter of fiscal 2020, VMware completed the acquisition of Avi Networks, Inc. ("Avi Networks"), a provider of multi-cloud application delivery services. VMware acquired Avi Networks to provide customers with application delivery controller capabilities that include server load balancing for various applications and analytics. Together, VMware and Avi Networks expect to deliver a software defined networking stack built for the multi-cloud environment. The total purchase price was \$326 million, net of cash acquired of \$9 million. The purchase price primarily included \$94 million of identifiable intangible assets and \$228 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets primarily consisted of completed technology of \$79 million and customer relationships of \$15 million, with estimated useful lives of one year to eight years.

Merger consideration totaling \$27 million is held in escrow and is payable to certain employees of Avi Networks subject to specified future employment conditions and is being recognized as expense over the requisite service period of approximately three years on a straight-line basis.

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The fair value of assumed unvested equity awards attributed to post-combination services was \$32 million and will be expensed over the remaining requisite service periods of approximately three years on a straight-line basis. The estimated fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model.

The initial allocation of the purchase price was based on preliminary valuations and assumptions and is subject to change within the measurement period. VMware expects to finalize the allocation of the purchase price as soon as practicable and no later than one year from the acquisition date.

The pro forma financial information assuming the acquisition 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, was not material for disclosure purposes.

Acquisition of AetherPal, Inc.

During the first quarter of fiscal 2020, VMware completed the acquisition of AetherPal Inc. (“AetherPal”), a provider of remote support solutions, to enhance VMware’s Workspace ONE offering. The total purchase price was \$45 million, which primarily included \$12 million of identifiable intangible assets and \$33 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets primarily consisted of completed technology and customer relationships, with estimated useful lives of three years to five years.

The pro forma financial information assuming the acquisition 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, was 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):

August 2, 2019				
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	6.2	\$ 865	\$ (565)	\$ 300
Customer relationships and customer lists	7.5	211	(106)	105
Trademarks and tradenames	7.9	87	(46)	41
Other	1.3	5	(4)	1
Total definite-lived intangible assets		<u>\$ 1,168</u>	<u>\$ (721)</u>	<u>\$ 447</u>

February 1, 2019				
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	6.3	\$ 781	\$ (503)	\$ 278
Leasehold interest	34.9	149	(33)	116
Customer relationships and customer lists	7.5	193	(96)	97
Trademarks and tradenames	7.9	86	(40)	46
Other	3.9	7	(3)	4
Total definite-lived intangible assets		<u>\$ 1,216</u>	<u>\$ (675)</u>	<u>\$ 541</u>

Upon adoption of Topic 842 on February 2, 2019, leasehold interest of \$116 million related to favorable terms of certain ground lease agreements was derecognized and adjusted to the carrying amount of the operating lease ROU assets and classified as other assets on the condensed consolidated balance sheets. Prior to adoption, these assets were classified as intangible assets, net on the condensed consolidated balance sheets.

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Amortization expense on definite-lived intangible assets was \$45 million and \$89 million during the three and six months ended August 2, 2019, respectively, and \$39 million and \$78 million during the three and six months ended August 3, 2018, respectively.

Based on intangible assets recorded as of August 2, 2019 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 2020	\$	75
2021		112
2022		97
2023		72
2024		54
Thereafter		37
Total	\$	<u>447</u>

Goodwill

The following table summarizes the changes in the carrying amount of goodwill during the six months ended August 2, 2019 (table in millions):

Balance, February 1, 2019	\$	5,381
Increase in goodwill related to business combinations		272
Balance, August 2, 2019	\$	<u>5,653</u>

E. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of common shares 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. 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	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Net income	\$ 4,926	\$ 644	\$ 5,430	\$ 1,586
Weighted-average shares, basic for Classes A and B	409,761	407,112	410,088	406,040
Effect of other dilutive securities	6,527	6,174	7,400	6,349
Weighted-average shares, diluted for Classes A and B	416,288	413,286	417,488	412,389
Net income per weighted-average share, basic for Classes A and B	\$ 12.02	\$ 1.58	\$ 13.24	\$ 3.91
Net income per weighted-average share, diluted for Classes A and B	\$ 11.83	\$ 1.56	\$ 13.01	\$ 3.85

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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	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Anti-dilutive securities:				
Restricted stock units	458	606	251	1,046
Total	458	606	251	1,046

F. Cash and Cash Equivalents

Cash and cash equivalents as of the periods presented consisted of the following (tables in millions):

	August 2, 2019			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Cash	\$ 551	\$ —	\$ —	\$ 551
Cash equivalents:				
Money-market funds	\$ 2,369	\$ —	\$ —	\$ 2,369
Demand deposits and time deposits	28	—	—	28
Total cash equivalents	\$ 2,397	\$ —	\$ —	\$ 2,397

	February 1, 2019			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Cash	\$ 461	\$ —	\$ —	\$ 461
Cash equivalents:				
Money-market funds	\$ 2,316	\$ —	\$ —	\$ 2,316
Demand deposits and time deposits	53	—	—	53
Total cash equivalents	\$ 2,369	\$ —	\$ —	\$ 2,369

Restricted Cash

The following table provides a reconciliation of the Company's cash and cash equivalents, current portion and non-current portion of restricted cash reported within the condensed consolidated balance sheets that sum to the total cash, cash equivalents and restricted cash as of August 2, 2019 and February 1, 2019 (table in millions):

	August 2, 2019	February 1, 2019
Cash and cash equivalents	\$ 2,948	\$ 2,830
Restricted cash within other current assets	67	35
Restricted cash within other assets	33	29
Total cash, cash equivalents and restricted cash	\$ 3,048	\$ 2,894

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.

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G. Debt**Long-term Debt**

On August 21, 2017, VMware issued three series of unsecured senior notes (“Senior Notes”) pursuant to a public debt offering. The proceeds from the issuance were \$4.0 billion, net of debt discount of \$9 million and debt issuance costs of \$30 million.

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

	August 2, 2019	February 1, 2019	Effective Interest Rate
Long-term debt:			
2.30% Senior Note Due August 21, 2020	\$ 1,250	\$ 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%
Total principal amount	4,000	4,000	
Less: unamortized discount	(6)	(7)	
Less: unamortized debt issuance costs	(18)	(21)	
Net carrying amount	\$ 3,976	\$ 3,972	

Interest is payable semiannually in arrears, on February 21 and August 21 of each year. During the three and six months ended August 2, 2019 and August 3, 2018, interest expense was \$32 million and \$65 million, 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 purchase. The Senior Notes rank equally in right of payment with VMware’s other unsecured and unsubordinated indebtedness. The Senior Notes also include 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 information 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 (“Credit Facility”) with a syndicate of lenders that provides the Company with a borrowing capacity of up to \$1.0 billion, which may be used for general corporate purposes. Commitments under the 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 August 2, 2019 and February 1, 2019, there were no outstanding borrowings under the Credit Facility. The credit agreement contains certain representations, warranties and covenants. Commitment fees, interest rates and other terms of borrowing under the 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 August 2, 2019 and August 3, 2018.

H. 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;

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- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are noted as being 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.

As of August 2, 2019 and February 1, 2019, VMware's Level 2 investment securities were generally priced using non-binding market consensus prices that were corroborated by observable market data, quoted market prices for similar instruments, or pricing models such as discounted cash flow techniques.

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 and short-term investments that were required to be measured at fair value as of the periods presented (tables in millions):

	August 2, 2019		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 2,369	\$ —	\$ 2,369
Demand deposits and time deposits	—	28	28
Total cash equivalents	\$ 2,369	\$ 28	\$ 2,397
February 1, 2019			
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 2,316	\$ —	\$ 2,316
Demand deposits and time deposits	—	53	53
Total cash equivalents	\$ 2,316	\$ 53	\$ 2,369
Short-term investments:			
Marketable equity securities	\$ 19	\$ —	\$ 19
Total short-term investments	\$ 19	\$ —	\$ 19

The note payable to Dell and the Senior Notes were not adjusted to fair value. The fair value of the note payable to Dell was approximately \$263 million and \$252 million as of August 2, 2019 and February 1, 2019, respectively. The fair value of the Senior Notes was approximately \$4.0 billion and \$3.9 billion as of August 2, 2019 and February 1, 2019, respectively. Fair value for both the note payable to Dell and the Senior Notes 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. The net impact to the condensed consolidated statements of income is not significant since changes in the fair value of the assets substantially 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 approximately \$93 million and \$77 million as of August 2, 2019 and February 1, 2019, respectively, and are included in other assets and other liabilities on the condensed consolidated balance sheets.

Equity Securities Carried at Fair Value

As of February 1, 2019, VMware held a publicly traded equity security, which was measured at its fair value of \$19 million using quoted prices for identical assets in an active market (Level 1). During the first quarter of fiscal 2020, VMware sold its investment in this equity security. The realized gain recognized on the condensed consolidated statements of income during the six months ended August 2, 2019 was not significant.

The fair value of VMware's investment in Pivotal was \$427 million and \$833 million as of August 2, 2019 and February 1, 2019, respectively, and was determined using the quoted market price of Pivotal's Class A common stock as of each reporting period, adjusted for the impact of superior voting rights (Level 2).

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During the three and six months ended August 2, 2019, VMware recognized unrealized losses of \$538 million and \$406 million, respectively, to adjust its investment in Pivotal to its fair value. During the three and six months ended August 3, 2018, VMware recognized unrealized gains of \$231 million and \$1.0 billion, respectively, to adjust its investment in Pivotal to its fair value, including an unrealized gain of \$668 million recognized as a result of Pivotal's initial public offering. Discrete tax benefits of \$133 million and \$100 million for the three and six months ended August 2, 2019, respectively, and discrete tax expenses of \$57 million and \$236 million, net of the reversal of the previously recorded valuation allowance for the three and six months ended August 3, 2018, respectively, was recognized related to the book and tax basis difference on the investment in Pivotal. Subsequent to August 2, 2019 and following the announcement of VMware's proposed acquisition of Pivotal, Pivotal's stock price has increased significantly. If Pivotal's stock price remains unchanged from its current value, VMware will recognize a substantial unrealized gain on its investment in Pivotal as of the next measurement date.

Financial information of Pivotal is made publicly available. The following tables include summarized financial information for the first quarter of fiscal 2020 obtained from Pivotal's most recent Form 10-Q filed with the SEC on June 6, 2019 (tables in millions):

	Three Months Ended	
	May 3,	
	2019	
Results of Operations Data:		
Revenue	\$	186
Gross profit		125
Loss from operations		(35)
Net loss		(32)
Net loss attributable to Pivotal		(32)
		May 3,
		2019
Balance Sheet Data:		
Current assets	\$	1,056
Total assets		1,966
Current liabilities		460
Total liabilities		654
Non-controlling interest		1

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 August 2, 2019 and February 1, 2019, investments in privately held companies, which consisted primarily of equity securities, had a carrying value of \$127 million and \$95 million, respectively, and were included in other assets on the condensed consolidated balance sheets. During the three and six months ended August 2, 2019, the Company recognized an unrealized gain of \$23 million on these securities. 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.

I. 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, by monitoring credit ratings and credit spreads of, and other relevant public information about its counterparties. VMware does not, and does not intend to, use derivative instruments for trading or speculative purposes.

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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 income 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 August 2, 2019 and August 3, 2018, the effective portion of gains or losses reclassified to the condensed consolidated statements of income was not significant. During the three and six months ended August 3, 2018, interest charges or “forward points” on VMware’s forward contracts were excluded from the assessment of hedge effectiveness and were recorded in other income (expense), net on the condensed consolidated statements of income as incurred. Beginning February 2, 2019, the excluded component was recorded to the related operating expense line item on the condensed consolidated statements of income in the same period that the underlying expenses are incurred.

These forward contracts have contractual maturities of twelve months or less, and as of August 2, 2019 and February 1, 2019, outstanding forward contracts had a total notional value of \$200 million and \$367 million, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract.

During the three and six months ended August 2, 2019 and August 3, 2018, 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 have a contractual maturity of one month, and as of August 2, 2019 and February 1, 2019, outstanding forward contracts had a total notional value of \$889 million and \$1.2 billion, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract.

During the three and six months ended August 2, 2019, VMware recognized gains of \$26 million and \$53 million, respectively, related to the settlement of forward contracts. The gains recognized during the three and six months ended August 3, 2018 were \$29 million and \$59 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 August 2, 2019 resulted in net gains of \$12 million and \$18 million, respectively. The combined gains and losses related to the settlement of forward contracts and the underlying foreign currency denominated assets and liabilities were not significant during the three and six months ended August 3, 2018. Net gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

J. Contingencies**Litigation**

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 held an initial meeting with the California AG’s representatives on November 5, 2015, and thereafter provided certain requested documents to the California AG. The Company did not receive any further communications from the California AG until the fall of 2017. Since then, the California AG and the Company have exchanged communications regarding the legal bases for the allegations, and the Company has provided additional information requested by the California AG. The Company is unable at this time to reasonably assess whether or to what extent it may be found liable and believes a loss is not considered probable and is not estimable.

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

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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 August 2, 2019, 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 foreseeable disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on its condensed consolidated financial statements.

K. Leases

VMware has operating and finance leases primarily related to office facilities and equipment, which have remaining lease terms of one month to 27 years. During the three and six months ended August 2, 2019, lease expense recorded in the condensed consolidated statements of income was \$40 million and \$79 million, respectively.

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

	Three Months Ended	Six Months Ended
	August 2,	August 2,
	2019	2019
Operating lease expense	\$ 33	\$ 65
Finance lease expense:		
Amortization of ROU assets	\$ 1	\$ 1
Total finance lease expense	\$ 1	\$ 1
Short-term lease expense	\$ —	\$ 1
Variable lease expense	\$ 6	\$ 12
Total lease expense	<u>\$ 40</u>	<u>\$ 79</u>

From time to time, VMware enters into lease arrangements with Dell. Lease expense incurred for arrangements with Dell was not significant during the three and six months ended August 2, 2019.

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

	Six Months Ended
	August 2,
	2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 68
Financing cash flows from finance leases	1
ROU assets obtained in exchange for lease liabilities:	
Operating leases	\$ 107
Finance leases	63

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

	August 2, 2019	
	Operating Leases	Finance Leases
ROU assets, non-current ⁽¹⁾	\$ 715	\$ 62
Lease liabilities, current ⁽²⁾	\$ 85	\$ 3
Lease liabilities, non-current ⁽³⁾	588	59
Total lease liabilities	\$ 673	\$ 62

⁽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⁾ Operating lease liabilities are presented as operating lease liabilities on the condensed consolidated balance sheets. 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:

	August 2, 2019
Weighted-average remaining lease term (in years)	
Operating leases	15.5
Finance leases	9.7
Weighted-average discount rate	
Operating leases	3.6%
Finance leases	3.1%

The following represents VMware's future minimum lease payments under non-cancellable operating and finance leases as of August 2, 2019 (table in millions):

	Operating Leases	Finance Leases
Remainder of 2020	\$ 52	\$ 2
2021	99	6
2022	88	7
2023	76	8
2024	56	7
Thereafter	556	43
Total future minimum lease payments	927	73
Less: Imputed interest	(254)	(11)
Total lease liabilities⁽¹⁾	\$ 673	\$ 62

⁽¹⁾ Total lease liabilities as of August 2, 2019 exclude legally binding lease payments for leases signed but not yet commenced of \$336 million.

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Future lease payments under non-cancellable operating leases as of February 1, 2019 were as follows (table in millions):

2020	\$	109
2021		79
2022		64
2023		54
2024		41
Thereafter		523
Total ⁽¹⁾	\$	870

⁽¹⁾Total future lease payments as of February 1, 2019 exclude legally binding minimum lease payments for leases signed but not yet commenced of \$164 million.

L. Stockholders' Equity

On June 25, 2019, VMware amended its 2007 Equity and Incentive Plan and 2007 Employee Stock Purchase Plan to increase the number of shares available for issuance by 13 million and 9 million shares of Class A common stock, respectively.

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 can 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 August 2017, VMware's board of directors authorized the repurchase of up to \$1.0 billion of Class A common stock through August 31, 2018. On July 1, 2018, VMware's board of directors extended authorization of the existing stock repurchase program through August 31, 2019. On May 29, 2019, VMware's board of directors authorized the repurchase of up to an additional \$1.5 billion of Class A common stock through the end of fiscal year 2021. The \$1.5 billion authorization is in addition to VMware's ongoing \$1.0 billion stock repurchase program authorized in August 2017. In aggregate, \$1.3 billion remained available for repurchase as of August 2, 2019.

The following table summarizes stock repurchase activity during the three and six months ended August 2, 2019 (aggregate purchase price in millions, shares in thousands):

	<u>Three Months Ended</u> <u>August 2,</u> <u>2019</u>	<u>Six Months Ended</u> <u>August 2,</u> <u>2019</u>
Aggregate purchase price ⁽¹⁾	\$ 446	\$ 1,037
Class A common shares repurchased	2,431	5,695
Weighted-average price per share	\$ 183.53	\$ 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.

There were no repurchases of VMware Class A common stock during the three and six months ended August 3, 2018.

VMware Restricted Stock

VMware's restricted stock primarily consists of RSU awards, which have been granted to employees. The value of an RSU grant is based on VMware's stock price on the date of 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, which have been granted to certain VMware executives and employees. The PSU awards include 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

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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 February 1, 2019 (units in thousands):

	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Outstanding, February 1, 2019	18,215	\$ 90.06
Granted	5,013	165.41
Vested	(5,078)	80.50
Forfeited	(930)	90.13
Outstanding, August 2, 2019	17,220	114.81

The aggregate vesting date fair value of VMware's restricted stock that vested during the six months ended August 2, 2019 was \$931 million. As of August 2, 2019, restricted stock representing 17.2 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 August 2, 2019.

Net Excess Tax Benefits

Net excess tax benefits recognized in connection with stock-based awards are included in income tax provision on the condensed consolidated statements of income. Net excess tax benefits recognized during the three and six months ended August 2, 2019 were \$35 million and \$108 million, respectively, and were \$27 million and \$53 million during the three and six months ended August 3, 2018, 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 Available-for-Sale Securities	Unrealized Gain (Loss) on Forward Contracts	Total
Balance, February 1, 2019	\$ 1	\$ 1	\$ 2
Unrealized gains (losses), net of tax provision (benefit) of \$—, \$— and \$—	(1)	7	6
Amounts reclassified from accumulated other comprehensive income (loss) to the condensed consolidated statements of income, net of tax (provision) benefit of \$—, \$— and \$—	—	(1)	(1)
Other comprehensive income (loss), net	(1)	6	5
Balance, August 2, 2019	\$ —	\$ 7	\$ 7

	Unrealized Gain (Loss) on Available-for-Sale Securities	Unrealized Gain (Loss) on Forward Contracts	Total
Balance, February 2, 2018	\$ (15)	\$ —	\$ (15)
Adjustments related to adoption of ASU 2016-01 and 2018-02	(15)	—	(15)
Unrealized gains (losses), net of tax provision (benefit) of \$2, \$— and \$2	(9)	(12)	(21)
Amounts reclassified from accumulated other comprehensive income (loss) to the condensed consolidated statements of income, net of tax (provision) benefit of \$—, \$— and \$—	—	1	1
Other comprehensive income (loss), net	(9)	(11)	(20)
Balance, August 3, 2018	\$ (39)	\$ (11)	\$ (50)

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Unrealized gains and losses on VMware's available-for-sale securities are reclassified to investment income on the condensed consolidated statements of income in the period that such gains and losses are realized.

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 their 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 deciding how to allocate resources and assessing 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	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Revenue:				
License	\$ 1,011	\$ 900	\$ 1,879	\$ 1,674
Services:				
Software maintenance	1,235	1,109	2,440	2,186
Professional services	193	165	386	323
Total services	1,428	1,274	2,826	2,509
Total revenue ⁽¹⁾	\$ 2,439	\$ 2,174	\$ 4,705	\$ 4,183

⁽¹⁾ Includes revenue derived from VMware's hybrid cloud subscription and SaaS offerings, which was \$305 million and \$589 million during the three and six months ended August 2, 2019, respectively, and \$217 million and \$427 million during the three and six months ended August 3, 2018, respectively. Revenue from Hybrid Cloud Computing offerings consisted primarily of VMware Cloud Provider Program revenue.

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

	Three Months Ended		Six Months Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
United States	\$ 1,171	\$ 1,062	\$ 2,223	\$ 2,000
International	1,268	1,112	2,482	2,183
Total	\$ 2,439	\$ 2,174	\$ 4,705	\$ 4,183

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 August 2, 2019 and August 3, 2018.

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

	August 2, 2019	February 1, 2019
United States	\$ 840	\$ 831
International	185	106
Total	\$ 1,025	\$ 937

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No individual country other than the U.S. accounted for 10% or more of these assets as of August 2, 2019 and February 1, 2019.

N. Subsequent Events

Subsequent to the fiscal quarter ended August 2, 2019, VMware entered into the following transactions:

Definitive Agreement to Acquire Pivotal

VMware entered into a definitive agreement to acquire Pivotal at a blended price per share of \$11.71, comprised of \$15.00 per share in cash to the stockholders of Pivotal's Class A common shares, and VMware's Class B common shares exchanged for Pivotal's Class B common shares held by Dell, at an exchange ratio of 0.0550 VMware shares for each Pivotal share. In aggregate, this transaction will result in an expected net cash payout of \$0.8 billion for VMware and issuance of approximately 7.2 million shares of VMware's Class B common stock to Dell. The impact of equity issued to Dell would increase its ownership stake in VMware by approximately 0.3 percentage points to 81.1% based on the shares outstanding as of the announcement of the acquisition. Pivotal provides a leading cloud-native platform that makes software development and IT operations a strategic advantage for their customers. The acquisition has been approved by the boards of directors of both VMware and Pivotal (each acting upon the unanimous recommendation of a special committee of the board of directors of each company, consisting solely of independent and disinterested directors, authorized to, among other things, negotiate, evaluate and approve or disapprove potential transactions with one another), and is expected to close during the second half of fiscal 2020, subject to approval of the merger agreement by Pivotal stockholders (including at least a majority of the outstanding shares of Pivotal's Class A common stock not owned by VMware or any of its affiliates, including Dell), regulatory approvals and other customary closing conditions. The purchase of Pivotal will be accounted for as a transaction by entities under common control. Assets and liabilities transferred will be recorded at their historical carrying amounts on the date of the transfer, with no goodwill being recognized. This transaction will require retrospective combination of the entities for all periods presented, as if the combination had been in effect since the inception of common control.

Definitive Agreement to Acquire Carbon Black, Inc.

VMware entered into a definitive agreement to acquire Carbon Black, Inc. ("Carbon Black") through a cash tender offer of \$26.00 per share, resulting in an expected net cash payout of \$1.9 billion by VMware. Carbon Black develops cloud-native endpoint security software. The acquisition has been approved by the boards of directors of both VMware and Carbon Black, and is expected to close during the second half of fiscal 2020, subject to completion of the tender offer, regulatory approvals and other customary closing conditions.

Commitment for Senior Unsecured Term Loan Facility

VMware received a commitment from a financial institution for a senior unsecured 364-day term loan facility that would provide the Company with a borrowing capacity of up to \$2.0 billion (the "Commitment"), which, if funded, may be used for general corporate purposes. The initial funding of the Commitment is subject to various customary conditions, including execution and delivery of definitive loan agreement and related documentation.

Amendment of Tax Sharing Agreement with Dell

VMware and Dell entered into a support agreement in connection with VMware's entry into an agreement to acquire Pivotal, which provides that, subject to VMware's ability to consummate the Pivotal acquisition and prior to its close, VMware and Dell will execute an amended tax sharing agreement that will, subject to certain exceptions, generally limit VMware's maximum annual tax liability to Dell to the amount VMware would owe on a separate tax return basis.

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 August 2, 2019 should be read in conjunction with our consolidated financial statements for the year ended February 1, 2019 contained in our Form 10-K filed on March 29, 2019.

Period-over-period changes are calculated based upon the respective underlying, non-rounded data. We refer to our fiscal years ended January 31, 2020 and February 1, 2019 as "fiscal 2020" and "fiscal 2019," 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 their business through a digital transformation. To take on these challenges, we are working with customers in the areas of hybrid cloud, multi-cloud, modern applications, networking and security, and digital workspaces. Our software provides a flexible digital foundation to help 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 Cloud Computing and End-User Computing ("EUC"). This portfolio supports and addresses the key IT priorities of our customers: accelerating their cloud journey, empowering digital workspaces and transforming networking and security. These VMware solutions enable the digital transformation our customers need as they ready their applications, infrastructure and devices for their future 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 August 2, 2019, we continued to see growth in sales of our SDDC solutions. Future sales growth rates may fluctuate period to period, depending largely upon the extent to which SDDC technologies are included in our larger EAs. For example, sales from our management products were positively impacted during the six months ended August 2, 2019 as a result of being included in some of the larger strategic deals.

Hybrid 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. Hybrid Cloud Computing was primarily comprised of VMware Cloud Provider Program ("VCP") 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 August 2, 2019, revenue growth in our Hybrid Cloud Computing offerings was primarily driven by our VCP offerings. We expect CloudHealth by VMware and VMware Cloud on AWS to contribute to revenue growth in fiscal 2020.

Subsequent to the fiscal quarter ended August 2, 2019, we entered into definitive agreements to acquire both Pivotal Software, Inc. ("Pivotal") and Carbon Black, Inc. We expect these acquisitions to close in the second half of our fiscal 2020 and contribute to the growth of our revenue derived from our hybrid cloud subscription and SaaS offerings.

EUC or 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 software-as-a-service ("SaaS") solutions.

EUC sales continued to increase during the six months ended August 2, 2019, driven by the adoption of our subscription offerings such as Workspace ONE.

Dell Synergies

We continue joint marketing, sales, branding and product development efforts with Dell Technologies Inc. (“Dell”) and other Dell companies to enhance the collective value we deliver to our mutual customers. Our collective business built with Dell continued to create synergies that benefited our sales during the six months ended August 2, 2019.

Results of Operations

Approximately 70% of our sales are denominated in the United States (“U.S.”) dollar, however, in certain countries we also invoice and collect in the following currencies: 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			
	August 2, 2019	August 3, 2018	\$ Change	% Change	August 2, 2019	August 3, 2018	\$ Change	% Change
Revenue:								
License	\$ 1,011	\$ 900	\$ 111	12%	\$ 1,879	\$ 1,674	\$ 205	12%
Services:								
Software maintenance	1,235	1,109	126	11	2,440	2,186	254	12
Professional services	193	165	27	17	386	323	63	19
Total services	1,428	1,274	154	12	2,826	2,509	317	13
Total revenue	\$ 2,439	\$ 2,174	\$ 265	12	\$ 4,705	\$ 4,183	\$ 522	12
Revenue:								
United States	\$ 1,171	\$ 1,062	\$ 108	10%	\$ 2,223	\$ 2,000	\$ 223	11%
International	1,268	1,112	156	14	2,482	2,183	299	14
Total revenue	\$ 2,439	\$ 2,174	\$ 265	12	\$ 4,705	\$ 4,183	\$ 522	12

Revenue from our Hybrid Cloud Computing offerings consisted primarily of VCPP, and revenue from our SaaS offerings consisted primarily of our Unified Endpoint Management mobile solution within Workspace ONE. VCPP revenue is included in license revenue and SaaS revenue is included in both license and services revenue. Hybrid Cloud Computing, together with our SaaS offerings, increased to greater than 12% of our total revenue during the three and six months ended August 2, 2019 from approximately 10% of our total revenue during the three and six months ended August 3, 2018.

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

License Revenue

License revenue during the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018, continued to benefit from broad-based growth across our diverse product portfolio and across our U.S. and international geographies. Revenue growth from our VCPP offerings continued to contribute to license revenue growth during the three and six months ended August 2, 2019. Strength in our EA renewal business also contributed to license revenue growth during the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018.

Services Revenue

During the three and six months ended August 2, 2019, software maintenance revenue continued to benefit from strong renewals of our EAs, maintenance contracts sold in previous periods and additional maintenance contracts sold in conjunction

with new software license sales. 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 17% and 19% during the three and six months ended August 2, 2019, respectively, as compared to the three and six months ended August 3, 2018. Services we provide through our technical account managers and our continued focus on solution deployments, including our VMware NSX (“NSX”) products, management solutions as well as other emerging technology products, contributed to the increase in professional services revenue. 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):

	August 2, 2019	February 1, 2019
Unearned license revenue	\$ 338	\$ 255
Unearned software maintenance revenue	6,357	5,972
Unearned professional services revenue	838	751
Total unearned revenue	<u>\$ 7,533</u>	<u>\$ 6,978</u>

Unearned license revenue is primarily related to the allocated portion of our SaaS offerings and 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 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 August 2, 2019 was approximately two years. In addition, unearned software maintenance revenue also includes the allocated portion of our SaaS offerings. 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 August 2, 2019, the aggregate transaction price allocated to remaining performance obligations was \$8.0 billion, of which approximately 54% is expected to be recognized as revenue over the next 12 months and the remainder thereafter. As of February 1, 2019, the aggregate transaction price allocated to remaining performance obligations was \$7.7 billion, of which approximately 56% was expected to be recognized as revenue during fiscal 2020, 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 August 2, 2019, our total backlog was \$117 million. Backlog primarily consists of licenses, maintenance and services. Our backlog related to licenses was \$13 million, which we generally expect to deliver and recognize as revenue during the following quarter. Backlog totaling \$9 million as of August 2, 2019 was excluded from the remaining performance obligations because such contracts are subject to cancellation until fulfillment of the performance obligation occurs. As of February 1, 2019, our total backlog was approximately \$449 million and our backlog related to licenses was approximately \$147 million. Backlog totaling \$34 million as of February 1, 2019 was excluded from the remaining performance obligations because such contracts are subject to cancellation until fulfillment of the performance obligation occurs.

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 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 across most of our income statement expense categories for the three and six months ended August 2, 2019. We expect increases in cash-based employee-related expenses to continue.

Cost of License Revenue

Cost of license revenue primarily consists of the cost of fulfillment of our software and 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 SD-WAN offerings includes personnel costs and related overhead associated with the physical and electronic delivery of our products.

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

	Three Months Ended				Six Months Ended			
	August 2,	August 3,	\$ Change	% Change	August 2,	August 3,	\$ Change	% Change
	2019	2018			2019	2018		
Cost of license revenue	\$ 50	\$ 45	\$ 5	10%	\$ 100	\$ 90	\$ 10	11%
Stock-based compensation	—	—	—	102	1	—	—	74
Total expenses	\$ 50	\$ 45	\$ 5	11	\$ 101	\$ 90	\$ 10	11
<i>% of License revenue</i>	5%	5%			5%	5%		

Cost of license revenue increased during the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018, but remained relatively consistent as a percentage of license revenue.

Cost of Services Revenue

Cost of services revenue primarily includes the costs of personnel and related overhead to physically and electronically deliver technical support for our products, hosted services supporting our SaaS offerings, 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			
	August 2,	August 3,	\$ Change	% Change	August 2,	August 3,	\$ Change	% Change
	2019	2018			2019	2018		
Cost of services revenue	\$ 298	\$ 248	\$ 50	20%	\$ 584	\$ 487	\$ 97	20%
Stock-based compensation	17	12	4	36	33	24	9	40
Total expenses	\$ 315	\$ 260	\$ 55	21	\$ 617	\$ 511	\$ 106	21
<i>% of Services revenue</i>	22%	20%			22%	20%		

Cost of services revenue increased during the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018. The increase was primarily due to growth in cash-based employee-related expenses of \$23 million and \$42 million, respectively, during the three and six months ended August 2, 2019, driven by incremental growth in headcount and salaries, and an increase in costs associated with third-party hosting services to support our SaaS offerings of \$16 million and \$31 million, respectively, during the three and six months ended August 2, 2019. The increase during the six months ended August 2, 2019 was also driven by increased equipment and depreciation of \$13 million, as well as third-party professional services costs of \$12 million, resulting from an increase in demand for technical support and services.

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 VMware 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			
	August 2, 2019	August 3, 2018	\$ Change	% Change	August 2, 2019	August 3, 2018	\$ Change	% Change
Research and development	\$ 453	\$ 391	\$ 62	16%	\$ 891	\$ 760	\$ 131	17%
Stock-based compensation	101	90	11	12	196	174	22	13
Total expenses	\$ 554	\$ 481	\$ 72	15	\$ 1,087	\$ 934	\$ 153	16
% of Total revenue	23%	22%			23%	22%		

Research and development expenses increased during the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018. The increase was primarily due to growth in cash-based employee-related expenses of \$53 million and \$97 million, respectively, during the three and six months ended August 2, 2019 driven by incremental growth in headcount and salaries. The increase was also driven by an increase of stock-based compensation of \$11 million and \$22 million, respectively, during the three and six months ended August 2, 2019 primarily driven by an increase in restricted stock unit awards granted after the first quarter of fiscal 2019. Equipment, depreciation and facilities related costs of \$29 million also contributed to the increase during the six months ended August 2, 2019.

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 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			
	August 2, 2019	August 3, 2018	\$ Change	% Change	August 2, 2019	August 3, 2018	\$ Change	% Change
Sales and marketing	\$ 737	\$ 647	\$ 91	14%	\$ 1,460	\$ 1,308	\$ 152	12%
Stock-based compensation	60	49	11	22	115	95	21	22
Total expenses	\$ 797	\$ 696	\$ 101	15	\$ 1,575	\$ 1,403	\$ 173	12
% of Total revenue	33%	32%			33%	34%		

Sales and marketing expenses increased during the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018. The increase was primarily due to growth in cash-based employee-related expenses of \$68 million and \$119 million, respectively, during the three and six months ended August 2, 2019 driven by incremental growth in headcount and salaries, as well as higher commission costs resulting from increased sales volume. The increase was also driven by an increase in stock-based compensation of \$11 million and \$21 million, respectively, during the three and six months ended August 2, 2019 primarily driven by an increase in restricted stock unit awards granted after the first quarter of fiscal 2019. The increase during the six months ended August 2, 2019 was also driven by increased equipment and depreciation of \$13 million.

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			
	August 2,	August 3,	\$ Change	% Change	August 2,	August 3,	\$ Change	% Change
	2019	2018			2019	2018		
General and administrative	\$ 170	\$ 156	\$ 13	8%	\$ 330	\$ 305	\$ 25	8%
Stock-based compensation	30	26	5	19	57	46	11	23
Total expenses	\$ 200	\$ 182	\$ 18	10	\$ 387	\$ 351	\$ 36	10
<i>% of Total revenue</i>	8%	8%			8%	8%		

General and administrative expenses remained relatively consistent as a percentage of total revenue during the three months ended August 2, 2019 compared to the three months ended August 3, 2018.

General and administrative expenses increased during the six months ended August 2, 2019 compared to the six months ended August 3, 2018 primarily due to growth in cash-based employee-related expenses of \$26 million, driven by incremental growth in headcount and salaries, as well as an increase in compensation expense of \$16 million relating to installment payments to certain key employees of our acquisitions subject to future employment. Stock-based compensation of \$11 million also contributed to the increase during the six months ended August 2, 2019, primarily driven by an increase in restricted stock unit awards granted after the first quarter of fiscal 2019. The increase for the six months ended August 2, 2019 was also affected by the variability in timing and amount of charitable donations.

Investment Income

Investment income during the periods presented was as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	August 2,	August 3,	\$ Change	% Change	August 2,	August 3,	\$ Change	% Change
	2019	2018			2019	2018		
Investment income	\$ 14	\$ 57	\$ (43)	(76)%	\$ 28	\$ 105	\$ (78)	(74)%
<i>% of Total revenue</i>	1%	3%			1%	3%		

Investment income decreased during the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018. The decrease was primarily due to a decrease in interest income driven by the decline in our cash equivalents and short-term investments as a result of the liquidation of our fixed income investments that were used primarily to fund the \$11.0 billion special cash dividend paid during the fourth quarter of fiscal 2019. We expect investment income during fiscal 2020 to decrease as compared to fiscal 2019, primarily due to lower cash equivalent and short-term investment balances in fiscal 2020.

Other Income (Expense), net

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

	Three Months Ended				Six Months Ended			
	August 2,	August 3,	\$ Change	% Change	August 2,	August 3,	\$ Change	% Change
	2019	2018			2019	2018		
Other income (expense), net	\$ (502)	\$ 240	\$ (742)	(310)%	\$ (359)	\$ 1,018	\$ (1,376)	(135)%
<i>% of Total revenue</i>	(21)%	11%			(8)%	24%		

The decrease in other income (expense), net was primarily related to our investment in Pivotal. To adjust our investment in Pivotal to its fair value, we recognized unrealized losses of \$538 million and \$406 million, respectively, during the three and six months ended August 2, 2019. The unrealized losses were partially offset by unrealized gains of \$23 million related to our other strategic investments for the three and six months ended August 2, 2019.

During the three and six months ended August 3, 2018, unrealized gains of \$231 million and \$1.0 billion, including an unrealized gain of \$668 million recognized as a result of Pivotal's initial public offering, respectively, were recognized to adjust our investment in Pivotal to its fair value.

The fair value of our investment is determined primarily using the quoted market price of Pivotal's Class A common stock. As a result, any volatility in Pivotal's publicly traded Class A common stock introduces variability to our condensed consolidated statements of income.

Subsequent to August 2, 2019 and following the announcement of our proposed acquisition of Pivotal, Pivotal's stock price has increased significantly. If Pivotal's stock price remains unchanged from its current value, we will recognize a substantial unrealized gain on our investment in Pivotal as of the next measurement date.

Income Tax Provision

(Dollars in millions)	Three Months Ended		Six Months Ended	
	August 2,	August 3,	August 2,	August 3,
	2019	2018	2019	2018
Income tax provision (benefit)	\$ (4,925)	\$ 128	\$ (4,890)	\$ 361
Effective tax rate	N/M	16.6%	N/M	18.5%

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. During the second quarter of fiscal 2020, we completed an intra-group transfer of certain of our intellectual property rights (the "IP") to our Irish subsidiary, where our international business is headquartered (the "IP Transfer"). The transaction will change our mix of international income from a lower non-U.S. tax jurisdiction to Ireland, which is subject to a statutory tax rate of 12.5%. However, we do not expect our effective income tax rate to increase significantly in fiscal 2020, as we expect the income earned in Ireland will largely be offset by certain tax deductions.

A discrete tax benefit of \$4.9 billion was recognized as a deferred tax asset during the three and six months ended August 2, 2019. This deferred tax asset was recognized as a result of the book and tax basis difference on the IP transferred to Ireland. The tax amortization related to the IP transferred will be recognized in future periods and any amortization that is unused in a particular year can be carried forward indefinitely under Irish tax laws. The deferred tax asset and the tax benefit were measured based on the Irish tax rate expected to apply in the years the asset will be recovered. We expect to realize the deferred tax asset resulting from the IP Transfer and will assess the realizability of the deferred tax asset periodically. The impact of the transaction to net cash provided by or used in operating, investing and financing activities on our condensed consolidated statements of cash flows during the six months ended August 2, 2019 was not material.

The decrease in our effective income tax rate for the three and six months ended August 2, 2019 compared to the three and six months ended August 3, 2018 was also driven by discrete tax impacts related to our book and tax basis difference on our investment in Pivotal. Discrete tax benefits of \$133 million and \$100 million, respectively, were recognized for the three and six months ended August 2, 2019 as compared to discrete tax expenses of \$57 million and \$236 million, net of the reversal of the previously recorded valuation allowance, respectively, were recognized for the three and six months ended August 3, 2018.

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 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.

Our future effective tax rate 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 is subject to variance arising from changes in international tax laws and may also be significantly affected by such factors, as 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 and tax deficiencies within the income tax

provision in the period in which they occur, the impact of accounting for business combinations, changes in the composition 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

As of August 2, 2019, Dell controlled 31 million shares of Class A common stock and all 300 million shares of Class B common stock, representing 80.8% of our total outstanding shares of common stock and 97.5% of the combined voting power of our outstanding common stock. For a description of related risks, refer to “Risks Related to Our Relationship with Dell” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The information provided below includes a summary of the transactions entered into with Dell and Dell’s consolidated subsidiaries, including EMC Corporation (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 original equipment manufacturer 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.
- Pursuant to an ongoing distribution agreement, we act as the selling agent for certain products and services of Pivotal, a subsidiary of Dell, in exchange for an agency fee. Under this agreement, cash is collected from the end user by us and remitted to Pivotal, net of the contractual agency fee.
- 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.

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	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018	August 2, 2019	February 1, 2019
Reseller revenue	\$ 729	\$ 531	\$ 1,347	\$ 892	\$ 2,771	\$ 2,375
Internal-use revenue	5	5	11	12	18	13
Agency fee revenue	—	—	1	4	—	—
Collaborative technology project receipts	2	1	4	1	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 \$123 million and \$85 million as of August 2, 2019 and February 1, 2019, 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.

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

	Three Months Ended		Six Months Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Purchases and leases of products and purchases of services ⁽¹⁾	\$ 55	\$ 42	\$ 135	\$ 91
Dell subsidiary support and administrative costs	20	26	46	54

⁽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")

DFS provided financing to certain of our end users at our end users' discretion. Upon acceptance of the financing arrangement by both our end user 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 of \$12 million and \$25 million during the three and six months ended August 2, 2019, respectively, and \$9 million and \$25 million during the three and six months ended August 3, 2018, respectively.

Tax Sharing Agreement with Dell

The following table summarizes the payments made to Dell pursuant to a tax sharing agreement during the periods presented (table in millions):

	Three Months Ended		Six Months Ended	
	August 2, 2019	August 3, 2018	August 2, 2019	August 3, 2018
Payments from VMware to Dell, net	\$ 52	\$ —	\$ 89	\$ 3

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"). The amounts that we pay to Dell for our 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 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 determination made by Dell. The amount recognized in additional paid-in capital during the three and six months ended August 3, 2018 was not significant.

Subsequent to the fiscal quarter ended August 2, 2019, we and Dell signed a support agreement in connection with our entry into an agreement to acquire Pivotal, which provides that, subject to our ability to consummate the Pivotal acquisition and prior to its close, we and Dell will execute an amended tax sharing agreement that will, subject to certain exceptions, generally limit our maximum annual tax liability to Dell to the amount we would owe on a separate tax return basis.

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):

	August 2, 2019	February 1, 2019
Due from related parties, current	\$ 934	\$ 1,079
Due to related parties, current ⁽¹⁾	180	142
Due from related parties, net, current ⁽²⁾	<u>\$ 754</u>	<u>\$ 937</u>
Income tax related asset, net, current	\$ 26	\$ —
Income tax due to related parties, non-current	492	646

⁽¹⁾ Includes an immaterial amount related to our current operating lease liabilities due to related parties as of August 2, 2019.

⁽²⁾ 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 August 2, 2019.

Amounts included in due from related parties, net, excluding DFS and tax obligations, includes 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

On January 21, 2014, we entered into a note exchange agreement with our parent company providing for the issuance of three promissory notes in the aggregate principal amount of \$1.5 billion, which consisted of outstanding principal due on the following dates: \$680 million due May 1, 2018, \$550 million due May 1, 2020 and \$270 million due December 1, 2022.

On August 21, 2017, we repaid two of the notes payable to Dell in the aggregate principal amount of \$1.2 billion, representing repayment of the note due May 1, 2018 at par value and repayment of the note due May 1, 2020 at a discount. The remaining note payable of \$270 million due December 1, 2022 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 August 2, 2019 and August 3, 2018, interest expense on the notes payable to Dell was not significant.

Pivotal

Prior to Pivotal's initial public offering on April 20, 2018, our previously held preferred shares were converted to shares of non-trading Class B common stock, resulting in us having a financial interest of 17% and a voting interest of 24% in Pivotal as of February 1, 2019. As of August 2, 2019, we had a financial interest of 16% and a voting interest of 24% in Pivotal. During the three and six months ended August 2, 2019, we recognized unrealized gains of \$538 million and \$406 million, respectively, to adjust our investment in Pivotal to its fair value. During the three and six months ended August 3, 2018, we recognized unrealized gains of \$231 million and \$1.0 billion, respectively, to adjust our investment in Pivotal to its fair value, including an unrealized gain of \$668 million recognized as a result of Pivotal's initial public offering.

Refer to Note H to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

Liquidity and Capital Resources

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

	August 2, 2019	February 1, 2019
Cash and cash equivalents	\$ 2,948	\$ 2,830
Short-term investments	—	19
Total cash, cash equivalents and short-term investments	<u>\$ 2,948</u>	<u>\$ 2,849</u>

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 investments, 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. As a result of the enactment of the 2017 Tax Cuts and Jobs Act (“2017 Tax Act”), we have greater flexibility to repatriate foreign earnings in future periods without significant U.S. tax impact. 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.

The 2017 Tax Act imposed a Transition Tax and eliminates 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 August 2, 2019 was \$577 million, which we expect to pay over the next six 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. During the three and six months ended August 2, 2019, \$84 million was recognized, primarily due to a reduction in Transition Tax liability based on the terms of the Letter Agreement and certain tax attribute determination made by Dell, and the amount was recognized as a component of additional paid-in capital.

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

	Six Months Ended	
	August 2, 2019	August 3, 2018
Net cash provided by (used in):		
Operating activities	\$ 1,972	\$ 1,882
Investing activities	(535)	361
Financing activities	(1,283)	(92)
Net increase in cash, cash equivalents and restricted cash	<u>\$ 154</u>	<u>\$ 2,151</u>

Operating Activities

Cash provided by operating activities increased by \$90 million during the six months ended August 2, 2019 compared to the six months ended August 3, 2018. Cash provided by operating activities benefited from an increase in cash collections due to increased sales. The increase was partially offset by increased cash payments for operating expenses and employee-related expenses, including salaries, bonuses and commissions, resulting primarily from growth in headcount.

Investing Activities

Cash used in investing activities is generally attributable to the purchase of available-for-sale securities, business acquisitions and capital expenditures. Cash provided by investing activities is affected by the sales and maturities of our available-for-sale securities.

Cash used in investing activities increased by \$896 million during the six months ended August 2, 2019 compared to the six months ended August 3, 2018, driven primarily by decreased net proceeds from our available-for-sale securities as a result of the liquidation of our fixed income investments used to fund the payment of the \$11.0 billion special cash dividend during

the fourth quarter of fiscal 2019. Additionally, cash used in business combinations was higher during the six months ended August 2, 2019.

Financing Activities

Cash used in financing activities increased by \$1.2 billion during the six months ended August 2, 2019 compared to the six months ended August 3, 2018. The increase was primarily a result of an increase in the repurchase of our common stock as well as an increase in shares repurchased for tax withholdings on vesting of restricted stock.

Long-term Debt

On August 21, 2017, we issued three series of unsecured notes (“Senior Notes”) pursuant to a public debt offering in the aggregate principal amount of \$4.0 billion.

The carrying value of the Senior Notes as of August 2, 2019 was as follows (amounts in millions):

Long-term debt:		
2.30% Senior Note Due August 21, 2020	\$	1,250
2.95% Senior Note Due August 21, 2022		1,500
3.90% Senior Note Due August 21, 2027		1,250
Total principal amount	\$	<u>4,000</u>

Interest is payable semiannually in arrears, on February 21 and August 21 of each year. During each of the six months ended August 2, 2019 and August 3, 2018, \$61 million was paid for interest related to the Senior Notes.

The Senior Notes also include 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.

Revolving Credit Facility

On September 12, 2017, we entered into a Credit Facility with a syndicate of lenders that provides us with a borrowing capacity of up to \$1.0 billion, which may be used for general corporate purposes. The credit agreement contains certain representations, warranties and covenants. Commitments under the 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 August 2, 2019, there were no outstanding borrowings under the Credit Facility.

Commitment for Senior Unsecured Term Loan Facility

Subsequent to the fiscal quarter ended August 2, 2019, we received a commitment from a financial institution for a senior unsecured 364-day term loan facility that would provide us with a borrowing capacity of up to \$2.0 billion (the “Commitment”), which, if funded, may be used for general corporate purposes. The initial funding of the Commitment is subject to various customary conditions, including execution and delivery of definitive loan agreement and related documentation.

Note Payable to Dell

As of August 2, 2019, the carrying value of the outstanding note payable to Dell due December 1, 2022 was \$270 million. Interest is payable quarterly in arrears at the annual rate of 1.75%. The amount paid for interest related to the Note was not significant during the six months ended August 2, 2019 and August 3, 2018.

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 can 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.

On May 29, 2019, our board of directors authorized the repurchase of up to an additional \$1.5 billion of Class A common stock through the end of fiscal year 2021. The \$1.5 billion authorization is in addition to our ongoing stock repurchase program authorized in August 2017. As of August 2, 2019, the cumulative authorized amount remaining for stock repurchases was \$1.3 billion. Refer to Note L to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

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, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become 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 Form 10-K filed on March 29, 2019 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.

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 impact of a recent change in VMware’s corporate structure; plans for and anticipated benefits of VMware products, services and solutions and partner and alliance relationships; plans for, timing of and anticipated benefits of corporate transactions, acquisitions, stock repurchases and investment activities; the outcome or impact of pending litigation, claims or disputes; 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 August 2, 2019. See Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our Form 10-K filed on March 29, 2019 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 August 2, 2019 that materially affected, or are reasonably likely to materially affect, 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 J of the “Notes to 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 facing us. 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”) 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.”

Risks Related to Our Business

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 and hybrid cloud-based computing and mobile computing, including our vSphere-based software-defined data center (“SDDC”) products such as our vRealize management and automation offerings, VMware vSAN storage virtualization offerings, and network virtualization (“NSX”) offerings, as well as our Horizon client virtualization offerings, Unified Endpoint Management mobile device management offerings and our VMware Cloud on AWS offering. We have also been introducing software-as-a-service (“SaaS”) versions of our on-premises products, including VMware Horizon Suite and certain Unified Endpoint Management offerings, and are working to extend our comprehensive data center virtualization and container platform into the public cloud and to introduce cloud products and services by investing in cloud and SaaS initiatives and partnering with public cloud providers such as Amazon Web Services (“AWS”) and IBM. Additionally, through our partnership with CloudSimple, we announced the availability of Azure VMware Solutions in May 2019 and VMware on Google Cloud Platform in July 2019. Recently, VMware has also begun to build, invest in, and acquire a range of SaaS and cloud-native technologies and products, including those acquired through our Heptio Inc., CloudHealth Technologies, Inc., and VeloCloud Networks, Inc. (“VeloCloud”) acquisitions, and we have launched managed subscription services such as VMware Cloud on AWS and our planned VMware Cloud on Dell EMC. These 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 and hybrid 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 our newer products and services are adopted more slowly than revenue growth in our established server virtualization offerings declines, our revenue growth rates may slow materially or our revenue may decline substantially, 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 hybrid cloud 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 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 public 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 (“VCP”) offerings from our partners may compete directly with infrastructure-as-a-service (“IaaS”) offerings from various public cloud providers such as 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 Azure Stack and AWS Outposts. In fiscal 2018, we made VMware Cloud on AWS, a strategic alliance with AWS to deliver a vSphere-based cloud service running in AWS data centers, available in certain geographies. Our strategic alliance with AWS may also be seen as competitive with VCP offerings and adversely affect our relationship with VCP partners, while some VCP partners may elect to include 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. 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 cloud products, 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-premise 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 appear to provide pricing competition and enable competing vendors to leverage these open source technologies to compete directly with us. A number of enterprise IT vendors have released solutions based on open source technologies that are targeting data center virtualization and private cloud, including Red Hat, now a part of IBM, and Nutanix. VMware is delivering container technologies such as PKS, and Cloud Native Application technologies that are designed to help 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.

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 offerings. We may not be successful in attracting and retaining qualified personnel. We have in the past experienced, and we expect to continue to experience in the future, 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, recent 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, a recurrence of the sovereign debt crisis in Europe, repercussions from the United Kingdom’s (“U.K.”) planned exit from the European Union (“EU”) (“Brexit”) or that region’s failure to sustain its recovery from recession 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 Brexit and trade tensions between the United States (“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, have made, or threatened to make, significant spending cutbacks 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. 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 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 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 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, hybrid cloud and SaaS, and edge computing initiatives, 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. 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, as we increasingly market the security features in our products, 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 the company 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 hybrid cloud 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, 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 and remediate damages. 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;
- 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;

- fluctuations in the fair value of our investment in Pivotal Software, Inc. (“Pivotal”), which is primarily based on Pivotal’s closing stock price on the last trading day of each fiscal quarter;
- increased volatility in the provision for income taxes in periods in which transfers of intellectual property between our legal entities occur; 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 August 2019, we entered into definitive agreements to acquire Carbon Black, Inc. and Pivotal, each subject to the satisfaction of customary closing conditions and requisite approvals. We also from time to time sell or divest businesses, products and technologies. For instance, in May 2017, we sold the VMware vCloud Air business (“vCloud Air”) to OVH US LLC. Acquisitions and divestitures involve significant risks and uncertainties, which include:

- disrupting our ongoing operations, diverting management from day-to-day responsibilities, increasing our expenses, and adversely impacting our business, financial condition and operating results;
- 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 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, such as the sale of vCloud Air, which 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, such as our recent divestiture of our vCloud Air business;
- 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, including, for example, with respect to the proposed acquisition of Pivotal, Pivotal’s ability to obtain their stockholders’ approval, including from a majority of the minority stockholders, and, with respect to the proposed acquisition of Carbon Black, that at least a majority of Carbon Black’s stockholders have tendered their shares under the terms of the cash tender offer and satisfaction of regulatory approvals, as well as completion of customary closing conditions for each transaction; 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. During the six months ended August 2, 2019, 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, a significant fluctuation in exchange rates between the U.S. dollar and foreign currencies may adversely affect our operating results. For example, we experienced a measurable negative impact to our revenue in 2015 due to exchange rate fluctuations. Any future weakening of foreign currency exchange rates against the U.S. dollar would likely result in additional adverse impact on our revenue.

Our \$11.0 billion special dividend that we distributed in fiscal year 2019 could limit our ability to fund significant future stock repurchases and strategic investments.

On December 28, 2018, we paid a special dividend of \$11.0 billion (the “Special Dividend”) to our stockholders. With payment of the Special Dividend, our cash, cash equivalents and short-term investments declined significantly. While we believe our remaining cash balances and cash generated by our business operations will be sufficient to fund our operations and pursue our existing stock repurchase program and strategic plans, if our business operations do not generate the cash flows we expect, then our ability to fund future stock repurchases, invest in our business and pursue strategic alternatives, including business acquisitions, will be reduced, which could reduce our ability to manage dilution of our stock and limit our future growth.

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 is 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 certain network products and services procured by operators of “critical information infrastructure” undergo a formal security assessment in order to evaluate their “security” and “controllability.” The specific technical requirements of the security assessment have still not been fully defined. Regulations that are still in draft form contemplate more far-reaching data

localization measures, which would require a security assessment be conducted for any business in China to share personal information or a vaguely-defined scope of “important information” with overseas parties.

Also, in December 2015, China enacted an Anti-Terrorism Law 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 will be 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 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 United States and uncertainty regarding how the U.S. and foreign governments 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 and could directly and adversely impact our financial results and results of operations.

Furthermore, if we fail to comply with legal and regulatory requirements covering the foreign activities of U.S. corporations, such as export control requirements and the Foreign Corrupt Practices Act, as well as 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, potential fallout from past disclosures related to the U.S. Internet and communications surveillance and possible efforts to enable increased surveillance 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 \$4.0 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 received a commitment from a financial institution for a \$2.0 billion senior unsecured 364-day term loan facility, the initial funding of which is subject to various customary conditions (collectively, the “Credit Facilities”). 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, hybrid cloud and SaaS, and edge computing 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 23% of our total revenue during the six months ended August 2, 2019. 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, cybersecurity, privacy, data protection, antitrust, breach of contract, employment, class action, whistleblower 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 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 channel 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 J 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 or 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 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 license 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, for failing to comply with the terms of the open sources General Public License v.2 (GPL 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 acquisition of VeloCloud—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 hybrid cloud and SaaS products and services, our 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. 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 semi-conductors). 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.

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 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.

Two of our distributors each accounted for 10% or more of our consolidated revenue during the six months ended August 2, 2019. 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.

Our 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 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 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 SaaS and related cloud 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 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. 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 SaaS offerings would be impaired.

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 comes 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 with many of our 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 August 2, 2019, goodwill and amortizable intangible assets were \$5.7 billion and \$447 million, 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, in fiscal 2019 we implemented new revenue accounting software and 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 Dell-owned EMC consolidated group is routinely under audit by the Internal Revenue Service (“IRS”). All U.S. federal income tax matters have been concluded for years through 2015. 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 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 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 and tax deficiencies within the income tax provision in the period in which they occur, the impact of accounting for business combinations, 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 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 multi-national 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.

Catastrophic events or geo-political conditions could disrupt our business.

Our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity. A significant natural disaster, such as an earthquake, fire, flood or other act of God, 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, 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. For example, during February 2016, the Financial Accounting Standards Board issued ASU 2016-02, Leases (Topic 842). The updated standard required the recognition of a liability for lease obligations and a

corresponding right-of-use asset on the balance sheet, and disclosures of certain information regarding leasing arrangements. We adopted this standard beginning with our first quarter of fiscal 2020 and applied it retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment to retained earnings.

Risks Related to Our Relationship with Dell

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

As of August 2, 2019, Dell beneficially owned 30,679,000 shares of our Class A common stock and all 300,000,000 shares of our Class B common stock, representing 80.8% of the total outstanding shares of common stock or 97.5% 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, during 2018, Dell announced that it was reviewing its strategic opportunities, including a possible business combination with us, a review that led to Dell’s exchange of its Class V common stock designed to track our financial performance for its Class C common stock (the “Dell Share Exchange”) and our payment of the Special Dividend, both on December 28, 2018. Throughout the 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, with completion of the Dell Share Exchange, 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 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.
- 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. 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 August 2, 2019, Dell controlled 80.8% of the total outstanding shares of common stock, including all of our outstanding Class B common stock, representing 97.5% 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 August 2, 2019, Dell controlled 80.8% 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 August 2019, we announced we entered into a merger agreement with Pivotal, which we expect to close during the second half of fiscal 2020. Additionally, we hold a significant ownership interest in Pivotal, which became publicly traded on April 20, 2018.

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. Additionally, following Pivotal's initial public offering, VMware held a 16% financial interest in the outstanding shares of capital stock in Pivotal, which was accounted for using the fair value option. The fair value of VMware's investment is determined primarily using the quoted market price of Pivotal's Class A common stock. Any volatility in Pivotal's publicly traded Class A common stock therefore introduces a degree of variability to our condensed consolidated balance sheets and statements of income, over which we have little control so long as we maintain our ownership interest.

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, hyper-converged 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 which 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 Corporation 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.

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 7 of our 8 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 to Pivotal, 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 August 2, 2019, we recognized revenue of \$734 million and \$1.4 billion, respectively, and as of August 2, 2019, \$2.8 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. The elimination of the trading market for Class V common stock upon completion of the Dell Share Exchange could increase the volatility in the price of our Class A common stock due to our relatively small public float.

Dell, which beneficially owned 80.8% of our outstanding stock as of August 2, 2019, 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 can 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 August 2, 2019 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 4 – May 31, 2019	952,904	\$ 198.82	952,904	\$ 1,553,875,605
June 1 – June 28, 2019	778,501	175.20	778,501	1,417,478,579
June 29 – August 2, 2019	699,800	171.86	699,800	1,297,210,298
	2,431,205	\$ 183.50	2,431,205	1,297,210,298

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

⁽²⁾ Represents the amounts remaining from VMware's \$1.0 billion stock repurchase authorization announced on August 14, 2017, which was extended on July 1, 2018 and expires on August 31, 2019. On May 29, 2019, our board of directors authorized the repurchase of up to an additional \$1.5 billion of Class A common stock through the end of fiscal year 2021. The \$1.5 billion authorization is in addition to our ongoing stock repurchase program authorized in August 2017. Amounts remaining exclude commissions.

VMWARE, INC.
AMENDED AND RESTATED 2007 EQUITY AND INCENTIVE PLAN

1. PURPOSE; TYPES OF AWARDS; CONSTRUCTION.

The purpose of the VMware, Inc. Amended and Restated 2007 Equity and Incentive Plan is to attract, motivate and retain employees and independent contractors of the Company and any Subsidiary and Affiliate and non-employee directors of the Company, any Subsidiary or any Affiliate. The Plan is also designed to encourage stock ownership by such persons, thereby aligning their interest with those of the Company's shareholders and to permit the payment of compensation that qualifies as performance-based compensation under Section 162(m) of the Code. Pursuant to the provisions hereof, there may be granted Options (including "incentive stock options" and "non-qualified stock options"), and Other Stock-Based Awards, including but not limited to Restricted Stock, Restricted Stock Units, Stock Appreciation Rights (payable in shares) and Other Cash-Based Awards.

2. DEFINITIONS. For purposes of the Plan, the following terms are defined as set forth below:

- (a) "Adoption Date" means June 5, 2017, the date approved by the Board as the adoption date of the Plan, including the extension of its term as set forth in Section 7(f) below.
- (b) "Affiliate" means an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act.
- (c) "Award" means individually or collectively, a grant under the Plan of Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights or Other Stock-Based Awards or Other Cash-Based Awards.
- (d) "Award Terms" means any written agreement, contract, notice or other instrument or document evidencing an Award.
- (e) "Beneficial Owner" has the meaning ascribed to such term in Rule 13d-3 of the Exchange Act.
- (f) "Board" means the Board of Directors of the Company.
- (g) "Cause," unless otherwise defined in the Award Terms for a particular Award or in any employment or other agreement between the Grantee and the Company, any Subsidiary or any Affiliate, means:
 - (i) willful neglect, failure or refusal by the Grantee to perform his or her employment duties (except resulting from the Grantee's incapacity due to illness) as reasonably directed by his or her employer;
 - (ii) willful misconduct by the Grantee in the performance of his or her employment duties;
 - (iii) the Grantee's indictment for a felony (other than traffic related offense) or a misdemeanor involving moral turpitude; or
 - (iv) the Grantee's commission of an act involving personal dishonesty that results in financial, reputational, or other harm to the Company, any Affiliate or any Subsidiary, including, but not limited to, an act constituting misappropriation or embezzlement of property.

(h) “Code” means the Internal Revenue Code of 1986, as amended from time to time.

(i) “Committee” means the Compensation and Corporate Governance Committee of the Board or such other Board committee delegated authority by the Board to administer and oversee this Plan. Unless otherwise determined by the Board, the Committee will be comprised solely of directors who are (a) “non-employee directors” under Rule 16b-3 of the Exchange Act, (b) “outside directors” under Section 162(m) of the Code and (c) who otherwise meet the definition of “independent directors” pursuant to the applicable requirements of any national stock exchange upon which the Stock is listed. Any director appointed to the Committee who does not meet the foregoing requirements should recuse himself or herself from all determinations pertaining to Rule 16b-3 of the Exchange Act and Section 162(m) of the Code.

(j) “Company” means VMware, Inc., a corporation organized under the laws of the State of Delaware, or any successor corporation.

(k) “Covered Employee” has the meaning set forth in Section 162(m)(3) of the Code.

(l) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, and as now or hereafter construed, interpreted and applied by regulations, rulings and cases.

(m) “Fair Market Value” means the closing sales price per share of Stock on the principal securities exchange on which the Stock is traded (i) on the date of grant or (ii) on such other date on which the fair market value of Stock is required to be calculated pursuant to the terms of an Award, provided that if there is no such sale on the relevant date, then on the last previous day on which a sale was reported; if the Stock is not listed for trading on a national securities exchange, the fair market value of Stock will be determined in good faith by the Committee.

(n) “Grantee” means a person who, as an employee, independent contractor or non-employee director of the Company, a Subsidiary or an Affiliate, has been granted an Award under the Plan.

(o) “ISO” means any Option designated as and intended to be and which qualifies as an incentive stock option within the meaning of Section 422 of the Code.

(p) “NQSO” means any Option that is designated as a nonqualified stock option or which does not qualify as an ISO.

(q) “Option” means a right, granted to a Grantee under Section 6(b)(i), to purchase shares of Stock. An Option may be either an ISO or an NQSO.

(r) “Other Cash-Based Award” means a cash-based Award granted to a Grantee under Section 6(b)(iv) hereof, including cash awarded as a bonus or upon the attainment of Performance Goals or otherwise as permitted under the Plan.

(s) “Other Stock-Based Award” means an Award granted to a Grantee pursuant to Section 6(b)(iv) hereof, that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, each of which may be subject to the attainment of Performance Goals or a period of continued employment or other terms and conditions as permitted under the Plan.

(t) “Parent” means Dell Technologies Inc., a Delaware corporation.

(u) “Performance Goals” means an objective formula or standard determined by the Committee with respect to each performance period utilizing one or more of the following factors and any objectively verifiable adjustment(s) thereto permitted and pre-established by the Committee: (i) (A) earnings including operating income, (B) earnings before or after (1) taxes, (2) interest, (3) depreciation, (4) amortization, or (5) special items or book value per share (which may exclude nonrecurring items), or (C) growth in earnings before

interest, tax, depreciation or amortization; (ii) pre-tax income or after-tax income; (iii) earnings per common share (basic or diluted); (iv) operating profit; (v) revenue, revenue growth or rate of revenue growth; (vi) return on assets (gross or net), return on investment, return on capital, return on invested capital or return on equity; (vii) returns on sales or revenues; (viii) operating expenses; (ix) stock price appreciation; (x) cash flow, free cash flow, cash flow from operations, cash flow return on investment (discounted or otherwise), net cash provided by operations, or cash flow in excess of cost of capital; (xi) implementation or completion of critical projects or processes; (xii) economic value created; (xiii) cumulative earnings per share growth; (xiv) operating margin or profit margin; (xv) common stock price or total stockholder return; (xvi) cost targets, reductions, savings, productivity or efficiencies; (xvii) strategic business criteria, consisting of one or more objectives based on meeting specified market penetration, geographic business expansion, customer satisfaction, employee satisfaction, human resources management, supervision of litigation, information technology, goals relating to acquisitions, divestitures, joint ventures or similar transactions, research or development collaborations or budget comparisons; (xviii) personal professional objectives, including any of the foregoing performance goals, the implementation of policies and plans, the negotiation of transactions and the development of long term business goals; and (xix) any combination of, subset or component of, or a specified increase in, any of the foregoing. Where applicable, the Performance Goals may be expressed in terms of attaining a specified level of the particular criteria or the attainment of a percentage increase or decrease in the particular criteria, and may be applied to one or more of the Company, a Subsidiary or Affiliate, or a division or strategic business unit of the Company, or may be applied to the performance of the Company relative to a market index, a group of other companies or a combination thereof, all as determined by the Committee. The Performance Goals may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be made (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur). Objectively verifiable adjustment(s) to Performance Goals can include but are not limited to adjustment(s) to reflect: (1) the impact of specific corporate transactions; (2) accounting or tax law changes; (3) asset write-downs; (4) significant litigation or claim adjustment; (5) foreign exchange gains and losses; (6) disposal of a segment of a business; (7) discontinued operations; (8) refinancing or repurchase of bank loans or debt securities; or (9) unbudgeted capital expenditures. Each of the foregoing Performance Goals will be subject to certification by the Committee; provided that, to the extent an Award is intended to satisfy the performance-based compensation exception to the limits of Section 162(m) of the Code and then to the extent consistent with such exception, the Committee has the authority to make equitable adjustments to the Performance Goals in recognition of unusual or non-recurring events affecting the Company or any Subsidiary or Affiliate or the financial statements of the Company or any Subsidiary or Affiliate, in response to changes in applicable laws or regulations or related to the disposal of a segment of a business or related to a change in generally accepted accounting principles.

(v) "Plan" means this Amended and Restated VMware, Inc. 2007 Equity and Incentive Plan, as amended from time to time.

(w) "Restricted Stock" means an Award of shares of Stock to a Grantee under Section 6(b)(ii) that is subject to certain restrictions and to a risk of forfeiture.

(x) "Restricted Stock Unit" means a right granted to a Grantee under Section 6(b)(iii) of the Plan to receive shares of Stock subject to certain restrictions and to a risk of forfeiture.

(y) "Rule 16b-3" means Rule 16b-3, as from time to time in effect promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act, including any successor to such Rule.

(z) "Stock" means shares of Class A common stock, par value \$0.01 per share, of the Company.

(aa) "Stock Appreciation Right" means an Award that entitles a Grantee upon exercise to the excess of the Fair Market Value of the Stock underlying the Award over the base price established in respect of such Stock.

(bb) "Subsidiary" means any entity in an unbroken chain of entities beginning with the Company if, at the time of granting of an Award, each of the entities (other than the last entity in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other entities in the chain.

3. ADMINISTRATION.

(a) The Plan will be administered by the Committee or, at the discretion of the Board, the Board. In the event the Board is the administrator of the Plan, references herein to the Committee will be deemed to include the Board. The Board may from time to time appoint a member or members of the Committee in substitution for or in addition to the member or members then in office and may fill vacancies on the Committee however caused. Subject to applicable law, the Board or the Committee may delegate to a sub-committee or individual the ability to grant Awards to employees who are not subject to potential liability under Section 16(b) of the Exchange Act with respect to transactions involving equity securities of the Company at the time any such delegated authority is exercised.

(b) The decision of the Committee as to all questions of interpretation and application of the Plan will be final, binding and conclusive on all persons. The Committee has the authority in its discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the power and authority either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including without limitation, the authority to grant Awards; determine the persons to whom and the time or times at which Awards will be granted; determine the type and number of Awards to be granted, the number of shares of Stock to which an Award may relate and the terms, conditions, restrictions and Performance Goals relating to any Award; determine Performance Goals no later than such time as is required to ensure that an underlying Award which is intended to comply with the requirements of Section 162(m) of the Code so complies; determine whether, to what extent, and under what circumstances an Award may be settled, canceled, forfeited, accelerated, exchanged, or surrendered (including upon a "change in control" or similar transaction); to make adjustments in the terms and conditions (including Performance Goals) applicable to Awards; construe and interpret the Plan and any Award; prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the Award Terms (which need not be identical for each Grantee); and make all other determinations deemed necessary or advisable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award Terms granted hereunder in the manner and to the extent it deems expedient to carry the Plan into effect and will be the sole and final judge of such expediency. No Committee member will be liable for any action or determination made with respect to the Plan or any Award.

4. ELIGIBILITY.

(a) Awards may be granted to officers, employees, independent contractors and non-employee directors of the Company or of any of the Subsidiaries and Affiliates; *provided*, that (i) ISOs may be granted only to employees (including officers and directors who are also employees) of the Company or any of its "related corporations" (as defined in the applicable regulations promulgated under the Code) and (ii) Awards may be granted only to eligible persons who are not employed by the Company or a Subsidiary if such persons perform substantial services for the Company or a Subsidiary.

(b) No ISO may be granted to any employee of the Company or any of its Subsidiaries if such employee owns, immediately prior to the grant of the ISO, stock representing more than 10% of the voting power or more than 10% of the value of all classes of stock of the Company or Parent or a Subsidiary, unless the purchase price for the stock under such ISO is at least 110% of its Fair Market Value at the time such ISO is granted and the ISO, by its terms, will not be exercisable more than five years from the date it is granted. In determining the stock ownership under this paragraph, the provisions of Section 424(d) of the Code will control.

(c) No Award, except for Restricted Stock, may be granted to any employee or independent contractor who is subject to Section 409A of the Code if such person is an employee or independent contractor of an Affiliate that is not a Subsidiary, unless such Award conforms to the requirements of Section 409A.

5. STOCK SUBJECT TO THE PLAN.

(a) The maximum number of shares of Stock reserved for the grant or settlement of Awards under the Plan (the “Share Limit”) is 145,167,881, subject to adjustment as provided herein, not including shares of stock added to the Share Limit pursuant to Section 5(c).

(b) Shares issued pursuant to Awards under the Plan may, in whole or in part, be authorized but unissued shares or shares that have been or may be reacquired by the Company in the open market, in private transactions or otherwise. If any shares subject to an Award (other than Awards substituted or assumed pursuant to Section 5(c) herein) are forfeited, canceled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of shares to the Grantee, the shares of stock with respect to such Award will, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for Awards under the Plan.

(c) The Company may substitute or assume equity awards of acquired entities in connection with mergers, reorganizations, separations, or other transactions to which Section 424(a) of the Code applies. The number of shares of Stock reserved pursuant to Section 5 will be increased by the corresponding number of equity awards assumed and, in the case of a substitution, by the net increase in the number of shares of Stock subject to equity awards before and after the substitution.

(d) Subject to the Share Limit and Section 5(g), the aggregate maximum number of shares of Stock that may be issued pursuant to the exercise of ISOs will be 145,167,881 shares of Stock.

(e) Subject to the Share Limit and Section 5(g), the aggregate number of shares of Stock that may be issued pursuant to Awards granted during any fiscal year to any single individual may not exceed 3,611,400 shares of Stock.

(f) The maximum value of Awards granted during a single fiscal year under this Plan or under any other equity plan maintained by the Company, taken together with any cash fees paid during such fiscal year for services on the Board, will not exceed \$1,000,000 in total value for any non-employee director, except that such limit will be \$1,250,000 for any non-employee director serving as the lead director of the Board or chair of the Board. Such applicable limit will include the value of any stock awards that are received in lieu of all or a portion of any annual committee cash retainers or other similar cash based payments.

(g) Except as provided in an Award Term or as otherwise provided in the Plan, in the event of any extraordinary dividend or other extraordinary distribution (whether in the form of cash, Stock, or other property), recapitalization, stock split, reverse split, reorganization, merger, consolidation, spin-off, recapitalization, combination, repurchase, or share exchange, or other similar corporate transaction or event, the Committee will make such equitable changes or adjustments as it deems necessary or appropriate to any or all of (i) the number and kind of shares of Stock or other property (including cash) that may thereafter be issued in connection with Awards (including, but not limited to changes or adjustments to the limits specified in Sections 5(d) and (e)) or the total number of Awards issuable under the Plan, (ii) the number and kind of shares of Stock or other property issued or issuable in respect of outstanding Awards, (iii) the exercise price, grant price or purchase price relating to any Award, (iv) the Performance Goals, and (v) the individual limitations applicable to Awards; provided that, with respect to ISOs, any adjustment will be made in accordance with the provisions of Section 424(h) of the Code and any regulations or guidance promulgated thereunder, and provided further that no such adjustment will cause any Award hereunder which is or becomes subject to Section 409A of the Code to fail to comply with the requirements of such section.

6. SPECIFIC TERMS OF AWARDS.

(a) *General.* Subject to the terms of the Plan and any applicable Award Terms, (i) the term of each Award will be for such period as may be determined by the Committee, and (ii) payments to be made by the Company or a Subsidiary or Affiliate upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee determines at the date of grant or thereafter, including, without limitation, cash, Stock or other property, and may be made in a single payment or transfer, in installments, or, subject to the requirements of Section 409A of the Code on a deferred basis.

(b) *Awards.* The Committee is authorized to grant to Grantees the following Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee will determine the terms and conditions of such Awards, consistent with the terms of the Plan. Options and Stock Appreciation Rights ("SARs") are subject to a minimum one-year vesting period following grant, with the exception that up to 5% of the available shares of Stock reserved for grant may be subject to such Awards without such minimum vesting period. Subject to compliance with the requirements of Section 409A of the Code, an Award may provide the Grantee with the right to receive dividend or dividend equivalent payments with respect to Stock actually or notionally subject to the Award, which payments will be credited to an account for the Grantee, and may be settled in cash or Stock, as determined by the Committee. Any such dividend or dividend equivalents will be settled in cash or Stock to the Grantee only if, when and to the extent the related Award vests. The value of dividend or dividend equivalent payments payable with respect to any Award that does not vest will be forfeited.

(i) *Options.* The Committee is authorized to grant Options to Grantees on the following terms and conditions:

(A) The Award Terms evidencing the grant of an Option under the Plan will designate the Option as an ISO or an NQSO.

(B) The exercise price per share of Stock purchasable under an Option will be determined by the Committee, but in no event may the exercise price of an Option per share of Stock be less than the Fair Market Value of a share of Stock as of the date of grant of such Option. The purchase price of Stock as to which an Option is exercised must be paid in full at the time of exercise; payment may be made in cash, which may be paid by check, or other instrument acceptable to the Company, or, with the consent of the Committee, in shares of Stock, valued at the Fair Market Value on the date of exercise (including shares of Stock that otherwise would be distributed to the Grantee upon exercise of the Option), or if there were no sales on such date, on the next preceding day on which there were sales or (if permitted by the Committee and subject to such terms and conditions as it may determine) by surrender of outstanding Awards under the Plan, or the Committee may permit such payment of exercise price by any other method it deems satisfactory in its discretion. In addition, subject to applicable law and pursuant to procedures approved by the Committee, payment of the exercise price may be made pursuant to a broker-assisted cashless exercise procedure. Any amount necessary to satisfy applicable federal, state or local tax withholding requirements must be paid promptly upon notification of the amount due. The Committee may permit the amount of tax withholding to be paid in shares of Stock previously owned by the employee, or a portion of the shares of Stock that otherwise would be distributed to such employee upon exercise of the Option, or a combination of shares of such Stock and other property, except that the amount of tax withholding to be satisfied by withholding shares of Stock and other property will be limited to the extent necessary to avoid adverse accounting consequences, including but not limited to the Award being classified as a liability award.

(C) Options will be exercisable over the exercise period (which may not exceed ten years from the date of grant), at such times and upon such conditions as the Committee may determine, as reflected in the Award Terms; provided that, the Committee has the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as it, in its sole discretion, deems appropriate.

(D) Upon the termination of a Grantee's employment or service with the Company and its Subsidiaries or Affiliates, the Options granted to such Grantee, to the extent that they are

exercisable at the time of such termination, will remain exercisable for such period as may be provided in the applicable Award Terms, but in no event following the expiration of their term. The treatment of any Option that is unexercisable as of the date of such termination will be as set forth in the applicable Award Terms.

(E) Options may be subject to such other conditions, as the Committee may prescribe in its discretion or as may be required by applicable law.

(ii) *Restricted Stock.*

(A) The Committee may grant Awards of Restricted Stock under the Plan, subject to such restrictions, terms and conditions, as the Committee may determine in its sole discretion and as evidenced by the applicable Award Terms (provided that any such Award is subject to the vesting requirements described herein). The vesting of a Restricted Stock Award granted under the Plan may be conditioned upon the completion of a specified period of employment or service with the Company, any Subsidiary or an Affiliate, upon the attainment of specified Performance Goals or upon such other criteria as the Committee may determine in its sole discretion.

(B) The Committee will determine the purchase price, which, to the extent required by law, may not be less than par value of the Stock, to be paid by the Grantee for each share of Restricted Stock or unrestricted Stock or stock units subject to the Award. The Award Terms with respect to such Award will set forth the amount (if any) to be paid by the Grantee with respect to such Award and when and under what circumstances such payment is required to be made.

(C) Except as provided in the applicable Award Terms, no shares of Stock underlying a Restricted Stock Award may be assigned, transferred, or otherwise encumbered or disposed of by the Grantee until such shares of Stock have vested in accordance with the terms of such Award.

(D) Upon the termination of a Grantee's employment or service with the Company and its Subsidiaries or Affiliates, the Restricted Stock granted to such Grantee will be subject to the terms and conditions specified in the applicable Award Terms.

(iii) *Restricted Stock Units.* The Committee is authorized to grant Restricted Stock Units to Grantees, subject to the following terms and conditions:

(A) At the time of the grant of Restricted Stock Units, the Committee may impose such restrictions or conditions to the vesting of such Awards as it, in its discretion, deems appropriate, including, but not limited to, the achievement of Performance Goals. The Committee has the authority to accelerate the settlement of any outstanding award of Restricted Stock Units at such time and under such circumstances as it, in its sole discretion, deems appropriate, subject compliance with the requirements of Section 409A of the Code.

(B) Unless otherwise provided in the applicable Award Terms or except as otherwise provided in the Plan, upon the vesting of a Restricted Stock Unit there will be delivered to the Grantee, as soon as practicable following the date on which such Award (or any portion thereof) vests, that number of shares of Stock equal to the number of Restricted Stock Units becoming so vested.

(C) Upon the termination of a Grantee's employment or service with the Company and its Subsidiaries or Affiliates, the Restricted Stock Units granted to such Grantee will be subject to the terms and conditions specified in the applicable Award Terms.

(iv) *Other Stock-Based or Cash-Based Awards.*

(A) The Committee is authorized to grant Awards to Grantees in the form of Other Stock-Based Awards or Other Cash-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee will determine the terms and conditions of such Awards, consistent with the terms of the Plan, at the date of grant or thereafter, including the Performance Goals and performance periods. Stock or other securities or property delivered pursuant to an Award in the nature of a purchase right granted under Section 6(iv) may be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, Stock, other Awards, notes or other property, as the Committee will determine, subject to any required corporate action.

(B) With respect to a Covered Employee, the maximum value of the aggregate payment that any Grantee may receive with respect to Other Cash-Based Awards pursuant to this Section 6(b)(iv) in respect of any annual performance period is \$5,000,000 and for any other performance period in excess of one year, such amount multiplied by a fraction, the numerator of which is the number of months in the performance period and the denominator of which is twelve. No payment may be made to a Covered Employee prior to the certification by the Committee that the Performance Goals have been attained. The Committee may establish such other rules applicable to the Other Stock- or Cash-Based Awards to the extent not inconsistent with Section 162(m) of the Code.

(C) Payments earned in respect of any Cash-Based Award may be decreased or, with respect to any Grantee who is not a Covered Employee, increased in the sole discretion of the Committee based on such factors as it deems appropriate.

7. GENERAL PROVISIONS.

(a) *Nontransferability, Deferrals and Settlements.* Unless otherwise determined by the Committee or provided in an Award Term or set forth below, but in accordance with the Code and any applicable laws, Awards will not be transferable by a Grantee except by will or the laws of descent and distribution and will be exercisable during the lifetime of a Grantee only by such Grantee or his guardian or legal representative. Any attempted assignment or transfer of an Award will be null and void and without effect, except as herein provided, including without limitation any purported assignment, whether voluntary or by operation of law, pledge, hypothecation or other disposition, attachment, divorce, trustee process or similar process, whether legal or equitable, upon such Award. The Committee may permit Grantees to elect to defer the issuance of shares of Stock or the settlement of Awards in cash under such rules and procedures as established under the Plan to the extent that such deferral complies with Section 409A of the Code and any regulations or guidance promulgated thereunder.

(b) *Leave of Absence; Reduction in Service Level.* The Committee may determine, in its discretion (i) whether, and the extent to which, an Award will vest during a leave of absence, (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 will be deemed a termination of employment or service for the purpose of the Plan and the Award Terms. The Committee will also determine all other matters relating to whether the employment or service of a recipient of an Award is continuous for purposes of the Plan and the Award Terms.

(c) *No Right to Continued Employment, etc.* Nothing in the Plan or in any Award granted or any Award Terms, promissory note or other agreement entered into pursuant hereto confers upon any Grantee the right to continue in the employ or service of the Company, any Subsidiary or any Affiliate or to be entitled to any remuneration or benefits not set forth in the Plan or the applicable Award Terms or to interfere with or limit in any way the right of the Company or any such Subsidiary or Affiliate to terminate such Grantee's employment or service.

(d) *Clawback/Recoupment*

(i) All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company determines to adopt 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 addition, the Committee may impose additional clawback, recovery or recoupment provisions in an Award agreement as the Committee determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of Stock or other cash or property upon the occurrence of Cause as determined by the Committee.

(ii) In the event of a restatement of incorrect financial results, the Committee will review all Awards held by executive officers (within the meaning of Rule 3b-7 of the Exchange Act) of the Company that (i) were earned based on performance or were vesting during the course of the financial period subject to such restatement or (ii) were granted during or within one year following such financial period. If any Award would have been lower or would not have vested, been earned or been granted based on such restated financial results, the Committee will, if it determines appropriate in its sole discretion and to the extent permitted by governing law, (a) cancel such Award, in whole or in part, whether or not vested, earned or payable or (b) require the Grantee to repay to the Company an amount equal to all or any portion of the value of any gains from the grant, vesting or payment of the Award that would not have been realized had the restatement not occurred.

(iii) If a Grantee's employment or service is terminated for Cause, all unvested (and, to the extent applicable, unexercised) portions of Awards will terminate and be forfeited immediately without consideration. In addition, the Committee may in its sole discretion and to the extent permitted by applicable law cause the cancellation of all or a portion of any outstanding vested Awards held by such Grantee or payable to such Grantee or require such Grantee to reimburse the Company for all or a portion of the gains from the exercise of, settlement or payment of any of the Grantee's Awards realized after the event giving rise to Cause first occurred.

(e) *Taxes.* The Company, any Subsidiary and any Affiliate is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any other payment to a Grantee, amounts of withholding and other taxes due in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company and Grantees to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority includes authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Grantee's tax obligations; provided, however, that the amount of tax withholding to be satisfied by withholding Stock or other property will be limited to the extent necessary to avoid adverse accounting consequences, including but not limited to the Award being classified as a liability award.

(f) *Stockholder Approval; Amendment and Termination.* The Board may amend, alter or discontinue the Plan and outstanding Awards thereunder, but no amendment, alteration, or discontinuation may be made that would impair the rights of a Grantee under any Award theretofore granted without such Grantee's consent, or that without the approval of the stockholders (as described below) would, except in the case of an adjustment as provided in Section 5, increase the total number of shares of Stock reserved for the purpose of the Plan. In addition, stockholder approval will be required with respect to any amendment with respect to which shareholder approval is required under the Code, the rules of any stock exchange on which Stock is then listed or any other applicable law. Unless earlier terminated by the Board pursuant to the provisions of the Plan, the Plan will terminate on the tenth anniversary of the Adoption Date. No Awards may be granted under the Plan after such termination date.

(g) *No Rights to Awards; No Stockholder Rights.* No Grantee has any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Grantees. No Grantee has any right to payment or settlement under any Award unless and until the Committee or its designee determines that payment or settlement is to be made. Except as provided specifically herein, a Grantee or a transferee of an Award has no rights as a stockholder with respect to any shares covered by the Award until the date of the issuance of such shares.

(h) *Unfunded Status of Awards.* The Plan is intended to constitute an “unfunded” plan for incentive and deferred compensation. With respect to any payments not yet made to a Grantee pursuant to an Award, nothing contained in the Plan or any Award will give any such Grantee any rights that are greater than those of a general creditor of the Company.

(i) *No Fractional Shares.* No fractional shares of Stock will be issued or delivered pursuant to the Plan or any Award. The Committee will determine whether cash, other Awards, or other property will be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto will be forfeited or otherwise eliminated.

(j) *Regulations and Other Approvals.*

(i) The obligation of the Company to sell or deliver Stock or pay cash with respect to any Award granted under the Plan is subject to all applicable laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Committee.

(ii) Each Award is subject to the requirement that, if at any time the Committee determines, in its absolute discretion, that the listing, registration or qualification of Stock issuable pursuant to the Plan is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Stock, no such Award may be granted or payment made or Stock issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.

(iii) In the event that the disposition of Stock acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act of 1933, as amended (the “Securities Act”), and is not otherwise exempt from such registration, such Stock will be restricted against transfer to the extent required by the Securities Act or regulations thereunder, and the Committee may require a Grantee receiving Stock pursuant to the Plan, as a condition precedent to receipt of such Stock, to represent to the Company in writing that the Stock acquired by such Grantee is acquired for investment only and not with a view to distribution.

(iv) *Section 409A.* This Plan is intended to comply and will be administered in a manner that is intended to comply with Section 409A of the Code and will be construed and interpreted in accordance with such intent. To the extent that an Award, issuance or payment is subject to Section 409A of the Code, it will be awarded or issued or paid in a manner that will comply with Section 409A of the Code, including proposed, temporary or final regulations or any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. Any provision of this Plan that would cause an Award, issuance or payment to fail to satisfy Section 409A of the Code will have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by applicable law). Notwithstanding anything to the contrary in this Plan (and unless the Award Terms specifically provides otherwise), if the shares of Stock are publicly traded and a Grantee is a “specified employee” for purposes of Section 409A of the Code and holds an Award that provides for “deferred compensation” under Section 409A of the Code, no distribution or payment of any amount shall be made upon a “separation from service” before a date that is six months following the date of such Grantee’s “separation from service” (as defined in Section 409A of the Code without regard to alternative definitions thereunder) except that in case of the Grantee’s death, such distribution or payment will be made as soon as practicable following the Grantee’s death or as otherwise set forth in an agreement with the Grantee.

(k) *Governing Law.* The Plan and all determinations made and actions taken pursuant hereto is governed by the laws of the State of Delaware without giving effect to the conflict of laws principles thereof. Notwithstanding anything to the contrary herein, the Committee, in order to conform with provisions of local laws and regulations in foreign countries in which the Company or its Subsidiaries operate, has sole discretion to (i)

modify the terms and conditions of Awards made to Grantees employed outside the United States, (ii) establish sub-plans with modified exercise procedures and such other modifications as may be necessary or advisable under the circumstances presented by local laws and regulations, and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan or any sub-plan established hereunder.

(l) *Merger or Consolidation.* If the Company is the surviving corporation in any merger or consolidation (other than a merger or consolidation in which the Company survives but in which a majority of its outstanding shares are converted into securities of another corporation or are exchanged for other consideration), any Award granted hereunder will pertain and apply to the securities which a holder of the number of shares of stock of the Company then subject to the Award is entitled to receive. In the event of a (i) dissolution or liquidation of the Company, (ii) sale or transfer of all or substantially all of the Company's assets or (iii) merger or consolidation in which the Company is not the surviving corporation or in which a majority of its outstanding shares are converted into securities of another corporation or are exchanged for other consideration, the Company must, contingent upon consummation of such transaction, either (a) arrange for any corporation succeeding to the business and assets of the Company to (x) assume each outstanding Award, or (y) issue to the Grantees replacement Awards (which, in the case of Incentive Stock Options, satisfy, in the determination of the Committee, the requirements of Section 424 of the Code), for such corporation's stock that will preserve the value, liquidity and material terms and conditions of the outstanding Awards; or (b) make the outstanding Awards fully exercisable or cause all of the applicable restrictions to which outstanding Stock Awards are subject to lapse, in each case, on a basis that gives the holder of the Award a reasonable opportunity, as determined by the Committee, following the exercise of the Award or the issuance of shares of Common Stock, as the case may be, to participate as a stockholder in any such dissolution, liquidation, asset sale or transfer, merger or consolidation, and the Award will terminate immediately following consummation of any such transaction. The existence of the Plan will not prevent any such change or other transaction, and no Participant hereunder has any right except as herein expressly set forth. Notwithstanding the foregoing provisions of this Section 7(m), Awards subject to and intended to satisfy the requirements of Section 409A of the Code will be construed and administered consistent with such intent.

VMWARE, INC.

AMENDED AND RESTATED 2007 EQUITY AND INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

I. NOTICE OF GRANT

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

Name: (“**Participant**”)

The Participant has been granted an Award of Restricted Stock Units (“RSUs”). Each RSU represents the right to receive one share of Stock, subject to the terms and conditions of this Notice of Grant, the Plan and this Agreement, as follows:

Grant Number: __

Date of Grant: __

Vesting Commencement Date: __

Number of RSUs: __

Vesting Schedule:

[VESTING SCHEDULE TO BE REVISED FOR EACH EMPLOYEE], subject to the Participant’s continuing employment with the Company or any Subsidiary through each vesting date, in accordance with Section 2(a) of the Agreement.

II. AGREEMENT

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

2. Vesting of RSUs.

(i) Subject to Sections 2(b) and 4 below, the Participant will vest in the RSUs in accordance with the vesting schedule set forth in the Notice of Grant; provided, that, in the event the Participant incurs a termination of employment for any reason other than due to the 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 RSUs and to receive the Stock related thereto will terminate effective as of the date that Participant ceases to be so employed and thereafter, the Participant will have no further rights to such unvested RSUs or the related Stock. In such case, any unvested RSUs held by the Participant immediately following such termination of employment will be deemed forfeited. In the event that the Participant's employment is terminated by reason of death or disability, then any unvested portion of the RSUs will automatically accelerate and the Participant will become fully vested in the RSUs upon termination of employment by reason of death or disability. In all cases, the date of termination of employment for purposes of the RSUs will be determined in the sole discretion of the Administrator.

(b) Solely for purposes of this Agreement, the Company, in its sole discretion, may consent to treating employment of the Participant by Dell Technologies Inc. ("**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, provided, however, 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 RSUs vest. After any RSUs vest and subject to the terms of this Agreement, including without limitation Section 6 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 RSUs 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, the RSUs will be settled only in shares of Stock.

4. Administrator Discretion. The Administrator, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the RSUs at any time, subject to the terms of the Plan. If so accelerated, such RSUs will be considered as having vested as of the date specified by the Administrator.

5. 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.

6. Taxes.

(a) Generally. The Participant is ultimately liable and responsible for all taxes owed in connection with the RSUs, 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 RSUs. 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 RSUs or the subsequent sale of Stock issuable pursuant to the RSUs. The Company and the Employer do not commit and are under no obligation to structure the RSUs 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) will have been made by the Participant with respect to the payment of any taxes which the Company determines must be withheld with respect to the RSUs. 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 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 is 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.

7. Changes in Stock. In the event that 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 RSUs; provided, however, that the number of shares of Stock into which the RSUs may be converted will always be a whole number.

8. 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) will have been issued and recorded on 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.

9. 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, 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, any Subsidiary or Affiliate.

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

11. Black Out Periods. The Participant acknowledges that, to the extent the vesting of any RSUs 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 RSUs; provided, however, that the Administrator will 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 which 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. In the event 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 day following the termination of such regularly scheduled blackout period; provided, however, 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. In the event 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 day following the termination of such special blackout period as determined by the Company’s General Counsel or his or her delegatee; provided, however, 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.

12. Award is Not Transferable. Except to the limited extent provided in Section 5 above, this Award of RSUs and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way by the Participant (whether by operation of law or otherwise) and will 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. The terms of this Agreement will be binding upon the Participant’s executors, administrators, heirs, successors and any permitted transferees.

13. 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 RSU 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 RSUs 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 RSUs 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.

14. 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 RSUs.

15. Binding Agreement. Subject to the limitation 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.

16. Additional Conditions to Issuance of Certificates for Stock. The Company will not be 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 RSUs as the Administrator may establish from time to time for reasons of administrative convenience.

17. 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.

18. Administrator Authority. The Administrator will have 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 will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

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

20. Agreement Severable. In the event that any provision in this Agreement will be 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.

21. 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.

22. 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.

23. Notices. Any notice which 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: Stock Administrator

Unless the Participant notifies the Company within ten (10) days following receipt of this Agreement that he or she declines this Award, the Participant will be deemed to have accepted and agreed to the terms and conditions of this Agreement and the Plan. 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

VMWARE, INC.
AMENDED AND RESTATED 2007 EMPLOYEE STOCK PURCHASE PLAN

Section 1. Purpose of Plan

The VMware, Inc. Amended and Restated 2007 Employee Stock Purchase Plan (the “Plan”) is intended to provide a method by which eligible employees of VMware, Inc. (“VMware”) and its subsidiaries (collectively, the “Company”) may use voluntary, systematic payroll deductions or other contributions (as described in Section 5 below) to purchase VMware’s class A common stock, \$.01 par value, (“stock”) and thereby acquire an interest in the future of VMware. For purposes of the Plan, a subsidiary is any corporation in which VMware owns, directly or indirectly, stock possessing 50% or more of the total combined voting power of all classes of stock unless the Board of Directors of VMware (the “Board of Directors”) or the Committee (as defined below) determines that employees of a particular subsidiary shall not be eligible.

The Plan is intended qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”). Notwithstanding the foregoing, the Board of Directors may establish comparable offerings under the Plan that are not intended to qualify under Code Section 423. Such offerings will be designated as being made under the non-423 component of this Plan.

For purposes of this Plan, if the Board of Directors so determines, the employees of VMware and/or of any designated subsidiary will be deemed to participate in a separate offering under the 423 component of the Plan, even if the dates of the applicable offering period of each such offering are identical, provided that the terms of participation are the same within each separate offering as determined under Code Section 423.

Section 2. Options to Purchase Stock

Under the Plan, no more than 32,300,000 shares of stock are available for purchase (subject to adjustment as provided in Section 16) pursuant to the exercise of options (“options”) granted under the Plan to employees of the Company (“employees”). All of the shares of stock are available for purchase under the Plan may be used for offerings under the 423 component of the Plan. The stock to be delivered upon exercise of options under the Plan may be either shares of VMware’s authorized but unissued stock, or shares of reacquired stock, as the Board of Directors shall determine.

Section 3. Eligible Employees

Except as otherwise provided in Section 20, each employee who has completed three months or more of continuous service in the employ of the Company, or any lesser number of months established by the Committee (if required under local law), shall be eligible to participate in the Plan provided such inclusion is consistent with requirements under Code Section 423 or offered under the non-423 component. Notwithstanding any other provision herein, individuals who are not contemporaneously classified as employees of VMware or an eligible subsidiary for purposes of VMware's or the applicable eligible subsidiary's payroll system are not considered to be eligible employees and shall not be eligible to participate in the Plan. In the event any such individuals are reclassified as employees of VMware or an eligible subsidiary for any purpose, including, without limitation, common law or statutory employees, by any action of any third party, including, without limitation, any government agency, or as a result of any private lawsuit, action or administrative proceeding, such individuals shall, notwithstanding such reclassification, remain ineligible for participation. Notwithstanding the foregoing, the exclusive means for individuals who are not contemporaneously classified as employees of VMware or an eligible subsidiary on the applicable payroll system to become eligible to participate in this Plan is through an amendment to this Plan, duly executed by VMware, which specifically renders such individuals eligible to participate herein.

Section 4. Method of Participation

Option periods of any duration up to 27 months in length shall be determined by the Committee. In the event no period is designated by the Committee, the option periods shall have a duration of six months commencing on the first day following termination of the prior period. For example, if an option period ends on July 31, the following option period would be August 1 through January 31 unless the Committee determines otherwise prior to commencement of such following option period. Each person who will be an eligible employee on the first day of any option period may elect to participate in the Plan by executing and delivering, at least one business day prior to such day, a payroll deduction authorization and/or other required enrollment agreement(s)/form(s) in accordance with Section 5. Such employee shall thereby become a participant ("participant") on the first day of such option period and shall remain a participant until his or her participation is terminated as provided in the Plan. VMware may permit participants to elect or indicate whether an enrollment election, once made, will apply to subsequent option periods without being required to submit a new enrollment form. If an employee makes an enrollment election that does not apply to subsequent option periods, the employee will be deemed to have terminated his or her participation with respect to subsequent option periods unless and until the employee submits a new enrollment form in accordance with the Plan.

Section 5. Contributions

A participant may elect to make contributions under the Plan at a rate of not less than 2% nor more than 15% from the participant's compensation (subject to a maximum of \$7,500 per six-month option period and pro-rated for longer or shorter periods, at the Committee's discretion), by means of substantially equal payroll deductions over the option period; provided, however, where applicable local laws prohibit payroll deductions for the purpose of participation in the Plan, the Committee may permit all participants in a specified separate offering under the 423 component or an offering under the non-423 component of the Plan to contribute amounts to the Plan through payment by cash, check or other means set forth in the enrollment form. Any amount remaining in a participant's contribution account at the end of an option period representing a fractional share that is rolled over to the contribution account for the next option period pursuant to Section 8 below (a "rollover") may be used to purchase additional stock; provided that the maximum dollar amount per option period shall be reduced by the amount of any rollover. For purposes of the Plan, "compensation" shall mean all cash compensation paid to the participant by the Company unless otherwise specified by the Board.

A participant may only elect to change his or her contribution rate by written notice delivered to VMware (or its designated agent) at least one business day prior to the first day of the option period as to which the change is to be effective. Following delivery to VMware (or its designated agent) of any enrollment form or any election to change the withholding rate of a payroll deduction authorization, appropriate payroll deductions or changes thereto shall commence as soon as reasonably practicable. All amounts withheld in accordance with a participant's payroll deduction authorization or contributed by other permitted means (if any) shall be credited to a contribution account for such participant.

Section 6. Grant of Options

Each person who is a participant on the first day of an option period shall, as of such day, be granted an option for such period. Such option shall be for the number of shares of stock to be determined by dividing (a) the balance in the participant's contribution account on the last day of the option period by (b) the purchase price per share of the stock determined under Section 7, and eliminating any fractional share from the quotient. In the event that the number of shares then available under the Plan is otherwise insufficient, VMware shall reduce on a substantially proportionate basis the number of shares of stock receivable by each participant upon exercise of his or her option for an option period and shall return the balance in a participant's contribution account to such participant without interest (unless otherwise required by local law). In no event shall the number of shares of stock that a participant may purchase during any one six-month option period under the Plan exceed 750 shares of stock (subject to adjustment as provided in Section 16), and pro-rated for longer or shorter periods, at the Committee's discretion.

Section 7. Purchase Price

The purchase price of stock issued pursuant to the exercise of an option shall be 85% of the fair market value of the stock at (a) the time of grant of the option or (b) the time at which the option is deemed exercised, whichever is less. "Fair market value" shall mean the closing sales price per share of the stock on the principal securities exchange on which the stock is traded or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported; if the stock is not listed for trading on a national securities exchange, the fair market value of the stock shall be determined in good faith by the Board of Directors.

Section 8. Exercise of Options

If an employee is a participant in the Plan on the last business day of an option period, he or she shall be deemed to have exercised the option granted to him or her for that period. Upon such exercise, VMware shall apply the balance of the participant's contribution account to the purchase of the number of whole shares of stock determined under Section 6, and as soon as practicable thereafter shall issue and deliver certificates for said shares to the participant (or have the shares deposited in a brokerage account for the benefit of the participant). No fractional shares shall be issued hereunder. Any balance accumulated in the participant's contribution account that is not sufficient to purchase a full share shall be retained in such account for any remaining or subsequent option period, subject to early withdrawal by the participant as provided in Section 10. Any other monies remaining in the participant's contribution account under the Plan after the date of exercise shall be returned to the participant or his or her beneficiary (as applicable) in cash without interest (unless otherwise required by local law).

Notwithstanding anything herein to the contrary, VMware shall not be obligated to deliver any shares unless and until, in the opinion of VMware's counsel, all requirements of applicable federal, state and foreign laws and regulations (including any requirements as to legends) have been complied with, nor, if the outstanding stock is at the time listed on any securities exchange, unless and until the shares to be delivered have been listed (or authorized to be added to the list upon official notice of issuance) upon such exchange, nor unless or until all other legal matters in connection with the issuance and delivery of shares have been approved by VMware's counsel.

Section 9. Interest

No interest will be payable on contribution accounts, except as may be required by applicable law, as determined by the Committee.

Section 10. Cancellation and Withdrawal

A participant who holds an option under the Plan may cancel all (but not less than all) of his or her option by written notice delivered to the Company, in such form as the Committee may prescribe, provided that VMware (or its designated agent) must receive such notice at least 31 days, or such other number of days determined by the Committee, before the last day of the option period (the "Withdrawal Deadline"). Any participant who delivers such written notice shall be deemed to have canceled his or her option, terminated any applicable payroll deduction authorization with respect to the Plan and terminated his or her participation in the Plan, in each case, as of the date of such written notice. In the event that the date of the Withdrawal Deadline with respect to the applicable option period, shall be a Saturday, Sunday or day on which banks in the State of Delaware are required to close, a participant may cancel his or her option by written notice given on or prior to the last business day immediately preceding such date. Following delivery of any such notice, any balance in the participant's contribution account will be returned to such participant as soon as reasonably practicable without interest (unless otherwise required by local law). Any participant who has delivered such notice may elect to participate in the Plan in any future option period in accordance with the provisions of Section 4.

Section 11. Termination of Employment

Except as otherwise provided in Section 12, upon the termination of a participant's employment with the Company for any reason whatsoever, he or she shall cease to be a participant, and any option held by him or her under the Plan shall be deemed canceled, the balance of his or her contribution account shall be returned to him or her without interest (unless otherwise required by local law), and he or she shall have no further rights under the Plan. For purposes of this Section 11, a participant's employment will not be considered terminated in the case of a transfer to the employment of a subsidiary or to the employment of the Company. However, in the event of a transfer of employment, VMware may transfer participant's participation to a separate offering or non-423 component offering, if advisable or necessary, considering applicable local law and Code Section 423 requirements. For purposes of the Plan, an individual's employment relationship is still considered to be continuing intact while such individual is on sick leave, or other leave of absence approved for purposes of this Plan by the Company; provided however, that if such period of leave of absence exceeds three months, and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship shall be deemed to have terminated on the first day following such three month period.

Section 12. Death of Participant

In the event a participant holds any option hereunder at the time his or her employment with the Company is terminated by his or her death, whenever occurring, then his or her legal representative, may, by a writing delivered to VMware on or before

the date such option is exercisable, elect either (a) to cancel any such option and receive in cash the balance in his or her contribution account, or (b) to have the balance in his or her contribution account applied as of the last day of the option period to the exercise of his or her option pursuant to Section 8, and have the balance, if any, in such account in excess of the total purchase price of the whole shares so issued returned in cash without interest (unless otherwise required by local law). In the event his or her legal representative does not file a written election as provided above, any outstanding option shall be treated as if an election had been filed pursuant to subparagraph 12(a) above.

Section 13. Participant's Rights Not Transferable, etc.

All participants granted options under a specified offering under the 423 component of the Plan shall have the same rights and privileges. Each participant's rights and privileges under any option granted under the Plan shall be exercisable during his or her lifetime only by him or her, and shall not be sold, pledged, assigned, or otherwise transferred in any manner whatsoever except by will or the laws of descent and distribution. In the event any participant violates the terms of this Section, any options held by him or her may be terminated by VMware and, upon return to the participant of the balance of his or her contribution account, all his or her rights under the Plan shall terminate.

Section 14. Employment Rights

Neither the adoption of the Plan nor any of the provisions of the Plan shall confer upon any participant any right to continued employment with the Company or a subsidiary or affect in any way the right of the participant's employer to terminate the employment of such participant at any time.

Section 15. Rights as a Shareholder/Use of Funds

A participant shall have the rights of a shareholder only as to stock actually acquired by him or her under the Plan.

All contributions received under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such funds, but may do so if required under applicable local law.

Section 16. Change in Capitalization

In the event of a stock dividend, stock split or combination of shares, recapitalization, merger in which VMware is the surviving corporation or other change in VMware's capital stock, the number and kind of shares of stock or securities of VMware to be subject to the Plan and to options then outstanding or to be granted hereunder, the maximum number of shares or securities which may be delivered under the Plan, the option price and other relevant provisions shall be appropriately adjusted by the Board of

Directors, whose determination shall be binding on all persons. In the event of a consolidation or merger in which VMware is not the surviving corporation or in the event of the sale or transfer of substantially all VMware's assets (other than by the grant of a mortgage or security interest), all outstanding options shall thereupon terminate, provided that prior to the effective date of any such merger, consolidation or sale of assets, the Board of Directors shall either (a) return the balance in all contribution accounts and cancel all outstanding options, or (b) accelerate the exercise date provided for in Section 8, or (c) if there is a surviving or acquiring corporation, arrange to have that corporation or an affiliate of that corporation grant to the participants replacement options having equivalent terms and conditions as determined by the Board of Directors.

In the event of a corporate restructuring, VMware may transfer or terminate participant's participation to a separate offering or non-423 component offering, if advisable or necessary, considering applicable local law and Code Section 423 requirements.

Section 17. Administration of Plan

The Plan will be administered by the Board of Directors. The Board of Directors will have authority, not inconsistent with the express provisions of the Plan, to take all action necessary or appropriate hereunder, to interpret its provisions, and to decide all questions which may arise in connection therewith. Except with respect to officers of VMware who are subject to the reporting requirements of Section 16 of the Securities Act of 1934, management of VMware is also authorized to resolve participant disputes under the Plan, consistent with the terms of the Plan and any agreements thereunder and any interpretations or guidance issued under the Plan by the Board of Directors or the Committee.

The Board may, in its discretion, delegate its powers with respect to the Plan to the Compensation and Corporate Governance Committee or any other committee at VMware (the "Committee"), in which event all references to the Board of Directors hereunder, including without limitation the references in Section 17, shall be deemed to refer to the Committee. A majority of the members of any such Committee shall constitute a quorum, and all determinations of the Committee shall be made by a majority of its members. Any determination of the Committee under the Plan may be made without notice or meeting of the Committee by a writing signed by all of the Committee members.

Determinations of the Board of Directors, the Committee or where appropriate, management of the Company, shall be conclusive and shall bind all parties.

Section 18. Amendment and Termination of Plan

The Board of Directors may at any time or times amend the Plan or amend any outstanding option or options for the purpose of satisfying the requirements of any

changes in applicable laws or regulations or for any other purpose which may at the time be permitted by law, provided that (except to the extent explicitly required or permitted herein) no such amendment will, without the approval of the shareholders of the Company, (a) increase the maximum number of shares available under the Plan, (b) reduce the option price of outstanding options or reduce the price at which options may be granted, (c) change the conditions for eligibility under the Plan, or (d) amend the provisions of this Section 18 of the Plan, and no such amendment will adversely affect the rights of any participant (without his or her consent) under any option theretofore granted.

The Plan may be terminated at any time by the Board of Directors, but no such termination shall adversely affect the rights and privileges of holders of the outstanding options.

Section 19. Approval of Shareholders

The Plan as amended and restated was approved by the stockholders of the Company on June 8, 2017 and was further amended by the stockholders on June 25, 2019. Subsequent amendments will be approved by the stockholders to the extent required by applicable securities and tax rules and regulations as well as applicable rules of the securities exchange(s) upon which the stock may be listed for trading.

Section 20. Limitations

Notwithstanding any other provision of the Plan:

(a) An employee shall not be eligible to receive an option pursuant to the Plan if, immediately after the grant of such option to him or her, he or she would (in accordance with the provisions of Sections 423 and 424(d) of the Code) own or be deemed to own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the employer corporation or of its parent or subsidiary corporation, as defined in Section 424 of the Code.

(b) No employee shall be granted an option under this Plan that would permit his or her rights to purchase shares of stock under all employee stock purchase plans (as defined in Section 423 of the Code) of VMware or any subsidiary or parent corporation to accrue at a rate which exceeds \$25,000 in fair market value of such stock (determined at the time the option is granted) for each calendar year during which any such option granted to such employee is outstanding at any time, as provided in Section 423 of the Code.

(c) No employee shall be granted an option under this Plan that would permit him or her to withhold more than \$7,500 in each six-month option period, and pro-rated for longer or shorter periods, at the Committee's discretion, or \$15,000 per calendar year, less the amount of any rollover.

(d) No employee whose customary employment is 20 hours or less per week shall be eligible to participate in the Plan, unless otherwise required under applicable law. If participation in the Plan is offered to employees whose customary employment is 20 hours or less, the offering will be made under a separate offering under the 423 component or under the non-423 component of the Plan.

(e) No employee whose customary employment is for not more than five months in any calendar year shall be eligible to participate in the Plan.

(f) No independent contractor shall be eligible to participate in the Plan.

Section 21. Jurisdiction and Governing Law.

The Company and each participant in the Plan submit to the exclusive jurisdiction and venue of the U.S. federal or state courts of Delaware to resolve issues that may arise out of or relate to the Plan or the same subject matter. The Plan shall be governed by the laws of Delaware, excluding its conflicts or choice of law rules or principles that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.

Section 22. Compliance with Foreign Laws and Regulations.

Notwithstanding anything to the contrary herein, the Board, in order to conform with provisions of local laws and regulations in foreign countries in which the Company or its subsidiaries operate, shall have sole discretion to (i) adversely modify the terms and conditions of options granted to participants employed outside the United States to the extent consistent with the U.S. Treasury regulations under Code Section 423; (ii) establish comparable offerings that are not intended to qualify under Code Section 423 with the shares to be taken from the allotment available under this Plan and with modified enrollment or exercise procedures and/or establish such other modifications as may be necessary or advisable under the circumstances presented by local laws and regulations; and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan or any sub-plan established hereunder.

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 will 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 Section 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 Performance Period in accordance with the schedule attached as **Exhibit A** to this Agreement (the “**Performance Schedule**”).

Date of Grant: _____

Number of PSUs: _____

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 Section 2(a) 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 will 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 Section 2(b) below, the Participant will vest in the PSUs in accordance with the vesting schedule set forth in the Notice of Grant; provided, that, in the event 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 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. In the event that the Participant's employment is terminated by reason of death or by the Company due to disability, then any unvested portion of the PSUs will automatically accelerate and the Participant will become fully vested in one share of Stock for each of the PSUs subject to this Agreement upon termination of employment by reason of death or by the Company due to disability, provided, however, that if termination due to death or by the Company due to disability occurs after a Change in Control, the Participant will vest in the number of shares of Stock determined per Sections 4(b) and 4(d) below. In all cases, the date of termination of employment for purposes of the PSUs will be determined in the sole discretion of the Administrator.

(b) 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, provided, however, 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 7 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 8 hereof, the PSUs will be settled only in shares of Stock.

4. Change in Control.

(a) Change in Control during Performance Period. In the event of a Change in Control during the Performance Period, the Performance Period 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 Performance Period. In the event of a Change in Control following completion of the 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, provided however, 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) Conversion Ratio Upon Termination Due to Death or Disability Following Change in Control. If, following a Change in Control the Participant’s vesting in the PSUs is accelerated in accordance with Section 2(a) above due to termination of employment by reason of death or by the Company due to “disability” (as defined in Section 2(a) above), then the Participant will, upon the date of such termination, become fully vested in a number of Shares equal to the number of unvested PSUs multiplied by the Conversion Ratio.

5. 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.

6. 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 6 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.

7. 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) will have been made by the Participant with respect to the payment of any taxes which 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 is 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.

8. Changes in Stock. In the event that 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; provided, however, that the number of shares of Stock into which the PSUs may be converted will always be a whole number.

9. 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) will 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.

10. 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.

11. 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 at the sole discretion of the Company; (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.

12. 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; provided, however, that the Administrator will 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. In the event 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; provided, however, 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. In the event 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 delegatee; provided, however, 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.

13. Award is Not Transferable. Except to the limited extent provided in Section 5 above, this Award of PSUs and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way by the Participant (whether by operation of law or otherwise) and will 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. The terms of this Agreement will be binding upon the Participant's executors, administrators, heirs, successors and any permitted transferees.

14. 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.

15. 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.

16. Binding Agreement. Subject to the limitation 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.

17. Additional Conditions to Issuance of Certificates for Stock. The Company will not be 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.

18. 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.

19. 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 will have 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 will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

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

21. 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, provided that the Company will not seek to recover shares of Stock issued more than three years prior to the date the applicable restatement is disclosed.

22. 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) or to comply with Code 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 Code 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 Code Section 409A and preserve the intended tax treatment of the Award, or (ii) comply with the requirements of Code Section 409A; provided, however, that there is no obligation on the part of the Company 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.

23. 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.

24. 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.

25. 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.

26. Notices. Any notice which 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

Participant's signature below indicates 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 21 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: _____

**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 Rules 13a-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 9, 2019

By: /s/ Patrick Gelsinger

Patrick Gelsinger
Chief Executive Officer
(Principal Executive Officer)

**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 Rules 13a-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 9, 2019

By: /s/ Zane Rowe

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

**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 August 2, 2019 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 9, 2019

By: /s/ Patrick Gelsinger

Patrick Gelsinger
Chief Executive Officer
(Principal Executive Officer)

**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 August 2, 2019 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 9, 2019

By: /s/ Zane Rowe

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