

**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 September 30, 2013

OR

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

For transition period from to

Commission File Number 001-33622

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**VMWARE, INC.**

(Exact name of registrant as specified in its charter)

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**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)

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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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 October 24, 2013, the number of shares of common stock, par value \$0.01 per share, of the registrant outstanding was 430,366,009 of which 130,366,009 shares were Class A common stock and 300,000,000 were Class B common stock.

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**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
License	\$ 564	\$ 491	\$ 1,583	\$ 1,490
Services	725	643	2,141	1,822
<b>Total revenues</b>	<b>1,289</b>	<b>1,134</b>	<b>3,724</b>	<b>3,312</b>
<b>Operating expenses (1):</b>				
Cost of license revenues	51	60	163	174
Cost of services revenues	132	119	375	356
Research and development	266	260	797	731
Sales and marketing	449	412	1,308	1,166
General and administrative	103	93	298	266
Realignment charges	1	—	64	—
<b>Operating income</b>	<b>287</b>	<b>190</b>	<b>719</b>	<b>619</b>
Investment income	7	8	21	20
Interest expense with EMC	(1)	(1)	(3)	(4)
Other income (expense), net	15	(2)	29	(2)
<b>Income before income taxes</b>	<b>308</b>	<b>195</b>	<b>766</b>	<b>633</b>
Income tax provision	47	38	87	93
<b>Net income</b>	<b>\$ 261</b>	<b>\$ 157</b>	<b>\$ 679</b>	<b>\$ 540</b>
Net income per weighted-average share, basic for Class A and Class B	\$ 0.61	\$ 0.37	\$ 1.58	\$ 1.26
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.60	\$ 0.36	\$ 1.57	\$ 1.24
Weighted-average shares, basic for Class A and Class B	430	427	429	427
Weighted-average shares, diluted for Class A and Class B	433	433	433	434
(1) Includes stock-based compensation as follows:				
Cost of license revenues	\$ 1	\$ —	\$ 2	\$ 1
Cost of services revenues	7	8	21	21
Research and development	52	60	165	148
Sales and marketing	37	52	106	111
General and administrative	16	12	42	34
Realignment charges	—	—	6	—

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

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

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 261	\$ 157	\$ 679	\$ 540
Other comprehensive income (loss):				
Changes in market value of available-for-sale securities:				
Unrealized gains (losses), net of taxes of \$3, \$3, \$(2) and \$4	5	4	(3)	7
Reclassification of (gains) realized during the period, net of taxes of \$0, \$0, \$(1) and \$0	—	—	(1)	(1)
Net change in market value of available-for-sale securities	5	4	(4)	6
Changes in market value of effective foreign currency forward exchange contracts:				
Unrealized gains (losses), net of \$0 taxes for all periods	(1)	1	(1)	1
Reclassification of losses realized during the period, net of \$0 taxes for all periods	1	—	—	—
Net change in market value of effective foreign currency forward exchange contracts	—	1	(1)	1
Total other comprehensive income (loss)	5	5	(5)	7
Total comprehensive income, net of taxes	<u>\$ 266</u>	<u>\$ 162</u>	<u>\$ 674</u>	<u>\$ 547</u>

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

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

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,263	\$ 1,609
Short-term investments	3,574	3,022
Accounts receivable, net of allowance for doubtful accounts of \$2 and \$4	789	1,151
Due from related parties, net	—	68
Deferred tax assets	183	179
Other current assets	116	91
<b>Total current assets</b>	<b>6,925</b>	<b>6,120</b>
Property and equipment, net	793	665
Other assets, net	113	128
Deferred tax assets	63	103
Intangible assets, net	602	732
Goodwill	2,958	2,848
<b>Total assets</b>	<b>\$ 11,454</b>	<b>\$ 10,596</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 84	\$ 90
Accrued expenses and other	546	674
Due to related parties, net	16	—
Unearned revenues	2,225	2,196
<b>Total current liabilities</b>	<b>2,871</b>	<b>2,960</b>
Note payable to EMC	450	450
Unearned revenues	1,411	1,265
Other liabilities	195	181
<b>Total liabilities</b>	<b>4,927</b>	<b>4,856</b>
Contingencies (see Note L)		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500 shares; issued and outstanding 131 and 129 shares	1	1
Class B convertible common stock, par value \$.01; authorized 1,000 shares; issued and outstanding 300 shares	3	3
Additional paid-in capital	3,545	3,432
Accumulated other comprehensive income	1	6
Retained earnings	2,977	2,298
<b>Total stockholders' equity</b>	<b>6,527</b>	<b>5,740</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 11,454</b>	<b>\$ 10,596</b>

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

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
<b>Operating activities:</b>				
Net income	\$ 261	\$ 157	\$ 679	\$ 540
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	82	86	261	262
Stock-based compensation	113	119	332	302
Excess tax benefits from stock-based compensation	(12)	(25)	(60)	(111)
Non-cash realignment charges	—	—	15	—
Gain on disposition of certain lines of business and other, net	(12)	—	(31)	—
Other	4	(1)	3	(1)
Changes in assets and liabilities, net of acquisitions:				
Accounts receivable	152	67	360	202
Other assets	4	(5)	(72)	(122)
Due to/from related parties, net	49	15	84	28
Accounts payable	(2)	10	16	26
Accrued expenses	(69)	(64)	(91)	(63)
Income taxes receivable from EMC	—	—	15	—
Income taxes payable	(2)	60	(4)	128
Deferred income taxes, net	32	(34)	41	(70)
Unearned revenues	37	51	300	283
Net cash provided by operating activities	<u>637</u>	<u>436</u>	<u>1,848</u>	<u>1,404</u>
<b>Investing activities:</b>				
Additions to property and equipment	(94)	(75)	(247)	(153)
Purchases of available-for-sale securities	(573)	(765)	(2,227)	(2,720)
Sales of available-for-sale securities	253	882	1,072	1,653
Maturities of available-for-sale securities	227	234	597	768
Proceeds from disposition of certain lines of business	6	—	37	—
Business acquisitions, net of cash acquired	—	(1,242)	(184)	(1,344)
Other investing	(8)	(8)	(11)	(12)
Net cash used in investing activities	<u>(189)</u>	<u>(974)</u>	<u>(963)</u>	<u>(1,808)</u>
<b>Financing activities:</b>				
Proceeds from issuance of common stock	70	70	185	214
Repurchase of common stock	(90)	(129)	(392)	(307)
Excess tax benefits from stock-based compensation	12	25	60	111
Shares repurchased for tax withholdings on vesting of restricted stock	(17)	(25)	(84)	(90)
Net cash used in financing activities	<u>(25)</u>	<u>(59)</u>	<u>(231)</u>	<u>(72)</u>
Net increase (decrease) in cash and cash equivalents	423	(597)	654	(476)
Cash and cash equivalents at beginning of the period	1,840	2,077	1,609	1,956
Cash and cash equivalents at end of the period	<u>\$ 2,263</u>	<u>\$ 1,480</u>	<u>\$ 2,263</u>	<u>\$ 1,480</u>
<b>Non-cash items:</b>				
Changes in capital additions, accrued but not paid	\$ (3)	\$ (17)	\$ (8)	\$ (2)
Changes in tax withholdings on vesting of restricted stock, accrued but not paid	(2)	(4)	(1)	3
Fair value of stock options assumed in acquisition	—	17	—	17

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

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

**A. Overview and Basis of Presentation**

***Company and Background***

VMware, Inc. (“VMware” or the “Company”) is the leader in virtualization infrastructure solutions utilized by organizations to help them transform the way they build, deliver and consume information technology (“IT”) resources. VMware’s virtualization infrastructure solutions, which include a suite of products designed to deliver a software-defined data center, run on industry-standard desktop computers and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures.

***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***

These accompanying unaudited 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 consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, for a fair statement of VMware’s 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 year 2013. Certain information and footnote disclosures typically included in annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in VMware’s 2012 Annual Report on Form 10-K.

As of September 30, 2013, EMC Corporation (“EMC”) holds approximately 79.7% of VMware’s outstanding common stock and 97.2% of the combined voting power of VMware’s outstanding common stock, including 43 million shares of VMware’s Class A common stock and all of VMware’s Class B common stock. VMware is a majority-owned and controlled subsidiary of EMC, and its results of operations and financial position are consolidated with EMC’s financial statements. VMware and EMC engage in intercompany transactions, including agreements regarding the use of EMC’s and VMware’s intellectual property and real estate, agreements regarding the sale of goods and services to one another, and an agreement for EMC to resell VMware’s products and services to third party customers. In geographic areas where VMware has not established its own subsidiaries, VMware contracts with EMC subsidiaries for support services and for personnel who are managed by VMware. See Note K and N to the consolidated financial statements for further information.

The amounts recorded for VMware’s intercompany transactions with EMC and GoPivotal, Inc. (“Pivotal”) may not be considered arm’s length with an unrelated third party. Therefore, the financial statements included herein may not necessarily reflect the financial position, results of operations 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 the services the Company receives from and provides to EMC and Pivotal.

***Principles of Consolidation***

The consolidated financial statements include the accounts of VMware and its subsidiaries. All intercompany transactions and balances between VMware and its subsidiaries have been eliminated. All intercompany transactions with EMC and Pivotal in the consolidated statements of cash flows will be settled in cash, and changes in the current intercompany balances are presented as a component of cash flows from operating activities.

***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 revenues 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, certain accrued liabilities, useful lives of fixed assets and intangible assets, valuation of acquired intangibles, revenue reserves, income taxes, stock-based compensation and contingencies. Actual results could differ from those estimates.

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

**B. Business Combinations and Goodwill****Business Combinations**

On February 15, 2013, VMware acquired Virsto Software (“Virsto”), a provider of software that optimizes storage performance and utilization in virtual environments. The consideration paid for this acquisition was \$184 million, net of cash acquired.

The following table summarizes the initial allocation of the consideration to the fair value of the tangible and intangible assets acquired and liabilities assumed as of the acquisition date (table in millions):

Intangible assets	\$	32
Goodwill		162
Total intangible assets acquired		194
Deferred tax liabilities, net		—
Other acquired liabilities, net of acquired assets		(10)
Total net liabilities assumed		(10)
Fair value of intangible assets acquired and net liabilities assumed	\$	184

The excess of the consideration for Virsto over the fair values assigned to the assets acquired and liabilities assumed, which represents the goodwill resulting from the acquisition, was allocated to VMware’s one operating segment. Management believes that the goodwill represents the synergies expected from combining the technologies of VMware with those of Virsto, including complementary products that will enhance the Company’s overall product portfolio.

The following table summarizes the fair value of the intangible assets acquired by VMware in conjunction with the acquisition of Virsto (amounts in table in millions):

	Weighted-Average Useful Lives (in years)	Fair Value Amount
Purchased technology	5	\$ 32
Total intangible assets, net, excluding goodwill		\$ 32

The results of operations of Virsto described above have been included in VMware’s consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired business were not material to VMware’s consolidated results of operations in the three and nine months ended September 30, 2013.

**Goodwill**

The following table summarizes the changes in the carrying amount of goodwill for the nine months ended September 30, 2013 (table in millions):

Balance, January 1, 2013	\$	2,848
Increase in goodwill related to business combination		162
Contribution to Pivotal (see Note N)		(28)
Reduction related to business realignment plan		(4)
Deferred tax adjustments to purchase price allocations on acquisitions		(19)
Other adjustments to purchase price allocations on acquisitions		(1)
Balance, September 30, 2013	\$	2,958

**C. Realignment Charges****Realignment Plan**

During January 2013, VMware approved and initiated a business realignment plan to streamline its operations. As of the second quarter of 2013, the plan was substantially completed. The associated cash payments are expected to be fully paid out by the end of 2013.

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

The realignment plan included the elimination of approximately 725 positions and personnel across all major functional groups and geographies. The total cash and non-cash charge for workforce reductions of \$54 million was recorded on the consolidated statements of income for the nine months ended September 30, 2013 . In connection with the realignment plan, VMware also recognized other cash and non-cash costs primarily associated with asset impairments of \$10 million during the nine months ended September 30, 2013 . Substantially all of the cash-related expenses incurred in connection with the business realignment plan have been paid as of September 30, 2013 .

**Other Related Activities**

In connection with VMware's business realignment plan, in the three months ended September 30, 2013 , VMware sold certain of its assets relating to a previous acquisition, Zimbra, in exchange for cash and equity resulting in a pre-tax gain of \$12 million . During the nine months ended September 30, 2013 , VMware recognized cumulative pre-tax gains of \$44 million relating to the disposition of certain lines of business that were no longer aligned with VMware's core business priorities, including Zimbra. The gains recognized in connection with these dispositions were recorded to other income (expense), net on the consolidated statements of income for the three and nine months ended September 30, 2013 .

**D. Earnings 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, stock options and purchase options under VMware's employee stock purchase plan. Securities are excluded from the computations of diluted net income per share if their effect would be anti-dilutive. VMware uses the two-class method to calculate earnings 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 for the three and nine months ended September 30, 2013 and 2012 (table in millions, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 261	\$ 157	\$ 679	\$ 540
Weighted-average shares, basic for Class A and Class B	430	427	429	427
Effect of dilutive securities	3	6	4	7
Weighted-average shares, diluted for Class A and Class B	433	433	433	434
Net income per weighted-average share, basic for Class A and Class B	\$ 0.61	\$ 0.37	\$ 1.58	\$ 1.26
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.60	\$ 0.36	\$ 1.57	\$ 1.24

For both the three and nine months ended September 30, 2013 , stock options to purchase 1 million shares of VMware Class A common stock were excluded from the diluted earnings per share calculations because their effect would have been anti-dilutive. For the three and nine months ended September 30, 2012 , the number of stock options to purchase shares of VMware Class A common stock that were excluded from the diluted earnings per share calculations because their effect would have been anti-dilutive was not material.

For the three months ended September 30, 2013 and 2012 , 2 million and 3 million shares, respectively, of restricted stock, and for the nine months ended September 30, 2013 and 2012 , 1 million and 2 million shares, respectively, of restricted stock were excluded from the diluted earnings per share calculations because their effect would have been anti-dilutive.

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

**E. Investments**

Investments as of September 30, 2013 and December 31, 2012 consisted of the following (tables in millions):

	<b>September 30, 2013</b>			
	<b>Cost or Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Aggregate Fair Value</b>
U.S. Government and agency obligations	\$ 448	\$ 1	\$ —	\$ 449
U.S. and foreign corporate debt securities	2,082	4	(3)	2,083
Foreign governments and multi-national agency obligations	25	—	—	25
Municipal obligations	880	3	(1)	882
Asset-backed securities	4	—	—	4
Mortgage-backed securities	133	—	(2)	131
<b>Total investments</b>	<b>\$ 3,572</b>	<b>\$ 8</b>	<b>\$ (6)</b>	<b>\$ 3,574</b>

	<b>December 31, 2012</b>			
	<b>Cost or Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Aggregate Fair Value</b>
U.S. Government and agency obligations	\$ 374	\$ 1	\$ —	\$ 375
U.S. and foreign corporate debt securities	1,545	6	(1)	1,550
Foreign governments and multi-national agency obligations	41	—	—	41
Municipal obligations	973	3	—	976
Asset-backed securities	1	—	—	1
Mortgage-backed securities	79	—	—	79
<b>Total investments</b>	<b>\$ 3,013</b>	<b>\$ 10</b>	<b>\$ (1)</b>	<b>\$ 3,022</b>

In addition, VMware evaluated its investments as of September 30, 2013 and December 31, 2012 to determine whether or not any security has experienced an other-than-temporary decline in fair value. During the three months ended September 30, 2013, VMware did not consider any of its investments to be other-than-temporarily impaired. During the nine months ended September 30, 2013, VMware recognized a charge of approximately \$13 million as a result of determining that a strategic investment was considered to be other-than-temporarily impaired. All other realized gains and losses on investments in the three and nine months ended September 30, 2013 and 2012 were not material.

As of September 30, 2013 and December 31, 2012, investments in a continuous unrealized loss position for twelve months or greater were not considered significant. Unrealized losses on investments as of September 30, 2013 and December 31, 2012, which have been in a net loss position for less than twelve months, were classified by investment category as follows (table in millions):

	<b>September 30, 2013</b>		<b>December 31, 2012</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
U.S. Government and agency obligations	\$ 64	\$ —	\$ 35	\$ —
U.S. and foreign corporate debt securities	888	(3)	316	(1)
Foreign governments and multi-national agency obligations	16	—	5	—
Municipal obligations	132	(1)	259	—
Asset-backed securities	2	—	—	—
Mortgage-backed securities	110	(2)	28	—
<b>Total</b>	<b>\$ 1,212</b>	<b>\$ (6)</b>	<b>\$ 643</b>	<b>\$ (1)</b>

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

**Contractual Maturities**

The contractual maturities of investments held at September 30, 2013 consisted of the following (table in millions):

	Amortized Cost Basis	Aggregate Fair Value
Due within one year	\$ 839	\$ 840
Due after 1 year through 5 years	2,610	2,612
Due after 5 years	123	122
Total investments	<u>\$ 3,572</u>	<u>\$ 3,574</u>

**F. Fair Value Measurements**

Certain financial assets and liabilities are measured at fair value on a recurring basis. There have been no transfers between fair value measurement levels during the nine months ended September 30, 2013 .

The following tables set forth the fair value hierarchy of VMware's money market funds and available-for-sale securities, including those securities classified within cash and cash equivalents on the consolidated balance sheets, that were required to be measured at fair value as of September 30, 2013 and December 31, 2012 (tables in millions):

	September 30, 2013		
	Level 1	Level 2	Total
Money-market funds	\$ 1,817	\$ —	\$ 1,817
U.S. Government and agency obligations	331	118	449
U.S. and foreign corporate debt securities	—	2,108	2,108
Foreign governments and multi-national agency obligations	—	25	25
Municipal obligations	—	882	882
Asset-backed securities	—	4	4
Mortgage-backed securities	—	131	131
Total	<u>\$ 2,148</u>	<u>\$ 3,268</u>	<u>\$ 5,416</u>
	December 31, 2012		
	Level 1	Level 2	Total
Money-market funds	\$ 1,125	\$ —	\$ 1,125
U.S. Government and agency obligations	250	155	405
U.S. and foreign corporate debt securities	—	1,567	1,567
Foreign governments and multi-national agency obligations	—	41	41
Municipal obligations	—	976	976
Asset-backed securities	—	1	1
Mortgage-backed securities	—	79	79
Total	<u>\$ 1,375</u>	<u>\$ 2,819</u>	<u>\$ 4,194</u>

Fixed income available-for-sale securities consist of high quality, investment-grade securities from diverse issuers. Fair value of fixed income securities are determined based on pricing from pricing vendors who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs). The valuation techniques used to measure the fair value of financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models such as discounted cash flow techniques. VMware's procedures include controls to ensure that appropriate fair values are recorded such as comparing prices obtained from multiple independent sources.

**G. Derivatives and Hedging Activity**

VMware conducts business in several foreign currencies and has international sales and expenses denominated in foreign currencies, subjecting the Company to foreign currency risk. To mitigate this risk, VMware enters into hedging activities as

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described below. The counterparties to VMware's foreign currency forward contracts are multi-national commercial banks considered to be credit-worthy. VMware does not enter into speculative foreign exchange contracts for trading purposes.

**Cash Flow Hedging Activities**

To mitigate its exposure to foreign currency fluctuations resulting from operating expenses denominated in certain foreign currencies, VMware enters into foreign currency forward contracts. The Company designates these forward contracts as cash flow hedging instruments as the accounting criteria for such designation has been met. Therefore, the effective portion of gains or losses resulting from changes in the fair value of these hedges is initially reported in accumulated other comprehensive income (loss) on the consolidated balance sheet and is subsequently reclassified to the related operating expense line item in the consolidated statements of income in the same period that the underlying expenses are incurred. Interest charges or "forward points" on VMware's forward contracts are excluded from the assessment of hedge effectiveness and are recorded in other income (expense), net in the consolidated statements of income as incurred.

VMware generally enters into cash flow hedges semi-annually with maturities of six months or less. As of September 30, 2013 and December 31, 2012, VMware had forward contracts to purchase foreign currency designated as cash flow hedges with a total notional value of \$39 million and \$9 million, respectively. The fair value of these forward contracts was immaterial as of September 30, 2013 and December 31, 2012, and therefore excluded from the fair value tables above. For the three and nine months ended September 30, 2013, all cash flow hedges were considered effective.

**Balance Sheet Hedging Activities**

In order to manage exposure to foreign currency fluctuations, VMware enters into foreign currency forward contracts to hedge a portion of its net outstanding monetary assets and liabilities against movements in certain foreign exchange rates. 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 in the consolidated statements of income.

VMware's foreign currency forward contracts are generally traded on a monthly basis with a typical contractual term of one month. As of September 30, 2013 and December 31, 2012, VMware had outstanding forward contracts with a total notional value of \$314 million and \$440 million, respectively. The fair value of these forward contracts was immaterial as of September 30, 2013 and December 31, 2012 and therefore excluded from the fair value tables above.

In the three months ended September 30, 2013 and 2012, VMware recognized losses of \$16 million and \$6 million, respectively, on its consolidated statements of income for its foreign currency forward contracts. In the nine months ended September 30, 2013, the impact on its consolidated statements of income for its foreign currency forward contracts was not material. In the nine months ended September 30, 2012, VMware recognized a loss of \$7 million on its consolidated statements of income for its foreign currency forward contracts.

The net impact of the gains and losses on VMware's foreign currency forward contracts and the gains and losses associated with the underlying foreign-currency denominated assets and liabilities resulted in a net gain of \$1 million and a net loss of \$1 million in the three months ended September 30, 2013 and 2012, respectively, and net losses of \$5 million and \$3 million in the nine months ended September 30, 2013 and 2012, respectively.

**H. Property and Equipment, Net**

Property and equipment, net, as of September 30, 2013 and December 31, 2012 consisted of the following (table in millions):

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Equipment and software	\$ 708	\$ 636
Buildings and improvements	495	438
Furniture and fixtures	72	67
Construction in progress	180	98
Total property and equipment	1,455	1,239
Accumulated depreciation	(662)	(574)
Total property and equipment, net	<u>\$ 793</u>	<u>\$ 665</u>

Depreciation expense was \$36 million and \$31 million in the three months ended September 30, 2013 and 2012, respectively. Depreciation expense was \$105 million and \$97 million in the nine months ended September 30, 2013 and 2012, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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As of September 30, 2013 and December 31, 2012, construction in progress primarily represented buildings and site improvements related to VMware's Palo Alto campus expansion that had not yet been placed into service.

**I. Accrued Expenses and Other**

Accrued expenses and other as of September 30, 2013 and December 31, 2012 consisted of the following (table in millions):

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Salaries, commissions, bonuses, and benefits	\$ 202	\$ 292
Accrued partner liabilities	114	129
Other	230	253
<b>Total</b>	<b>\$ 546</b>	<b>\$ 674</b>

Accrued partner liabilities relate to rebates and marketing development fund accruals for channel partners, system vendors and systems integrators, as well as accrued royalties.

**J. Unearned Revenues**

Unearned revenues as of September 30, 2013 and December 31, 2012 consisted of the following (table in millions):

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Unearned license revenues	\$ 415	\$ 463
Unearned software maintenance revenues	2,937	2,755
Unearned professional services revenues	284	243
<b>Total unearned revenues</b>	<b>\$ 3,636</b>	<b>\$ 3,461</b>

Unearned license revenues are either recognized ratably, recognized upon delivery of existing or future products or services, or will be recognized ratably upon delivery of future products or services. Future products include, in some cases, emerging products that are offered as part of product promotions where the purchaser of an existing product is entitled to receive a promotional product at no additional charge. VMware regularly offers product promotions to improve awareness of its emerging products. To the extent promotional products have not been delivered and vendor-specific objective evidence ("VSOE") of fair value is not established, revenue for the entire order is deferred until such time as all product delivery obligations have been fulfilled. Unearned license revenue may also be recognized ratably, which is generally due to a right to receive unspecified future products or a lack of VSOE of fair value on the software maintenance element of the arrangement.

Unearned software maintenance revenues are attributable to VMware's maintenance contracts and are recognized ratably, typically over terms of one to five years. Unearned professional services revenues result primarily from prepaid professional services, including training, and are recognized as the services are delivered.

**K. Income Taxes**

Although VMware files a consolidated federal tax return with EMC, the income tax provision is calculated under a hybrid method, primarily as though VMware were a separate taxpayer. However, where VMware and EMC are parties to certain discrete transactions outside the normal course of business, the tax consequences of these transactions are determined in accordance with consolidated return rules. Payments between VMware and EMC under the tax sharing agreement primarily relate to VMware's portion of federal income taxes on EMC's consolidated tax return. Payments from VMware to EMC primarily relate to periods for which VMware had federal taxable income, while payments from EMC to VMware relate to periods for which VMware had a federal taxable loss. In the nine months ended September 30, 2013, EMC paid VMware \$16 million under the tax sharing agreement. No other payments were made either by EMC or VMware under the tax sharing agreement during the three months ended September 30, 2013 and 2012, or during the nine months ended September 30, 2012. The amounts that VMware either pays to or receives from EMC for its portion of federal income taxes on EMC's consolidated tax return differ from the amounts VMware would owe based on the hybrid method and the difference is presented as a component of stockholders' equity. For all periods presented, the difference was not material.

The Company's effective tax rate in the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The rate at which the provision for income taxes is calculated differs from the U.S. federal statutory income tax rate primarily due to differential tax rates in foreign jurisdictions where income is earned and considered to be indefinitely reinvested.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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VMware's effective income tax rate was 15.3% and 19.7% for the three months ended September 30, 2013 and 2012, respectively. The effective income tax rate was 11.4% and 14.7% for the nine months ended September 30, 2013 and 2012, respectively. The lower effective rate for the three months ended September 30, 2013 compared with the three months ended September 30, 2012 was primarily attributable to the finalization of the 2012 federal return related to the change in estimate of the U.S. federal research tax credit calculation. The lower effective rate for the nine months ended September 30, 2013 compared with the nine months ended September 30, 2012 was primarily attributable to the discrete tax benefits recognized in the nine months ended September 30, 2013 due to the retroactive enactment of the U.S. federal research tax credit by the U.S. Congress in January 2013.

VMware's rate of taxation in foreign jurisdictions is lower than the U.S. tax rate. VMware's international income is primarily earned by VMware's subsidiaries in Ireland, where the statutory tax rate is 12.5%. Management does not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on VMware's effective tax rate. VMware's intent is to indefinitely reinvest its non-U.S. funds in its foreign operations, and VMware's current plans do not demonstrate a need to repatriate them to fund its U.S. operations.

As of September 30, 2013, VMware had gross unrecognized tax benefits totaling \$162 million, which excludes \$7 million of offsetting tax benefits. Approximately \$155 million of VMware's net unrecognized tax benefits, not including interest and penalties, if recognized, would reduce income tax expense and lower VMware's effective tax rate in the period or periods recognized. In total, there were \$167 million of net unrecognized tax benefits, including interest and penalties, which were classified as a non-current liability on the consolidated balance sheet as of September 30, 2013. It is reasonably possible that within the next 12 months, audit resolutions could potentially reduce total unrecognized tax benefits by approximately \$4 million. Due to the closure of tax audits and statutes that lapsed, approximately \$6 million of uncertain tax benefits were reversed during the nine months ended September 30, 2013. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

VMware recognizes interest expense and penalties related to income tax matters in the income tax provision. VMware recognized approximately \$4 million in interest and penalties for the nine months ended September 30, 2013. Interest and penalties for the three months ended September 30, 2013 were not material. As of September 30, 2013, there were \$12 million of interest and penalties accrued for unrecognized tax benefits. These amounts are included as components of the \$167 million of net unrecognized tax benefits as of September 30, 2013.

## **L. Contingencies**

### ***Litigation***

VMware is subject to legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business, including claims with respect to commercial, product liability, intellectual property, employment, class action, whistleblower and other matters. From time to time, VMware also receives inquiries from government entities regarding the compliance of its contracting and sales practices with applicable regulations. VMware accrues for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. VMware evaluates its claims on a quarterly basis and considers the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. As of September 30, 2013 and December 31, 2012, the amounts accrued were not material. To the extent there is a reasonable possibility that the losses could exceed the amounts already accrued, management believes that the amount of any such additional loss would also be immaterial to VMware's consolidated financial position and results of operations.

## **M. Stockholders' Equity**

### ***VMware Equity Plan and VMware Employee Stock Purchase Plan***

In May 2013, VMware amended its 2007 Equity and Incentive Plan to increase the number of shares available for issuance by 13,300,000 shares. VMware also amended its 2007 Employee Stock Purchase Plan to increase the number of shares available for issuance by 7,900,000 shares.

### ***VMware Stock Repurchases***

In August 2013, VMware's Board of Directors authorized the repurchase of up to \$700 million of VMware's Class A common stock through the end of 2015. In November 2012, VMware's Board of Directors authorized the repurchase of up to \$250 million of VMware's Class A common stock through the end of 2014. In February 2012, VMware's Board of Directors authorized the repurchase of up to \$600 million of VMware's Class A common stock, which was completed in the second quarter of 2013. From time to time, future stock repurchases may be made pursuant to the August 2013 and November 2012

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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authorizations in open market transactions or privately negotiated transactions as permitted by securities laws and other legal requirements. VMware is not obligated to purchase any shares under its stock repurchase programs. 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 and regulatory requirements and other market and economic conditions. Purchases can be discontinued at any time that VMware feels additional purchases are not warranted. All shares repurchased under VMware's stock repurchase programs are retired.

The following table summarizes stock repurchase activity in the three and nine months ended September 30, 2013 and 2012 (table in millions, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Aggregate purchase price	\$ 90	\$ 129	\$ 392	\$ 307
Class A common shares repurchased	1	1	5	3
Weighted-average price per share	\$ 73.63	\$ 88.35	\$ 75.06	\$ 92.91

The amount of repurchased shares includes commissions and was classified as a reduction to additional paid-in capital. As of September 30, 2013, the cumulative authorized amount remaining for repurchase was \$775 million.

**VMware Restricted Stock**

VMware restricted stock primarily consists of restricted stock unit ("RSU") awards granted to employees. RSUs are valued based on the VMware stock price on the date of grant, and shares underlying RSU awards are not issued until the restricted stock units vest. Upon vesting, each RSU converts into one share of VMware Class A common stock.

VMware restricted stock also includes performance stock unit ("PSU") awards, which have been granted to certain of VMware's executives and employees. The PSU awards include performance conditions, as well as time-based vesting. Upon vesting, each PSU award will convert into VMware's Class A common stock at various ratios ranging from 0.5 to 3.0 shares per PSU, depending upon the degree of achievement of the performance target designated by each individual award. If minimum performance thresholds are not achieved, then no shares will be issued.

The following table summarizes restricted stock activity since January 1, 2013 (units in millions):

	Number of Units	Weighted- Average Grant Date Fair Value (per unit)
Outstanding, January 1, 2013	12	\$ 91.93
Granted	6	74.90
Vested	(3)	80.36
Forfeited	(2)	91.01
Outstanding, September 30, 2013	13	87.23

As of September 30, 2013, the 13 million of units outstanding included 12 million of RSUs and 1 million of PSUs.

As of September 30, 2013, restricted stock representing 13 million shares of VMware's Class A common stock were outstanding, with an aggregate intrinsic value of \$1,023 million based on VMware's closing price as of September 30, 2013.

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**Accumulated Other Comprehensive Income**

The changes in components of accumulated other comprehensive income in the nine months ended September 30, 2013 were as follows (table in millions):

	Unrealized Gains on Available-for-Sale Securities	Losses on Cash Flow Hedges	Total
Balance, January 1, 2013	\$ 6	\$ —	\$ 6
Other comprehensive loss before reclassifications, net of taxes of \$(2), \$0 and \$(2)	(3)	(1)	(4)
Amounts reclassified from accumulated other comprehensive income to the consolidated statement of income, net of taxes of \$(1), \$0 and \$(1)	(1)	—	(1)
Other comprehensive loss, net	(4)	(1)	(5)
Balance, September 30, 2013	\$ 2	\$ (1)	\$ 1

Gains (losses) on VMware's available-for-sale securities are reclassified to investment income on the consolidated statement of income in the same period that they are realized.

The effective portion of gains (losses) resulting from changes in the fair value of forward contracts designated as cash flow hedging instruments are reclassified to its related operating expense line item on the consolidated statement of income in the same period that the underlying expenses are incurred. The amounts recorded to their related operating expense line items on the consolidated statements of income in the three and nine months ended September 30, 2013 were not material.

**N. Related Parties****EMC Reseller Arrangement, Other Services and Note Payable**

Pursuant to an ongoing reseller arrangement with EMC, EMC bundles VMware's products and services with EMC's products and sells them to end-users. In the three months ended September 30, 2013 and 2012, VMware recognized revenues of \$37 million and \$27 million, respectively, from such contractual arrangement with EMC. In the nine months ended September 30, 2013 and 2012, VMware recognized revenues of \$108 million and \$88 million, respectively, from such contractual arrangement with EMC. As of September 30, 2013, \$162 million of revenues from products and services sold under the reseller arrangement were included in unearned revenues.

In the three months ended September 30, 2013 and 2012, VMware recognized professional services revenues of \$14 million and \$21 million, respectively, from such contractual agreements with EMC. In the nine months ended September 30, 2013 and 2012, VMware recognized revenues of \$60 million and \$63 million, respectively, from such contractual agreements with EMC. As of September 30, 2013, \$9 million of revenues from professional services to EMC customers were included in unearned revenues.

In both the three months ended September 30, 2013 and 2012, VMware recognized revenues of \$3 million from products and services purchased by EMC for internal use pursuant to VMware's contractual agreements with EMC. In the nine months ended September 30, 2013 and 2012, VMware recognized revenues of \$9 million and \$7 million, respectively, from such contractual agreements with EMC. As of September 30, 2013, \$30 million of revenues from products and services purchased by EMC for internal use were included in unearned revenues.

VMware purchased products and services for internal use from EMC for \$20 million and \$4 million in the three months ended September 30, 2013 and 2012, respectively, and for \$45 million and \$28 million in the nine months ended September 30, 2013 and 2012, respectively.

From time to time, VMware and EMC enter into agreements to collaborate on technology projects. In both the three months ended September 30, 2013 and 2012, VMware received \$2 million from EMC for EMC's portion of expenses related to such projects, and in the nine months ended September 30, 2013 and 2012, VMware received \$6 million and \$5 million, respectively, from such contractual agreements with EMC. In the three months ended September 30, 2013, VMware paid \$5 million to EMC for services provided to VMware by EMC related to such projects, and in the nine months ended September 30, 2013, VMware paid \$7 million to EMC for such contractual agreements with EMC.

In certain geographic regions where VMware does not have an established legal entity, VMware contracts with EMC subsidiaries for support services and EMC personnel who are managed by VMware. The costs incurred by EMC on VMware's behalf related to these employees are passed on to VMware and VMware is charged a mark-up intended to approximate costs.

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that would have been charged had VMware contracted for such services with an unrelated third party. These costs are included as expenses in VMware's consolidated statements of income and primarily include salaries, benefits, travel and rent. Additionally, EMC incurs certain administrative costs on VMware's behalf in the U.S. that are also recorded as expenses in VMware's consolidated statements of income. The total cost of the services provided to VMware by EMC as described above was \$29 million and \$26 million in the three months ended September 30, 2013 and 2012, respectively, and \$94 million and \$75 million in the nine months ended September 30, 2013 and 2012, respectively.

In both the three months ended September 30, 2013 and 2012, \$1 million of interest expense was recorded related to the note payable to EMC and included in interest expense with EMC on VMware's consolidated statements of income. In the nine months ended September 30, 2013 and 2012, \$3 million and \$4 million, respectively, of interest expense was recorded related to the note payable to EMC and included in interest expense with EMC on VMware's consolidated statements of income. VMware's interest expense as a separate, stand-alone company may be higher or lower than the amounts reflected in the consolidated financial statements.

***Certain Stock-Based Compensation***

Effective September 1, 2012, Pat Gelsinger succeeded Paul Maritz as Chief Executive Officer of VMware. Prior to joining VMware, Pat Gelsinger was the President and Chief Operating Officer of EMC Information Infrastructure Products. Paul Maritz remains a board member of VMware and currently serves as Chief Executive Officer of Pivotal, a majority-owned subsidiary of EMC in which VMware has an ownership interest. Both Paul Maritz and Pat Gelsinger retain and continue to vest in certain of their respective equity awards that they held as of September 1, 2012. Stock-based compensation related to Pat Gelsinger's EMC awards will be recognized on VMware's consolidated statements of income over the awards' remaining requisite service periods. Effective September 1, 2012, stock-based compensation related to Paul Maritz's VMware awards will not be recognized by VMware.

***Mozy***

In 2011, VMware acquired certain assets relating to EMC's Mozy cloud-based data storage and data center services, including certain data center assets and a license to certain intellectual property. EMC retained ownership of the Mozy business and its remaining assets and continued to be responsible to Mozy customers for Mozy products and services and to recognize revenue from such products and services. VMware entered into an operational support agreement with EMC through the end of 2012, pursuant to which VMware took over responsibility to operate the Mozy service on behalf of EMC. Pursuant to the support agreement, costs incurred by VMware to support EMC's Mozy services, plus a mark-up intended to approximate third-party costs and a management fee, were reimbursed to VMware by EMC. In the fourth quarter of 2012, the operational support agreement between VMware and EMC was amended such that VMware would no longer operate the Mozy service on behalf of EMC. Under the amendment, VMware transferred substantially all employees that support Mozy services to EMC and EMC purchased certain assets from VMware in relation to transferred employees. The termination of service and related transfer of employees and sale of assets was substantially completed during the first quarter of 2013. On the consolidated statements of income, such amounts reimbursed by EMC to VMware to operate Mozy were immaterial in the three and nine months ended September 30, 2013, and \$17 million and \$48 million in the three and nine months ended September 30, 2012, respectively. These amounts were recorded as a reduction to the costs VMware incurred.

***Joint Contribution of Assets with EMC to Pivotal***

On April 1, 2013, VMware transferred certain assets and liabilities to Pivotal. VMware contributed certain assets, including intellectual property, to Pivotal, and Pivotal assumed substantially all liabilities, related to certain of its Cloud Application Platform products and services, including VMware's Cloud Foundry, VMware vFabric (including Spring and GemFire) and Cetas organizations, except for certain tangible assets related to Cloud Foundry. During the nine months ended September 30, 2013, VMware transferred approximately 415 VMware employees to Pivotal.

VMware received preferred equity interests in Pivotal equal to approximately 31% of Pivotal's outstanding shares in exchange for its contributions. Additionally, VMware and Pivotal entered into an agreement pursuant to which VMware will act as the selling agent for the products and services it contributed to Pivotal until at least December 31, 2013 in exchange for a customary agency fee. In the three and nine months ended September 30, 2013, VMware recognized revenues of \$2 million and \$3 million, respectively, from such contractual arrangement with Pivotal. As of September 30, 2013, \$1 million of revenues from such contractual arrangement with Pivotal were included in unearned revenues. VMware also agreed to provide various transition services to Pivotal until at least December 31, 2013. Pursuant to the support agreement, costs incurred by VMware to support Pivotal services are reimbursed to VMware by Pivotal. During the three and nine months ended September 30, 2013, VMware provided transition services of \$2 million and \$10 million, respectively, that are reimbursable by Pivotal and which were recorded as a reduction to the costs VMware incurred. Additionally, VMware purchased products and services for internal use from Pivotal for \$1 million and \$6 million in the three and nine months ended September 30, 2013, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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The book value of all contributed assets and the liabilities assumed by Pivotal, with the exception of intangible assets and goodwill, was based on the book values of those assets and liabilities specific to those particular products and services. For intangible assets and goodwill, the book value contributed was based on the relative fair value of the contributed assets applicable to Pivotal.

On April 1, 2013, VMware's initial contribution was a net liability of \$16 million to Pivotal, which was included in VMware's consolidated balance sheet as of March 31, 2013. The following table summarizes the assets VMware contributed to Pivotal and the liabilities Pivotal assumed from VMware, including certain adjustments made subsequent to April 1, 2013, which were not material to VMware's consolidated financial statements (table in millions):

Accounts receivable	\$	4
Property and equipment, net		1
Intangible assets		28
Goodwill		28
Total assets		61
Accounts payable, accrued liabilities and other, net		(3)
Unearned revenues		(71)
Total liabilities		(74)
Total liabilities, net assumed by Pivotal	\$	(13)

Of the \$71 million in unearned revenues assumed by Pivotal on April 1, 2013, \$32 million related to unearned license revenues and \$39 million related to unearned services revenues.

VMware's ownership interest in Pivotal is 28% as of September 30, 2013 as a result of investments made by a third-party strategic investor. As Pivotal assumed a net liability from VMware, the investment carried by VMware has a cost basis of zero. Thus the net liability assumed by Pivotal of \$13 million as of September 30, 2013 was classified to additional paid-in capital on VMware's consolidated balance sheet.

#### ***Due To/Due From Related Parties***

As of September 30, 2013, VMware had \$16 million net due to related parties, which consisted of \$59 million due to EMC and \$15 million due to Pivotal, partially offset by \$55 million due from EMC and \$3 million due from Pivotal. These amounts resulted from the related-party transactions with EMC and Pivotal described above. Additionally, as of September 30, 2013, VMware had a net income tax receivable from EMC of \$6 million, which consisted of \$9 million due from EMC, partially offset by \$3 million due to EMC. Balances due to or from EMC which are unrelated to tax obligations are generally settled in cash within 60 days of each quarter-end. The timing of the tax payments due to and from EMC is governed by the tax sharing agreement with EMC. See Note K to the consolidated financial statements for information regarding tax payments with EMC.

#### **O. Segment Information**

VMware operates in one operating segment. Operating segments are defined as components of an enterprise about 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.

Revenues by geographic area for the three and nine months ended September 30, 2013 and 2012 were as follows (table in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
United States	\$ 614	\$ 554	\$ 1,773	\$ 1,589
International	675	580	1,951	1,723
Total	\$ 1,289	\$ 1,134	\$ 3,724	\$ 3,312

No individual country other than the United States had material revenues for the three and nine months ended September 30, 2013 and 2012.

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Long-lived assets by geographic area, which primarily include property and equipment, net, as of September 30, 2013 and December 31, 2012 were as follows (table in millions):

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
United States	\$ 697	\$ 563
International	53	51
Total	<u>\$ 750</u>	<u>\$ 614</u>

No individual country other than the United States accounted for 10% or more of these assets as of September 30, 2013 and December 31, 2012, respectively.

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

All dollar amounts expressed as numbers in this MD&A (except share and per share amounts) are in millions.

### Overview

We are the leader in virtualization infrastructure solutions utilized by organizations to help transform the way they build, deliver and consume information technology ("IT") resources. Our primary source of revenues is from the licensing and support of these solutions to organizations of all sizes and across numerous industries. The benefits of our solutions to our customers include substantially lower IT costs, cost-effective high availability across a wide range of applications and a more automated and resilient systems infrastructure capable of responding dynamically to variable business demands.

We pioneered the development and application of virtualization technologies with x86 server-based computing, separating application software from the underlying hardware. Since then, we have introduced a broad and proven suite of virtualization technologies that address a range of complex IT problems that include cost and operational inefficiencies, facilitating access to cloud computing capacity, business continuity, and corporate end-user computing device management. In 2012, we articulated a vision for the software-defined data center ("SDDC"), where increasingly infrastructure is virtualized and delivered as a service, and the control of this data center is entirely automated by software. To further this vision, in the third quarter of 2012, we released the VMware vCloud Suite, which is the first integrated solution designed to meet the requirements of the SDDC by pooling industry-standard hardware and running compute, networking, storage and management functions in the data center as software-defined services.

Our product solutions are based upon three growth priorities, which include SDDC, hybrid cloud and End-User Computing. SDDC includes development and delivery of innovations in networking, security, storage and management as we continue to roll out and enhance the features of our vCloud Suite. VMware vCloud Suite and various Cloud Management solutions that are optimized to work with vSphere environments are designed to simplify and automate management of dynamic cloud infrastructures that enable enterprises to build, manage and automate their own private clouds. For the hybrid cloud, we have introduced a public cloud infrastructure as a service offering designed to be completely interoperable with our customers' VMware virtualized infrastructures. Currently, revenues for our hybrid cloud solution during the third quarter and first nine months of 2013 have not been significant. Our End-User Computing product group has solutions designed to enable a user-centric approach to personal computing, including, for example, the VMware Horizon Suite launched in the first quarter of 2013, that enable secure access to applications and data from a variety of devices and locations, and addresses the needs of IT departments by delivering existing end-user assets as a managed service. We have developed a multi-channel distribution model to expand our presence and reach various segments of the market. We derive a significant majority of our sales from our indirect sales channel, which includes distributors, resellers, system vendors and systems integrators. Sales to our channel partners often involve three tiers of distribution: a distributor, a reseller and an end-user customer. Our sales force works collaboratively with our channel partners to introduce them to end-user customer accounts and new sales opportunities. As we expand geographically, we expect to continue to add additional channel partners.

We expect to grow our business by building long-term relationships with our customers, which includes selling our solutions through enterprise license agreements ("ELAs"). ELAs are comprehensive volume license offerings offered both directly by us and through certain channel partners that provide for multi-year maintenance and support. Under a typical ELA, a portion of the revenues is attributed to the license revenues and the remainder is primarily attributed to software maintenance revenues. In addition, the initial maintenance and support period is typically longer for ELAs than for other types of license sales. ELAs enable us to build long-term relationships with our customers as they commit to our virtual infrastructure solutions in their data centers. ELAs comprised 33% and 24% of our overall sales during the third quarters of 2013 and 2012, respectively, and 33% and 25% of our overall sales during the first nine months of 2013 and 2012, respectively, with the balance primarily represented by our non-ELA, or transactional business. In 2013, in addition to continuing to increase revenues through the adoption of ELAs, we are focused on driving additional transactional business.

### Realignment

In January 2013, we announced a realignment of our strategy to refocus our resources and investments in support of three growth priorities that focus on our core opportunities as a provider of virtualization technologies that simplify IT infrastructure: the software-defined data center, the hybrid cloud and end-user computing. The business realignment plan was substantially completed at the end of the second quarter of 2013. The realignment plan also included the disposition of certain business activities, which have also been substantially completed.

### GoPivotal, Inc. ("Pivotal")

During the year, we transferred certain assets and liabilities to Pivotal in exchange for an ownership interest in Pivotal of approximately 28% as of September 30, 2013. In connection with this transaction, we transferred approximately 415 of our

employees to Pivotal during the first nine months of 2013. Additionally, we also entered into an agreement with Pivotal pursuant to which we are acting as the selling agent of the products and services we contributed to Pivotal until at least December 31, 2013 in exchange for a customary agency fee. We have also agreed to provide various transition services to Pivotal until at least December 31, 2013, for which we are reimbursed for our costs.

Starting with the second quarter of 2013, substantially all revenues and costs associated with our contribution to Pivotal have been eliminated from our consolidated statements of income. While the contribution of these business lines to Pivotal has had a negative impact on our revenue growth rate compared to 2012, it had a positive impact on our 2013 operating margin due to the elimination of Pivotal related costs from our consolidated statements of income.

## Results of Operations

Our current financial focus is on long-term revenue growth to enable us to fund our expansion of industry segment share and to evolve our virtualization-based products for data centers, end-user devices and cloud computing through a combination of internal development and acquisitions. In evaluating our results, we also focus on our free cash flows and operating margin excluding certain expenses which are included in our total operating expenses calculated in accordance with accounting principles generally accepted in the United States (“GAAP”). The expenses excluded are stock-based compensation, amortization of acquired intangible assets, realignment charges and certain other expenses consisting of the net effect of amortization and capitalization of software development costs, employer payroll taxes on employee stock transactions and acquisition and other-related items. We believe these measures reflect our ongoing business in a manner that allows meaningful period-to-period comparisons. We are not currently focused on short-term operating margin expansion, but rather on investing at appropriate rates to support our growth and priorities in what may be a substantially more competitive environment. See “Non-GAAP Financial Measures” for further information.

### Revenues

Our revenues in the third quarter and first nine months of 2013 and 2012 were as follows:

	For the Three Months Ended				For the Nine Months Ended			
	September 30,		\$ Change	% Change	September 30,		\$ Change	% Change
	2013	2012			2013	2012		
Revenues:								
License	\$ 564	\$ 491	\$ 73	15 %	\$ 1,583	\$ 1,490	\$ 93	6%
Services:								
Software maintenance	644	551	93	17	1,864	1,562	302	19
Professional services	81	92	(11)	(12)	277	260	17	7
Total services	725	643	82	13	2,141	1,822	319	18
Total revenues	\$ 1,289	\$ 1,134	\$ 155	14	\$ 3,724	\$ 3,312	\$ 412	12
Revenues:								
United States	\$ 614	\$ 554	\$ 60	11 %	\$ 1,773	\$ 1,589	\$ 184	12%
International	675	580	95	16	1,951	1,723	228	13
Total revenues	\$ 1,289	\$ 1,134	\$ 155	14	\$ 3,724	\$ 3,312	\$ 412	12

In the third quarter and first nine months of 2013, we achieved growth in license and services revenues, and growth in the United States and internationally, as compared with the third quarter and first nine months of 2012.

### License Revenues

License revenues in the third quarter and first nine months of 2013 were up 15% and 6%, respectively, compared to the third quarter and first nine months of 2012. Our revenue growth rate for both periods was due to overall increased sales volumes, slightly offset by the disposition of certain business lines under our realignment plan and the contribution of certain business lines to Pivotal.

Excluding from both the 2013 and the 2012 periods the revenues related to Pivotal and all dispositions under our realignment plan, license revenues grew 17% and 8% in the third quarter and first nine months of 2013, respectively. See “Non-GAAP Financial Measures” for further information on license revenues excluding Pivotal and our 2013 dispositions.

### **Services Revenues**

In the third quarter and first nine months of 2013, software maintenance revenues benefited from strong renewals, multi-year software maintenance contracts sold in previous periods, and additional maintenance contracts sold in conjunction with new software license sales. In each period presented, customers bought, on average, more than 24 months of support and maintenance with each new license purchased, which we believe illustrates our customers' commitment to VMware as a core element of their data center architecture and hybrid cloud strategy.

In the third quarter of 2013, professional services revenues decreased primarily due to the contribution of certain business lines to Pivotal and the disposition of certain business lines under our realignment plan. In the first nine months of 2013, professional services revenues increased primarily as a result of growth in our license sales and installed-base led to additional demand for our professional services.

Our revenue growth rate was negatively impacted by the contribution of certain business lines to Pivotal and the disposition of certain business lines under our realignment plan. Excluding from both the 2013 and the 2012 periods the revenues related to Pivotal and all dispositions under our realignment plan, including the business line we exited in the third quarter of 2013, services revenues grew 20% and 22% in the third quarter and first nine months of 2013, respectively. See "Non-GAAP Financial Measures" for further information on services revenues excluding Pivotal and our 2013 dispositions.

### **Foreign Currency**

We invoice and collect in the Euro, the British Pound, the Japanese Yen and the Australian Dollar in their respective regions. As a result, our total revenues are affected by changes in the value of the U.S. Dollar against these currencies. Foreign currencies did not have a material impact when comparing revenues during the third quarter and first nine months of 2013 to the same periods in the prior year.

### **Unearned Revenues**

Our unearned revenues as of September 30, 2013 and December 31, 2012 were as follows:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>
Unearned license revenues	\$ 415	\$ 463
Unearned software maintenance revenues	2,937	2,755
Unearned professional services revenues	284	243
<b>Total unearned revenues</b>	<b>\$ 3,636</b>	<b>\$ 3,461</b>

Unearned license revenues are either recognized ratably, recognized upon delivery of existing or future products or services, or will be recognized ratably upon delivery of future products or services. The amount of total unearned license revenues may vary over periods due to the type and level of promotions offered, the portion of license contracts sold with a ratable recognition element, and when promotional products are delivered upon general availability.

Unearned software maintenance revenues are attributable to our maintenance contracts and are generally recognized ratably, typically over terms from one to five years with a weighted-average remaining term at September 30, 2013 of approximately 1.9 years. Unearned professional services revenues result primarily from prepaid professional services, including training, and are recognized as the services are delivered.

## Operating Expenses

Information about our operating expenses for the third quarter and first nine months of 2013 and 2012 is as follows:

For the Three Months Ended September 30, 2013						
	Core Operating Expenses (1)	Stock-Based Compensation	Intangible Amortization	Realignment Charges	Other Operating Expenses	Total Operating Expenses
Cost of license revenues	\$ 20	\$ 1	\$ 22	\$ —	\$ 8	\$ 51
Cost of services revenues	125	7	—	—	—	132
Research and development	212	52	1	—	1	266
Sales and marketing	410	37	1	—	1	449
General and administrative	86	16	—	—	1	103
Realignment charges	—	—	—	1	—	1
Total operating expenses	\$ 853	\$ 113	\$ 24	\$ 1	\$ 11	\$ 1,002
Operating income						\$ 287
Operating margin						22.4%

For the Three Months Ended September 30, 2012						
	Core Operating Expenses(1)	Stock-Based Compensation	Intangible Amortization	Realignment Charges	Other Operating Expenses	Total Operating Expenses
Cost of license revenues	\$ 26	\$ —	\$ 19	\$ —	\$ 15	\$ 60
Cost of services revenues	110	8	1	—	—	119
Research and development	198	60	1	—	1	260
Sales and marketing	356	52	4	—	—	412
General and administrative	79	12	—	—	2	93
Total operating expenses	\$ 769	\$ 132	\$ 25	\$ —	\$ 18	\$ 944
Operating income						\$ 190
Operating margin						16.8%

For the Nine Months Ended September 30, 2013						
	Core Operating Expenses(1)	Stock-Based Compensation	Intangible Amortization	Realignment Charges	Other Operating Expenses	Total Operating Expenses
Cost of license revenues	\$ 60	\$ 2	\$ 67	\$ —	\$ 34	\$ 163
Cost of services revenues	350	21	2	—	2	375
Research and development	627	165	2	—	3	797
Sales and marketing	1,193	106	6	—	3	1,308
General and administrative	251	42	—	—	5	298
Realignment charges	—	—	—	64	—	64
Total operating expenses	\$ 2,481	\$ 336	\$ 77	\$ 64	\$ 47	\$ 3,005
Operating income						\$ 719
Operating margin						19.3%

**For the Nine Months Ended September 30, 2012**

	Core Operating Expenses(1)	Stock-Based Compensation	Intangible Amortization	Realignment Charges	Other Operating Expenses	Total Operating Expenses
Cost of license revenues	\$ 69	\$ 1	\$ 46	\$ —	\$ 58	\$ 174
Cost of services revenues	331	21	3	—	1	356
Research and development	575	148	3	—	5	731
Sales and marketing	1,042	111	9	—	4	1,166
General and administrative	228	34	—	—	4	266
Total operating expenses	<u>\$ 2,245</u>	<u>\$ 315</u>	<u>\$ 61</u>	<u>\$ —</u>	<u>\$ 72</u>	<u>\$ 2,693</u>
Operating income						\$ 619
Operating margin						18.7%

(1) Core operating expenses is a non-GAAP financial measure. See additional discussion in the “Core Operating Expenses” section.

#### *Core Operating Expenses*

Core operating expenses is a non-GAAP financial measure that excludes stock-based compensation, amortization of acquired intangible assets, realignment charges, and certain other expenses from our total operating expenses calculated in accordance with GAAP. The other operating expenses excluded are the net effect of the amortization and capitalization of software development costs, employer payroll taxes on employee stock transactions and acquisition and other-related items. Our core operating expenses reflect our business in a manner that allows meaningful period-to-period comparisons. Our core operating expenses are reconciled to the most comparable GAAP measure, “total operating expenses,” in the table above. See “Non-GAAP Financial Measures” for further information.

Core operating expenses increased by \$84 or 11% in the third quarter of 2013 compared with the third quarter of 2012 . Core operating expenses increased by \$236 or 11% in the first nine months of 2013 compared with the first nine months of 2012 . As quantified below, these increases were primarily due to increases in employee-related expenses, which include salaries and benefits, bonuses, commissions, and recruiting and training as well as an increase in marketing programs and contractor costs. The increase in core operating expenses in the third quarter and first nine months of 2013 compared with the same periods during 2012 was partially offset by a decrease in operating expenses related to Pivotal.

#### *Cost of License Revenues*

Our core operating expenses for cost of license revenues principally consist of the cost of fulfillment of our software and royalty costs in connection with technology licensed from third-party providers. The cost of fulfillment of our software includes IT development efforts, personnel costs, product packaging and related overhead associated with the physical and electronic delivery of our software products.

Core operating expenses for cost of license revenues decreased by \$6 or 23% in the third quarter of 2013 compared with the third quarter of 2012 , and by \$9 or 13% in the first nine months of 2013 compared with the first nine months of 2012 . The decreases were primarily due to a decrease of IT development costs of \$3 and \$7, respectively, as well as a decrease in royalty and licensing costs for technology licensed from third-party providers that is used in our products.

#### *Cost of Services Revenues*

Our core operating expenses for cost of services revenues primarily include the costs of personnel and related overhead to deliver technical support for our products and to provide our professional services.

Core operating expenses for cost of services revenues increased by \$15 or 14% in the third quarter of 2013 compared with the third quarter of 2012 , and by \$19 or 6% in the first nine months of 2013 compared with the first nine months of 2012 . The increase was primarily due to \$10 and \$27, respectively, of employee-related expenses as well as an increase of \$13 and \$16, respectively, in costs we incur to provide technical support, IT development and professional services. These increases were generally proportional to the increases in services revenues for the same comparable periods. The increase was partially offset by a decrease of \$10 and \$22, respectively, of operating expenses related to Pivotal.

#### *Research and Development Expenses*

Our core operating expenses for research and development (“R&D”) expenses include the personnel and related overhead associated with the R&D of new product offerings and the enhancement of our existing software offerings.

Core operating expenses for R&D increased by \$14 or 7% in the third quarter of 2013 compared with the third quarter of 2012 , and by \$52 or 9% in the first nine months of 2013 compared with the first nine months of 2012 . The increase in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 was primarily due to growth in employee-related expenses of \$16 and \$60, respectively, which was primarily driven by incremental growth in headcount from strategic hiring. Additionally, contractor costs, IT development costs, and equipment and depreciation expenses also increased by \$15 and \$28 during the third quarter and first nine months of 2013 , respectively, compared to the same periods in the prior year. The increases in expenses in the third quarter and first nine months of 2013 were partially offset by a decrease of \$19 and \$40, respectively, of research and development expenses related to Pivotal.

#### *Sales and Marketing Expenses*

Our core operating expenses for 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. Sales commissions are generally earned and expensed when a firm order is received from the customer and may be expensed in a period other than the period in which the related revenue is recognized. Sales and marketing expenses also include the net impact from the expenses incurred and fees generated by certain marketing initiatives, including our annual VMworld and VMworld Europe conferences.

Core operating expenses for sales and marketing increased by \$54 or 15% in the third quarter of 2013 compared with the third quarter of 2012 , and by \$151 or 14% in the first nine months of 2013 compared with the first nine months of 2012 . The increase in the third quarter and first nine months of 2013 was primarily due to growth in employee-related expenses of \$44 and \$139, respectively, driven by incremental growth in headcount and by higher commission expense due to increased sales volumes. To a lesser extent, costs incurred for marketing programs, contractor costs and IT development costs of \$23 and \$32 also contributed to the increase of expense during the third quarter and first nine months of 2013 , respectively, compared to the same periods in the prior year. The increases in expenses in the third quarter and first nine months of 2013 were partially offset by a decrease of \$14 and \$29, respectively, of sales and marketing expenses related to Pivotal.

#### *General and Administrative Expenses*

Our core operating expenses for general and administrative expenses include personnel and related overhead costs to support the overall business. These expenses include the costs associated with our finance, human resources, IT infrastructure and legal, as well as expenses related to corporate costs and initiatives and facilities costs.

Core operating expenses for general and administrative increased by \$7 or 9% in the third quarter of 2013 compared with the third quarter of 2012 , and by \$23 or 10% in the first nine months of 2013 compared with the first nine months of 2012 . The most significant driver of the increase in the third quarter and first nine months of 2013 was due to incremental growth in headcount resulting in an increase of \$4 and \$11, respectively. The increase in the first nine months of 2013 compared to the same period in the prior year was also due to an increase in charitable donations and contractor expenses.

#### *Stock-Based Compensation*

Stock-based compensation was \$113 and \$132 in the third quarter of 2013 and 2012 , respectively, a decrease of \$19 or 14% . Stock-based compensation was \$336 and \$315 in the first nine months of 2013 and 2012 , respectively, an increase of \$21 or 7% .

The decrease in total stock-based compensation expense in the third quarter of 2013 compared with the third quarter of 2012 was primarily due to certain acquisition costs recognized during the third quarter of 2012 that were not recognized during the same period in 2013. Our recent realignment plan that included divesting of certain business activities, and our investment in Pivotal resulting in the transfer of certain of our employees also contributed to a decline in stock-based compensation during the third quarter of 2013 compared to the same period in the prior year.

Although stock-based compensation expense declined during the third quarter 2013 compared to 2012, the decrease only partially offset the increase of approximately \$41 in stock-based compensation expense during the first six months of fiscal year 2013 compared to the same period in the prior year, resulting in an increase of stock-based compensation during the nine months ended 2013 compared to same period in the prior year.

Stock-based compensation is recorded to each operating expense category based upon the function of the employee to whom the stock-based compensation relates and fluctuates based upon the value and number of awards granted. Compensation philosophy varies by function, resulting in different weightings of cash incentives versus equity incentives. As a result, functions with larger cash-based components, such as sales commissions, will have comparatively lower stock-based compensation than other functions.

As of September 30, 2013 , the total unamortized fair value of our outstanding equity-based awards held by our employees was \$834 , and is expected to be recognized over a weighted-average period of approximately 1.5 years.

### ***Intangible Amortization***

Intangible amortization increased \$16 or 26% in the first nine months of 2013 compared with the first nine months of 2012 as a result of new acquisitions, primarily the acquisition of Nicira in the third quarter of 2012. The increase was partially offset by the transfer of certain intangible assets to Pivotal, as well as a result of exiting certain lines of business under our realignment plan. Additionally, intangible amortization decreased as certain intangible assets became fully amortized. Intangible amortization decreased by an immaterial amount in the third quarter of 2013 compared with the third quarter of 2012. Intangible amortization is predominantly recorded to cost of license revenues on our accompanying consolidated statements of income.

### ***Realignment Charges***

During January 2013, we approved and initiated a business realignment plan to streamline our operations resulting in realignment charges incurred during the first nine months of 2013. As of the second quarter of 2013, the plan was substantially complete.

The plan included the elimination of approximately 725 positions and personnel across all major functional groups and geographies. The total cash and non-cash charge for workforce reductions of \$54 was recorded on the consolidated statements of income during the first nine months of 2013.

Although we expect that streamlining our operations will have a favorable impact on our operating expenses in future quarters, we expect that core operating expenses related to our headcount will increase as our total headcount is expected to have a net increase of approximately 500 during 2013 as we continue to make key investments in support of our long-term growth objectives. This expected net increase takes into account the reduction of employees that have or will transfer to Pivotal, as well as the impact of our realignment activities.

### ***Other Operating Expenses***

Other operating expenses consist of the net effect of the amortization and capitalization of software development costs and employer payroll tax on employee stock transactions, which are recorded to each individual line of operating expense on our accompanying consolidated statements of income. Additionally, other operating expenses include acquisition and other-related items, which are recorded in general and administrative expense on our income statement.

Other operating expenses decreased \$7 and \$25 in the third quarter and first nine months of 2013, respectively, from the third quarter and first nine months of 2012. The decrease in the third quarter and first nine months of 2013 was primarily due to a decrease of \$7 and \$24, respectively, in the amortization of capitalized software development costs resulting from the completion of amortization for previous product releases. Amortization expense from capitalized software development costs is included in cost of license revenues on our accompanying consolidated statements of income. In future periods, we expect our amortization expense from capitalized software development costs to continue to decline as these costs are expected to be recorded as R&D expense as incurred.

### ***Other Income (Expense), Net***

Other income, net of \$15 and \$29 in the third quarter and first nine months of 2013, respectively, changed by \$17 and \$31, respectively, compared with other expense, net of \$2 and \$2 in the third quarter and first nine months of 2012, respectively, primarily due to pre-tax gains of \$12 and \$44 recognized in the third quarter and first nine months of 2013, respectively, as a result of divesting of certain business activities under our business realignment plan. Partially offsetting this gain was the recognition of an other-than-temporary impairment charge for a strategic investment in the first nine months of 2013.

### **Income Tax Provision**

Our effective tax rate in the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The rate at which the provision for income taxes is calculated differs from the U.S. federal statutory income tax rate primarily due to differential tax rates in foreign jurisdictions where income is earned and considered to be indefinitely reinvested.

We have been included in the EMC consolidated group for U.S. federal income tax purposes, and expect to continue to be included in such consolidated group for periods in which EMC owns at least 80% of the total voting power and value of our outstanding 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 EMC 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 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 EMC'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 EMC consolidated group for U.S. federal income tax purposes, and thus no longer be liable in the event that any income tax liability

was incurred, but not discharged, by any other member of the EMC consolidated group. Additionally, our U.S. federal income tax would be reported separately from that of the EMC consolidated group.

Our effective income tax rate was 15.3% and 19.7% for the third quarter of 2013 and 2012, respectively. The effective income tax rate was 11.4% and 14.7% for the first nine months of 2013 and 2012, respectively. The lower effective rate for the third quarter of 2013 compared to the same period in 2012 was primarily attributable to the finalization of the 2012 federal return related to the change in estimate of the U.S. federal research tax credit calculation. The lower effective rate for the first nine months of 2013 compared to the same period in 2012 was primarily attributable to the discrete tax benefits recognized in the first nine months of 2013 due to the retroactive enactment of the U.S. federal research tax credit by the U.S. Congress in January 2013.

Our rate of taxation in foreign jurisdictions is lower than our U.S. tax rate. Our international income is primarily earned by our subsidiaries in Ireland, where the statutory tax rate is 12.5%. We do not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on our effective tax rate. Our intent is to indefinitely reinvest our non-U.S. funds in our foreign operations, and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Our effective tax rate for the remainder of 2013 may be affected by such factors as changes in tax laws, regulations or rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation, the impact of accounting for business combinations, dispositions, changes in our international organization, shifts in the amount of income before tax earned in the U.S. as compared with other regions in the world, and changes in overall levels of income before tax.

### **Our Relationship with EMC**

As of September 30, 2013, EMC owned 43,025,000 shares of Class A common stock and all 300,000,000 shares of Class B common stock, representing 79.7% of our total outstanding shares of common stock and 97.2% of the combined voting power of our outstanding common stock.

#### ***EMC Reseller Arrangement, Other Services and Note Payable***

Pursuant to an ongoing reseller arrangement with EMC, EMC bundles our products and services with EMC's products and sells them to end-users. In the three months ended September 30, 2013 and 2012, we recognized revenues of \$37 and \$27, respectively, from such contractual arrangement with EMC. In the nine months ended September 30, 2013 and 2012, we recognized revenues of \$108 and \$88, respectively, from such contractual arrangement with EMC. As of September 30, 2013, \$162 of revenues from products and services sold under the reseller arrangement were included in unearned revenues.

In the three months ended September 30, 2013 and 2012, we recognized professional services revenues of \$14 and \$21, respectively, from such contractual agreements with EMC. In the nine months ended September 30, 2013 and 2012, we recognized revenues of \$60 and \$63, respectively, from such contractual agreements with EMC. As of September 30, 2013, \$9 of revenues from professional services to EMC customers were included in unearned revenues.

In both the three months ended September 30, 2013 and 2012, we recognized revenues of \$3 from products and services purchased by EMC for internal use pursuant to our contractual agreements with EMC. In the nine months ended September 30, 2013 and 2012, we recognized revenues of \$9 and \$7, respectively, from such contractual agreements with EMC. As of September 30, 2013, \$30 of revenues from products and services purchased by EMC for internal use were included in unearned revenues.

We purchased products and services for internal use from EMC for \$20 and \$4 in the three months ended September 30, 2013 and 2012, respectively, and for \$45 and \$28 in the nine months ended September 30, 2013 and 2012, respectively.

From time to time, we and EMC enter into agreements to collaborate on technology projects. In both the three months ended September 30, 2013 and 2012, we received \$2 from EMC for EMC's portion of expenses related to such projects, and in the nine months ended September 30, 2013 and 2012, we received \$6 and \$5, respectively, from such contractual agreements with EMC. In the three months ended September 30, 2013, we paid \$5 to EMC for services provided to us by EMC related to such projects, and in the nine months ended September 30, 2013, we paid \$7 to EMC for such contractual agreements with EMC.

In certain geographic regions where we do not have an established legal entity, we contract with EMC subsidiaries for support services and EMC personnel who are managed by us. The costs incurred by EMC 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 in our consolidated statements of income and primarily include salaries, benefits, travel and rent. Additionally, EMC incurs certain administrative costs on our behalf in the U.S. that are also recorded as expenses in our consolidated statements of income. The total cost of the

services provided to us by EMC as described above was \$29 and \$26 in the three months ended September 30, 2013 and 2012 , respectively, and \$94 and \$75 in the nine months ended September 30, 2013 and 2012 , respectively.

In both the three months ended September 30, 2013 and 2012 , \$1 of interest expense was recorded related to the note payable to EMC and included in interest expense with EMC on our consolidated statements of income. In the nine months ended September 30, 2013 and 2012 , \$3 and \$4 , respectively, of interest expense was recorded related to the note payable to EMC and included in interest expense with EMC on our consolidated statements of income. Our interest expense as a separate, stand-alone company may be higher or lower than the amounts reflected in the consolidated financial statements.

#### ***Certain Stock-Based Compensation***

Effective September 1, 2012, Pat Gelsinger succeeded Paul Maritz as Chief Executive Officer of VMware. Prior to joining VMware, Pat Gelsinger was the President and Chief Operating Officer of EMC Information Infrastructure Products. Paul Maritz remains a board member of VMware and currently serves as Chief Executive Officer of Pivotal, a majority-owned subsidiary of EMC in which we have an ownership interest. Both Paul Maritz and Pat Gelsinger retain and continue to vest in certain of their respective equity awards that they held as of September 1, 2012. Stock-based compensation related to Pat Gelsinger's EMC awards will be recognized on our consolidated statements of income over the awards' remaining requisite service periods. Effective September 1, 2012, stock-based compensation related to Paul Maritz's VMware awards will not be recognized by us.

#### ***Mozy***

In 2011, we acquired certain assets relating to EMC's Mozy cloud-based data storage and data center services, including certain data center assets and a license to certain intellectual property. EMC retained ownership of the Mozy business and its remaining assets and continued to be responsible to Mozy customers for Mozy products and services and to recognize revenue from such products and services. We entered into an operational support agreement with EMC through the end of 2012, pursuant to which we took over responsibility to operate the Mozy service on behalf of EMC. Pursuant to the support agreement, costs incurred by us to support EMC's Mozy services, plus a mark-up intended to approximate third-party costs and a management fee, were reimbursed to us by EMC. In the fourth quarter of 2012, the operational support agreement between us and EMC was amended such that we would no longer operate the Mozy service on behalf of EMC. Under the amendment, we transferred substantially all employees that support Mozy services to EMC and EMC purchased certain assets from us in relation to transferred employees. The termination of service and related transfer of employees and sale of assets was substantially completed during the first quarter of 2013. On the consolidated statements of income, such amounts reimbursed by EMC to us to operate Mozy were immaterial in the three and nine months ended September 30, 2013 , and \$17 and \$48 in the three and nine months ended September 30, 2012 , respectively. These amounts were recorded as a reduction to the costs we incurred.

#### ***Joint Contribution of Assets with EMC to Pivotal***

On April 1, 2013, we transferred certain assets and liabilities to Pivotal. We contributed certain assets, including intellectual property, to Pivotal, and Pivotal assumed substantially all liabilities, related to certain of our Cloud Application Platform products and services, including VMware's Cloud Foundry, VMware vFabric (including Spring and GemFire) and Cetas organizations, except for certain tangible assets related to Cloud Foundry. During the nine months ended September 30, 2013 , we transferred approximately 415 VMware employees to Pivotal.

We received preferred equity interests in Pivotal equal to approximately 31% of Pivotal's outstanding shares in exchange for our contributions. Additionally, we and Pivotal entered into an agreement pursuant to which we will act as the selling agent for the products and services we contributed to Pivotal until at least December 31, 2013 in exchange for a customary agency fee. In the three and nine months ended September 30, 2013 , we recognized revenues of \$2 and \$3 , respectively, from such contractual arrangement with Pivotal. As of September 30, 2013 , \$1 of revenues from such contractual arrangement with Pivotal were included in unearned revenues. We also agreed to provide various transition services to Pivotal until at least December 31, 2013. Pursuant to the support agreement, costs incurred by us to support Pivotal services are reimbursed to us by Pivotal. During the three and nine months ended September 30, 2013 , we provided transition services of \$2 and \$10 , respectively, that are reimbursable by Pivotal and which were recorded as a reduction to the costs we incurred. Additionally, we purchased products and services for internal use from Pivotal for \$1 and \$6 in the three and nine months ended September 30, 2013 , respectively.

The book value of all contributed assets and the liabilities assumed by Pivotal, with the exception of intangible assets and goodwill, was based on the book values of those assets and liabilities specific to those particular products and services. For intangible assets and goodwill, the book value contributed was based on the relative fair value of the contributed assets applicable to Pivotal.

**Due To/Due From Related Parties**

As of September 30, 2013, we had \$16 net due to related parties, which consisted of \$59 due to EMC and \$15 due to Pivotal, partially offset by \$55 due from EMC and \$3 due from Pivotal. These amounts resulted from the related-party transactions with EMC and Pivotal described above. Additionally, as of September 30, 2013, we had a net income tax receivable from EMC of \$6, which consisted of \$9 due from EMC, partially offset by \$3 due to EMC. Balances due to or from EMC which are unrelated to tax obligations are generally settled in cash within 60 days of each quarter-end. The timing of the tax payments due to and from EMC is governed by the tax sharing agreement with EMC.

By nature of EMC's majority ownership of us, the amounts we recorded for our intercompany transactions with EMC may not be considered arm's length with an unrelated third party. Therefore the financial statements included herein may not necessarily reflect our results of operations, financial position and cash flows had we engaged in such transactions with an unrelated third party during all periods presented. Accordingly, our historical results should not be relied upon as an indicator of our future performance as a stand-alone company.

**Liquidity and Capital Resources**

At September 30, 2013 and 2012, we held cash, cash equivalents and short-term investments as follows:

	September 30,	
	2013	2012
Cash and cash equivalents	\$ 2,263	\$ 1,480
Short-term investments	3,574	2,914
Total cash, cash equivalents and short-term investments	<u>\$ 5,837</u>	<u>\$ 4,394</u>

As of September 30, 2013, we held a diversified portfolio of money market funds and fixed income securities totaling \$5,416. Our fixed income securities were denominated in U.S. Dollars and consisted of highly liquid debt instruments of the U.S. government and its agencies, U.S. municipal obligations, and U.S. and foreign corporate debt securities. We limit the amount of our domestic and international investments with any single issuer and any single financial institution, and also monitor the diversity of the portfolio, thereby diversifying the credit risk. As of September 30, 2013, our total cash, cash equivalents and short-term investments were \$5,837, of which \$3,918 was held outside the U.S. If these overseas funds were needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes on related undistributed earnings to repatriate these funds. However, our intent is to indefinitely reinvest our non-U.S. earnings in our foreign operations and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

We expect to continue to generate positive cash flows from operations in 2013 and to use cash generated by operations as our primary source of liquidity. We believe that existing cash and cash equivalents, together with any cash generated from operations will be sufficient to meet normal operating requirements for at least the next twelve months. While we believe our existing cash and cash equivalents and cash to be generated by operations will be sufficient to meet our normal operating requirements, our overall level of cash needs may be impacted by the number and size of acquisitions and investments we consummate and the amount of stock we buy back in 2013. Should we require additional liquidity, we may seek to arrange debt financing or enter into credit facilities.

Our cash flows for third quarter and first nine months of 2013 and 2012 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net cash provided by (used in):				
Operating activities	\$ 637	\$ 436	\$ 1,848	\$ 1,404
Investing activities	(189)	(974)	(963)	(1,808)
Financing activities	(25)	(59)	(231)	(72)
Net increase (decrease) in cash and cash equivalents	<u>\$ 423</u>	<u>\$ (597)</u>	<u>\$ 654</u>	<u>\$ (476)</u>

**Operating Activities**

Cash provided by operating activities increased by \$201 in the third quarter of 2013, and by \$444 in the first nine months of 2013. The increase was primarily driven by an increase in net income and cash collections. Both factors impacting the increase in cash provided by operating activities are in large part due to growth in our sales to customers and were partially offset by increases in core operating expenses.

In evaluating our liquidity internally, we focus on free cash flows, which we consider to be a relevant measure of our progress. We define free cash flows, a non-GAAP financial measure, as net cash provided by operating activities less capital expenditures. See “Non-GAAP Financial Measures” for additional information.

Our free cash flows in the third quarter and first nine months of 2013 and 2012 were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net cash provided by operating activities	\$ 637	\$ 436	\$ 1,848	\$ 1,404
Capital expenditures	(94)	(75)	(247)	(153)
Free cash flows	\$ 543	\$ 361	\$ 1,601	\$ 1,251

### ***Investing Activities***

Cash used in investing activities is generally attributable to the purchase of fixed income securities, business acquisitions, and capital expenditures. Cash provided by investing activities is primarily attributable to the sales or maturities of fixed income securities.

Net cash used in investing activities during the third quarter and first nine months of 2013 decreased compared to the prior period. The most significant factor driving this decrease related to business combinations, net of cash acquired. In the first nine months of 2013, we paid \$184, and in third quarter and first nine months of 2012, we paid \$1,242 and \$1,344, respectively, for business acquisitions. We had no business acquisitions in the third quarter of 2013. The decrease in cash used in investing activities was slightly offset by an increase in capital expenditures primarily due to the renovation of our expanded Palo Alto, California campus. The renovation will be a multi-year project with capital investment extending into future periods. Net cash flows will also be impacted by the timing of purchases, sales and maturities of our available-for-sale securities.

In the third quarter and first nine months of 2013, we received proceeds of \$6 and \$37, respectively, from dispositions of certain lines of business in relation to our realignment plan.

### ***Financing Activities***

Net cash used in financing activities during the third quarter of 2013 decreased compared to the prior period. The largest factor attributing to the decrease in net cash used in financing activities for the third quarter of 2013 compared to the same period in the prior year was a reduction in cash used for stock repurchases. During the third quarter of 2013, cash used to repurchase and retire shares was \$90 compared to \$129 for the same period in the prior year.

Cash used in financing activities during the first nine months of 2013 compared to the same period in the prior year increased primarily as a result of stock repurchases of \$392 and a decrease in proceeds from the issuance of common stock of \$29. Additionally, the increase in cash used in financing activities was also impacted by a decrease of excess tax benefits from stock-based compensation of \$51.

Future cash proceeds from issuances of common stock and the excess tax benefit from stock-based compensation and future cash outflows to repurchase our shares to cover tax withholding obligations will depend upon, and could fluctuate significantly from period-to-period based on, the market value of our stock, the number of awards exercised, sold or vested, the tax benefit realized and the tax-affected compensation recognized.

### ***Note Payable to EMC***

As of September 30, 2013, \$450 remained outstanding on a note payable to EMC, with interest payable quarterly in arrears. The note matures in April 2015. The interest rate continues to reset quarterly and bears an interest rate of the 90-day LIBOR plus 55 basis points.

### **Non-GAAP Financial Measures**

Regulation S-K Item 10(e), “Use of Non-GAAP Financial Measures in Commission Filings,” defines and prescribes the conditions for use of non-GAAP financial information. Our measures of core operating expenses and free cash flows each meet the definition of a non-GAAP financial measure.

### ***Core Operating Expenses***

Management uses the non-GAAP measure of core operating expenses to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, to calculate bonus payments and to evaluate our financial performance, the performance of our individual functional groups and the ability of operations to generate cash. Management believes that by excluding certain expenses that are not reflective of our ongoing

operating results, core operating expenses reflect our business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in our business.

We define core operating expenses as our total operating expenses excluding the following components, which we believe are not reflective of our ongoing operational expenses. In each case, for the reasons set forth below, management believes that excluding the component provides useful information to investors and others in understanding and evaluating our operating results and future prospects in the same manner as management, in comparing financial results across accounting periods and to those of peer companies and to better understand the long-term performance of our core business.

- *Stock-based compensation.* Stock-based compensation is generally fixed at the time the stock-based instrument is granted and amortized over a period of several years. Although stock-based compensation is an important aspect of the compensation of our employees and executives, the expense for the fair value of the stock-based instruments we utilize may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Furthermore, unlike cash compensation, the value of stock options is determined using a complex formula that incorporates factors, such as market volatility, that are beyond our control. Additionally, in order to establish the fair value of performance-based stock awards, which are also an element of our ongoing stock-based compensation, we are required to apply judgment to estimate the probability of the extent to which performance objectives will be achieved.
- *Amortization of acquired intangible assets.* We generally allocate a portion of the purchase price of an acquisition to intangible assets, such as intellectual property, which is subject to amortization. Additionally, the amount of an acquisition's purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition.
- *Realignment charges.* Realignment charges include workforce reductions, asset impairments and losses on asset disposals. We believe it is useful to exclude these items, when significant, as they are not reflective of ongoing business and operating results.
- *Other operating expenses.* Other expenses excluded are amortization and capitalization of software development costs, employer payroll taxes on employee stock transactions and other acquisition and other-related items. Capitalized software development costs encompass capitalization of development costs and the subsequent amortization of the capitalized costs over the useful life of the product. Amortization and capitalization of software development costs can vary significantly depending upon the timing of products reaching technological feasibility and being made generally available. We did not capitalize software development costs related to product offerings in the third quarter and first nine months of 2013 or fiscal year 2012 given our current go-to-market strategy. In future periods, we expect our amortization expense from previously capitalized software development costs to steadily decline as previously capitalized software development costs become fully amortized. The amount of employer payroll taxes on stock-based compensation is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. Acquisition and other-related items include direct costs of acquisitions and dispositions, such as transaction and advisory fees, which vary significantly and are unique to each transaction. Additionally, we do not acquire or dispose of businesses on a predictable cycle.

**Revenues Excluding Pivotal and 2013 Dispositions**

The following table sets forth our revenues for the third quarter and first nine months of 2013 and 2012 less (a) the revenues attributable to the products and services contributed by us to Pivotal on April 1, 2013 and (b) revenues attributable to all lines of businesses which were disposed of in 2013. All periods have been adjusted to exclude related revenues. We believe that this information is useful to investors for understanding revenue trends in our ongoing business.

	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2013	2012	% Change	2013	2012	% Change
License revenues as reported	\$ 564	\$ 491	15%	\$ 1,583	\$ 1,490	6%
Pivotal	—	(5)		(3)	(18)	
All dispositions	(2)	(7)		(16)	(22)	
License revenues as reported, excluding Pivotal and all dispositions	\$ 562	\$ 479	17%	\$ 1,564	\$ 1,450	8%
Services revenues as reported	\$ 725	\$ 643	13%	\$ 2,141	\$ 1,822	18%
Pivotal	—	(25)		(19)	(63)	
All dispositions	(2)	(13)		(17)	(36)	
Services revenues as reported, excluding Pivotal and all dispositions	\$ 723	\$ 605	20%	\$ 2,105	\$ 1,723	22%
Total revenues as reported	\$ 1,289	\$ 1,134	14%	\$ 3,724	\$ 3,312	12%
Pivotal	—	(30)		(22)	(81)	
All dispositions	(4)	(20)		(33)	(58)	
Total revenues as reported, excluding Pivotal and all dispositions	\$ 1,285	\$ 1,084	19%	\$ 3,669	\$ 3,173	16%

**Free cash flows**

In evaluating our liquidity internally, we focus on free cash flows, which we consider to be a relevant measure of our progress. In 2012, we changed our methodology for calculating free cash flows, which is reflected in the amounts presented for all periods, to be defined as GAAP operating cash flows less capital expenditures. We include the impact from capital expenditures on property and equipment because these expenditures are also considered to be a necessary component of our operations and therefore part of our core operating expenses. Management uses free cash flows as a measure of financial progress in our business, as it balances operating results, cash management and capital efficiency. We believe that free cash flows provides useful information to investors and others as it allows for meaningful period-to-period comparisons of our operating cash flows for analysis of trends in our business. Additionally, we believe that it provides investors and others with an important perspective on the amount of cash that we may choose to use for strategic acquisitions and investments, the repurchase of shares, operations and other capital expenditures.

**Limitations on the use of Non-GAAP financial measures**

A limitation of our non-GAAP financial measures of core operating expenses and free cash flows is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-GAAP measures of core operating expenses and free cash flows should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP. Additionally, in the case of stock-based compensation, if we did not pay out a portion of compensation in the form of stock-based compensation and related employer payroll taxes, the cash salary expense included in costs of revenues and operating expenses would be higher which would affect our cash position. Further, the non-GAAP measure of core operating expenses has certain limitations because it does not reflect all items of income and expense that affect our operations and are reflected in the GAAP measure of total operating expenses.

We compensate for these limitations by reconciling core operating expenses to the most comparable GAAP financial measure. Management encourages investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view our non-GAAP financial measures in conjunction with the most comparable GAAP financial measures.

See “Results of Operations—Operating Expenses” for a reconciliation of the non-GAAP financial measure of core operating expenses to the most comparable GAAP measure, “total operating expenses,” for the three and nine months ended September 30, 2013 and 2012 .

See “Liquidity and Capital Resources” for a reconciliation of free cash flows to the most comparable GAAP measure, “net cash provided by operating activities,” for the three and nine months ended September 30, 2013 and 2012 .

### **Critical Accounting Policies**

Our consolidated financial statements are based on the selection and application of accounting principles generally accepted in the United States of America that require us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. 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 set forth within Item 7 of our 2012 Annual Report on Form 10-K may involve a higher degree of judgment and complexity in their application than our other significant accounting policies and represent the critical accounting policies used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements, including, without limitation, statements regarding expectations of, or our plans for: achieving future business growth by building long-term relationships with our customers through the adoption of enterprise license agreements; macroeconomic conditions; future product offerings and product functionality; continued investment in certain product areas; sources of revenues; developing new product capabilities; increasing our transactional business; future acquisitions; long-term revenue growth and funding strategic initiatives through long-term revenue growth; our reliance on relationships with third party providers; future competition; the competitive landscape; maintaining our industry leadership position; the impact on operating expense, costs associated with, and the timetable for streamlining our operations and implementing and completing our realignment plan; the impact of our realignment plan on our financial results; expenditures to build out our corporate headquarters; geographic expansion and adding additional channel partners; the recognition of unearned revenue; our relationship with EMC, EMC’s percentage ownership of our shares, and impact on taxes; increasing employee headcount and impact on operating expense; residual impact of the partial U.S. federal government shutdown in October 2013; our revenue outlook and product mix; customer and partner demand for our products and services; synergies from our acquisitions and associated accounting for goodwill; the sufficiency of our liquidity and capital reserves to fund our operations and business strategy; our ability to generate positive cash flows from operations; continuation of our stock repurchase program; our effective tax rate and the effects of potential developments in non-U.S. tax jurisdictions; reinvesting our overseas earnings in our foreign operations and not needing to repatriate them to the U.S.; the timing, amount of and amortization of capitalized software development costs; the lack of a material adverse effect on us due to the resolution of pending claims, legal proceedings and investigations; and costs associated with foreign currency and interest rate fluctuations.

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. 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](http://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 talk about 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.

Unless the context requires otherwise, we are referring to VMware, Inc. when we use the terms “VMware,” the “Company,” “we,” “our” or “us.”

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There were no material changes to our market risk exposures in the nine months ended September 30, 2013. See Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our 2012 Annual Report on Form 10-K 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 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 Controls Over Financial Reporting**

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended September 30, 2013 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. 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

See Note L to the 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 may become involved in litigation 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 results of operations. 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.

#### Risks Related to Our Business

*As the market for our computer virtualization products has matured, we have been increasingly developing and marketing products and services targeted toward the delivery, management and automation of information technology (“IT”) infrastructure, platforms and services through cloud-based solutions. If businesses do not find our cloud computing solutions compelling, our revenue growth and operating margins may decline.*

Our products and services are based on computer virtualization and related technologies that have primarily been used for virtualizing on-premises data centers. As the market for data center virtualization has matured, we have increasingly directed our product development and marketing toward products and services that enable businesses to utilize virtualization as the foundation for cloud-based computing, management and automation of the delivery of IT resources, end-user computing and Infrastructure as a service (“IaaS”) offerings including hybrid cloud services. Our success depends on organizations and customers perceiving technological and operational benefits and cost savings associated with the increasing adoption of virtualization-based infrastructure and management solutions for cloud computing, hybrid cloud services and end-user computing. As the market for our data center virtualization products mature and the scale of our business increases, it may be difficult to maintain previous rates of growth in our product sales and we expect our annual revenue growth rate in 2013 to decline from the growth rate of 22% experienced in 2012. In addition, to the extent that our newer cloud computing infrastructure management and automation, or software-defined data center (“SDDC”), solutions, end-user computing, and hybrid cloud solutions are adopted more slowly or less comprehensively than we expect, our revenue growth rates may slow materially or our revenue may decline substantially.

*The large majority of our revenues have come from our data center virtualization products including our flagship VMware vSphere product line. Decreases in demand for our data center virtualization products could adversely affect our results of operations and financial condition.*

In fiscal year 2012, approximately 90% of our license revenues were from our cloud infrastructure and management solutions with the balance from our other solutions. Although we continue to develop other applications for our virtualization technology such as our end-user computing products and hybrid cloud services, we expect that our data center virtualization products and related enhancements and upgrades will constitute a majority of our revenue for the foreseeable future. Declines and variability in demand for our data center virtualization products could occur as a result of:

- improved products or product versions being offered by competitors in our markets;
- competitive pricing pressures;
- failure to timely execute and implement our product strategy, for example, quality issues, integration issues with ecosystem partners, and difficulties in creating and marketing suites of interoperable solutions;
- failure to release new or enhanced versions of our data center virtualization products on a timely basis, or at all;
- technological change that we are unable to address with our data center virtualization products or that changes the way enterprises utilize our products; and
- general economic conditions.

Also, as more and more businesses achieve the virtualization of their data centers and other IT functions, the market for our VMware vSphere product line may become saturated. If we fail to introduce compelling new features in future upgrades to our VMware vSphere product line, develop new applications for our virtualization technology or provide product suites based on the VMware vSphere platform that address customer requirements for integration, automation and management of their IT systems, demand for VMware vSphere may decline.

Due to our product concentration, our business, financial condition, results of operations, and cash flows would therefore be adversely affected by a decline in demand for our data center virtualization products.

***Our new product and technology initiatives subject us to additional business, legal and competitive risks.***

Over the last several years, we have introduced new product and technology initiatives that aim to leverage our virtualization infrastructure software products into the emerging areas of cloud computing and end-user computing as alternatives to the provisioning of physical computing resources.

One of VMware's core strategies is to deliver the software-defined data center. In 2010, we introduced the first of our vCenter and vCloud products, which we combined in 2011 with our vShield security product line to create our new Cloud Infrastructure and Management ("CIM") Suite offering. In 2012, we delivered the vCloud Suite, which delivers a comprehensive suite for cloud computing in a single SKU with simplified licensing.

In 2012, we acquired two companies that furthered VMware's SDDC strategy; Dynamic Ops, a provider of cloud automation solutions that enable provisioning and management of IT services across heterogeneous environments, and Nicira, a developer of software-defined networking and a leader in network virtualization for open source initiatives. In 2013, we acquired Virsto Software, a developer of software that optimizes storage performance and utilization in virtual environments.

We also continue to expand and enhance our end-user computing offerings, such as VMware View, and Horizon Suite, a solution that provides end users with a single place to get access to their apps, data and desktops and gives IT a single management console to manage entitlements, policies and security. In 2012, we also acquired Wanova, a leading provider of intelligent desktop solutions that centralize and simplify the management of physical desktop images while enabling users to take advantage of the native performance of a PC.

In the second quarter of 2013, we introduced our hybrid cloud service called vCloud Hybrid Service. vCloud Hybrid Service is designed to deliver a public cloud as a service offering that is interoperable with our customers' existing VMware virtualized infrastructure, enabling customers to extend the same skills, tools, networking and security models across both on-premise and off-premise environments.

The expansion of our offerings to deliver the SDDC, address IT management and automation, and our hybrid cloud offerings subjects us to additional risks, such as the following:

- These initiatives may present new and difficult technological challenges. Significant investments will be required to acquire and develop solutions to those challenges. End users may choose not to adopt our new product or service offerings and we may be unable to recoup or realize a reasonable return on our investments.
- Some of our new initiatives are hosted by third parties whom we do not control but whose failure to prevent service disruptions, or other failures or 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. Any transition of our services from a third party hosting service to our own data centers would also entail a risk of service disruption during a transition. We may be subject to claims if customers of these service offerings experience service disruptions or failures, security breaches, data losses or other quality issues.
- The success of these new offerings depends upon the cooperation of hardware, software and cloud hosting vendors to ensure interoperability with our products and offer compatible products and services to end users. If we are unable to obtain such cooperation, it may be difficult and more costly for us to achieve functionality and service levels that would make our new products and services attractive to end users.
- We will need to develop and implement appropriate go-to-market strategies and train our sales force in order to effectively market offerings in product categories in which we may have less experience than our competitors. Accordingly, end users could choose competing products over ours, even if such offerings are less advanced than ours.
- Our increasing focus on developing and marketing IT management and automation and IaaS (including software-defined networking and vCloud Hybrid Services), offerings that enable customers to transform their IT systems will require a greater focus on marketing and selling product suites and more holistic solutions, rather than selling on a product-by-product basis. Consequently, we will need to develop new strategies for marketing and selling our offerings, our customers' purchasing decisions may become more complex and require additional levels of approval and the duration of sales cycles for our offerings may increase.
- We will need to develop appropriate pricing strategies for our new product initiatives. For example, it has frequently been challenging for software companies to derive significant revenue streams from open source projects, such as certain of our offerings. Additionally, in some cases our new product initiatives are predicated on converting free and trial users to paying customers of the premium tiers of these services, and therefore we must maintain a sufficient conversion ratio for such services to be profitable. Also, certain of our new product initiatives have a subscription

model. We may not be able to accurately predict subscription renewal rates or their impact on results, and because revenue is recognized for our services over the term of the subscription, downturns or upturns in sales may not be immediately reflected in our results.

- The success of vCloud Hybrid Services will be dependent on the final global implementation of the offering and building successful go-to-market strategies. We will need to build sales expertise and infrastructure to support the new offering. This hybrid cloud offering faces many of the risks described here and may not be accepted by customers. Further, any focus on this market from the existing sales team may reduce time spent on selling the existing product portfolio that may have a material negative impact on revenues.
- Our new products and services may compete with offerings from companies who are members of our developer and technology partner ecosystem. 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.
- The cloud computing and virtualized end-user computing markets are in early stages of development. Other companies seeking to enter and develop competing standards for the cloud computing market, such as Microsoft, IBM, Oracle, Google and Amazon, and the end-user computing market, such as Citrix and Microsoft, have introduced or are likely to introduce their own initiatives that may compete with or not be compatible with our cloud and end-user computing initiatives which could limit the degree to which other vendors develop products and services around our offerings and end users adopt our platforms.
- Emerging IT sectors, such as those within IaaS, are frequently subject to a “first mover” effect pursuant to which certain product offerings can rapidly capture a significant portion of market share and developer attention. Therefore, if competitive product offerings in these sectors gain broad adoption before ours, it may be difficult for us to displace such offerings regardless of the comparative technical merit, efficacy or cost of our products.

Additionally, our newer initiatives may be less profitable than our established products, and we may not be successful enough in these newer activities to recoup our investments in them. If any of these risks were to occur, it could damage our reputation, limit our growth and negatively affect our operating results.

***Our recently launched vCloud Hybrid Service offering relies upon a number of third party providers for data center space, equipment, maintenance and other colocation services, and the loss of, or problems with, one or more of these providers may impede the growth of our vCloud Hybrid Service offerings, adversely impact our plans to expand the service and damage our reputation.***

We recently launched our vCloud Hybrid Service cloud service offerings in 2013 in the United States and announced plans to expand the services globally. Our vCloud Hybrid Service offerings rely upon third-party providers to supply data center space, equipment maintenance and other colocation services. While we have entered into various agreements for the lease of data center space, equipment maintenance and other services, the third party could fail to live up to the contractual obligations under those agreements. For example, a data center landlord may fail to adequately maintain its facilities or provide an appropriate data center infrastructure for which it is responsible. If that were to happen, our ability to deliver services at levels acceptable to our customers and at levels that we have agreed to could be impaired. Additionally, if the third parties that we rely on do fail to deliver on their obligations, our reputation could be damaged, our customers could lose confidence in our company, and our ability to maintain and expand our vCloud Hybrid Service offerings would be negatively impaired.

***Ongoing uncertainty regarding global economic conditions and the stability of regional financial markets may reduce information technology spending below current expectations and therefore adversely impact our revenues, impede end-user adoption of new products and product upgrades, and adversely impact our competitive position.***

Our business depends on the overall demand for information technology and on the economic health of our current and prospective customers. The purchase of our products 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 could adversely impact our business, financial condition and results of operations in a number of ways, including by lengthening sales cycles, affecting the size of enterprise license agreements (“ELAs”) that customers will commit to, reducing the level of our non-ELA transactional sales, lowering prices for our products and services, reducing unit sales and reducing the rate of adoption of our products by new customers and the willingness of current customers to purchase upgrades to our existing products. The ongoing sovereign debt crisis in Europe threatens to suppress demand and our customers’ access to credit in that region, which is an important market for our products and services. Additionally, 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 also made, or announced plans 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. The residual impact of the October 2013 shutdown of the U.S. federal government may also have a negative impact on demand for our products and revenue during the fourth quarter of 2013.

Ongoing economic uncertainty has also resulted 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. 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. Even if customers are willing to purchase our products and services, if they do not meet our credit requirements, we may not be able to record accounts receivable or unearned revenue or recognize revenues from these customers until we receive payment, which could adversely affect the amount of revenues we are able to recognize in a particular period.

In addition, although we plan to continue making strategic investments in our business, many of our competitors have significantly greater financial, technical and other resources than we do, and if the economic recovery is anemic or not sustained, they may be better positioned to continue investment in competitive technologies.

***We expect to face increasing competition that could result in a loss of customers, reduced revenues or decreased operating margins.***

The virtualization, cloud computing, and end-user computing markets are inter-related and rapidly evolving. We experienced increased competition during 2012 and expect it to remain intense in 2013. For example, Microsoft continues to make incremental improvements to its virtual infrastructure and virtual management products and is expected to release updated versions of its Hyper V virtualization product. In September 2012, Microsoft began shipping Windows Server 2012, which includes a more advanced version of its Hyper-V virtualization product which continues its push into the virtualization market, and its System Center 2012 bundle of management products targeted at legacy and virtual environments. Microsoft also has cloud-based computing offerings and recently announced IaaS-like capabilities for Windows Azure. We also face competition from other companies that have announced a number of new product initiatives, alliances and consolidation efforts. For example, Citrix Systems continues to enhance its end-user and server virtualization offerings and now has a client hypervisor in the market. IBM, Google and Amazon have existing cloud computing offerings and announced new cloud computing initiatives. Red Hat has released commercial versions of Linux that have virtualization capabilities as part of the Linux kernel (“KVM”) and has also announced plans for cloud computing products. Other companies have indicated their intention to expand offerings of virtual management and cloud computing solutions as well. Additionally, our hybrid cloud computing offering in which enterprises pool internal and external IT resources running on a common vSphere infrastructure competes with low-cost public cloud infrastructure offerings such as Amazon EC2 and Google Compute Engine. Enterprises and service providers have also shown significant interest in building their own clouds based on open source projects such as OpenStack.

We believe that the key competitive factors in the virtualization and cloud computing markets include:

- the level of reliability, security and new functionality of product offerings;
- the ability to provide comprehensive and scalable solutions, including management and security capabilities;
- the ability to offer products that support multiple hardware platforms, operating systems, applications and application development frameworks;
- the ability to deliver an intuitive end-user experience for accessing data, applications and services from a wide variety of end-user devices;
- the ability to effectively run traditional IT applications and emerging applications;
- the proven track record of formulating and delivering a roadmap of virtualization and cloud computing capabilities;
- the ability to attract and preserve a large installed base of customers;
- pricing of products, individually and in bundles;
- the ability to attract and preserve a large number of application developers to develop to a given cloud ecosystem;
- the ability to create and maintain partnering opportunities with hardware vendors, infrastructure software vendors and cloud service providers;
- the ability to develop robust indirect sales channels; and
- the ability to attract and retain cloud, virtualization and systems experts as key employees.

Existing and future competitors may introduce products in the same markets we serve or intend to serve, and competing products may have better performance, lower prices, better functionality and broader acceptance than our products. Our competitors may also add features to their virtualization, end-user and cloud computing products similar to features that presently differentiate our product offerings from theirs. Many of our current or potential competitors also have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical, sales,

marketing and other resources than we do. This competition could result in increased pricing pressure and sales and marketing expenses, thereby materially reducing our operating margins, could prevent our new products and services from gaining market acceptance, and harm our ability to increase, or cause us to lose, market share. Increased competition also may prevent us from entering into or renewing service contracts on terms similar to those that we currently offer and may cause the length of our sales cycle to increase. Some of our competitors and potential competitors supply a wide variety of products 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 less attractive to our end users. Other competitors have limited or denied support for their applications running in VMware virtualization environments. These distribution, licensing and support restrictions, as well as other business practices that may be adopted in the future by our competitors, could materially impact our prospects regardless of the merits of our products. In addition, competitors with existing relationships with our current or prospective end users could in the future integrate competitive capabilities into their existing products and make them available without additional charge. For example, Oracle provides free server virtualization software intended to support Oracle and non-Oracle applications, and Microsoft offers its own server virtualization software packaged with its Windows Server product and offers built-in virtualization in the client version of Windows. As a result, existing 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. Competitors may also leverage open source technologies to offer zero or low cost products capable of putting pricing pressure on our own product offerings. By engaging in such business practices, our competitors can diminish competitive advantages we may possess by incentivizing end users to choose products that lack some of the technical advantages of our own offerings. In addition, even if customers find our products to be technically superior, they may choose to employ a ‘multiple-vendor’ strategy, where they purposely deploy multiple vendors in their environment in order to prevent any one vendor from gaining too much control over their IT operations.

We also face potential competition from our partners. For example, third parties currently selling our products could build and market their own competing products and services or market competing products and services of other vendors. If we are unable to compete effectively, our growth and our ability to sell products at profitable margins could be materially and adversely affected, which could materially and adversely impact our financial condition and results of operations.

***Industry alliances or consolidation may result in increased competition.***

Some of our competitors have made acquisitions and entered into or extended partnerships or other strategic relationships to offer more comprehensive virtualization and cloud computing solutions than they individually had offered. In 2012, Citrix Systems continued to invest in desktop virtualization marketing by continuing its close collaboration with Microsoft and acquired smaller players like Zenprise and Virtual Computer. Moreover, information technology companies are increasingly seeking to deliver top-to-bottom IT solutions to end users that combine enterprise-level hardware and software solutions to provide an alternative to our virtualization platform. For example, in 2011, Oracle brought to market integrated hardware and software solutions that utilized technologies from its 2010 acquisition of Sun Microsystems, and Microsoft and Hewlett-Packard continued their collaboration based on Microsoft’s cloud computing and virtualization platforms. In 2011, Citrix announced its acquisition of Cloud.com, which offers an IaaS cloud services solution, and Red Hat continued to invest in the Open Virtualization Alliance (“OVA”) to bolster KVM as a direct competitor to VMware vSphere. In 2012, Dell acquired Wyse Technologies to bolster its ability to serve the “cloud client” market and Quest to enhance its management and automation solutions. Software-defined networking is a new frontier, and many companies are active in this space. For example, in 2013, Cisco acquired Insieme, and Juniper acquired Contrail Systems in late 2012. In June 2013, Oracle and Microsoft entered into a partnership pursuant to which Oracle now supports the use of Oracle products in Microsoft Hyper-V deployments as well as Windows Azure. We expect these trends to continue as companies attempt to strengthen or maintain their market positions in the evolving virtualization infrastructure and enterprise IT solutions industry. Many of the companies driving this trend have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary products and technologies. The companies and alliances resulting from these possible combinations may create more compelling product and service offerings and be able to offer greater pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs (such as providing greater incentives to our channel partners to sell a competitor’s product), technology or product functionality. This competition could result in a substantial loss of customers or a reduction in our revenues, which could materially and adversely impact our financial condition and results of operations.

***We may not be able to respond to rapid technological changes with new solutions and services offerings, which could have a material adverse effect on our sales and profitability.***

The markets for our software solutions and IaaS offerings are characterized by rapid technological changes, 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 is proving to be a disruptive technology that will alter 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 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. We may not be able to develop updated products that keep pace with technological developments and emerging industry standards and that address the increasingly sophisticated needs of our customers or that interoperate with new or updated operating systems and hardware devices or certify our products to work with these systems and devices. As a result, we may not be able to accurately predict the lifecycle of our software solutions, and they may become obsolete before we receive the amount of revenues that we anticipate from them. There is no assurance that any of our new offerings would be accepted in the marketplace. Significant reductions in server-related costs or the rise of more efficient infrastructure management software could also affect demand for our software solutions. As hardware and processors become more powerful, we will have to adapt our product and service offerings to take advantage of the increased capabilities. For example, while the introduction of more powerful servers presents an opportunity for us to provide better products for our customers, the migration of servers to microprocessors with an increasing number of multiple cores also allows an end user with a given number of licensed copies of our software to multiply the number of virtualization machines run per server socket without having to purchase additional licenses from us. If we are unable to revise our solutions and offerings in response to new technological developments, our ability to retain or increase market share and revenues in the virtualization software market could be materially adversely affected.

***Our operating results may fluctuate significantly, which makes our future results difficult to predict and may result in our operating results falling below expectations or our guidance and cause the price of our Class A common stock to decline.***

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. 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 month 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 revenues 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.

In addition, factors that may affect our operating results include, among others:

- general economic conditions in our domestic and international markets and the effect that these conditions have on our customers' capital budgets and the availability of funding for software purchases;
- fluctuations in demand, adoption rates, sales cycles and pricing levels for our products and services;
- fluctuations in foreign currency exchange rates;
- changes in customers' budgets for information technology purchases and in the timing of their purchasing decisions;
- the timing of recognizing revenues in any given quarter, which, as a result of software revenue recognition policies, can be affected by a number of factors, including product announcements, beta programs and product promotions that can cause revenue recognition of certain orders to be deferred until future products to which customers are entitled become available;
- the sale of our products and services in the time frames we anticipate, including the number and size of orders in each quarter;
- our ability to develop, introduce and ship in a timely manner new products and services and enhancements that meet customer demand, certification requirements and technical requirements;
- our ability to compete effectively;
- the introduction of new pricing and packaging models for our product offerings;
- the timing of the announcement or release of upgrades or new products by us or by our competitors;
- 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;
- changes to our effective tax rate;
- the increasing scale of our business and its effect on our ability to maintain historical rates of growth;

- our ability to attract and retain highly skilled employees, particularly those with relevant experience in software development and sales;
- our ability to conform to emerging industry standards and to technological developments by our competitors and customers;
- renewal rates and the amounts of the renewals for ELAs as original ELA terms expire;
- the timing and amount of software development costs that may be capitalized beginning when technological feasibility has been established and ending when the product is available for general release;
- unplanned events that could affect market perception of the quality or cost-effectiveness of our products and solutions; and
- the recoverability of benefits from goodwill and acquired intangible assets, and the potential impairment of these assets.

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

Developing our products is expensive. Our investment in research and development may not result in marketable products or may result in products that take longer to generate revenues, or may generate less revenues, than we anticipate. Our research and development expenses were over 20% of our total revenues in the first nine months of 2013 and in the fiscal year 2012. 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 revenues from these investments for several years, if at all.

***We rely upon a two-tier selling strategy, which may not succeed in driving long-term sales and revenue growth.***

We sell our products and services through two primary means, which we refer to as our ELA and our non-ELA, or transactional, sales.

ELAs are comprehensive long-term license agreements that provide for multi-year maintenance and support and constitute one-quarter to one-third of our overall sales. These are generally larger size transactions, typically driven by our direct sales force and are primarily attractive to our larger enterprise customers.

Transactional sales, in contrast, tend to be smaller in scope, shorter in duration with a standard one-year maintenance term, and are principally driven by our sales channel partners. They represent two-thirds to three-quarters of our overall sales.

During 2012, we expanded the sales of product suites, such as our vCloud suite, that integrate advanced management and automation features with our vSphere cloud infrastructure platform and which are primarily sold through ELAs. We believe that ELAs help us grow our business by building long-term relationships with our enterprise customers.

In 2012, our overall sales growth rate declined compared to 2011, with the growth rate in transactional sales lower than the growth rate in ELAs. In 2013, we are focusing our selling and marketing efforts to improve the growth rate of our transactional business. As we develop and add new product capabilities to our higher-end product offerings, we may not be successful in our strategy to increase the value of the products sold through the transactional business. We may not be able to increase sales volumes in our transactional business or help attract new customers to our product ecosystem with these enhanced product features and capabilities.

If our overall go-to-market strategy is not successful, our growth rates may decline further, and our business, financial condition and results of operations could be materially adversely affected.

***Our sales cycles can be long and unpredictable, our sales efforts require considerable time and expense, and timing of sales is subject to changing purchasing behaviors of our customers. As a result, our sales are difficult to predict and may vary substantially from quarter to quarter, which may cause our operating results to fluctuate significantly.***

The timing of our revenues is difficult to predict. Our sales efforts involve educating our customers about the use and benefit of our products, including their technical capabilities, potential cost savings to an organization and advantages compared to lower-cost products offered by our competitors. Customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle which typically lasts several months, and may last a year or longer. We spend substantial time, effort and money on our sales efforts without any assurance that our efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, economic conditions, multiple approvals, and unplanned administrative, processing and other delays. Moreover, the greater number of competitive alternatives, as well as announcements by our competitors that they intend to introduce competitive alternatives at some point in the future, can lengthen customer procurement cycles, cause us to spend additional time and resources to educate end users on the advantages of our product offerings and delay product sales. Economic downturns and uncertainty can also cause customers to add layers to their internal purchase approval processes, adding further time to a sales cycle. These factors can have a particular impact on

the timing and length of our ELA sales cycles and our overall sales during any particular fiscal period may have greater variability as a greater portion of our sales is made utilizing ELAs.

Additionally, our quarterly sales have historically reflected an uneven pattern in which a disproportionate percentage of a quarter's total sales occur in the last month, weeks and days of each quarter. Similarly, our yearly sales have historically reflected a disproportionate percentage of the year's sales in the fourth fiscal quarter. These patterns make prediction of revenues, earnings and working capital for each financial period especially difficult and uncertain and increase the risk of unanticipated variations in financial condition and results of operations. We believe this uneven sales pattern is a result of many factors including the following:

- the tendency of customers to wait until late in a quarter to commit to a purchase in the hope of obtaining more favorable pricing;
- the fourth quarter influence of customers spending their remaining capital budget authorization prior to new budget constraints in the following year; and
- seasonal influences, such as holiday or vacation periods.

If sales expected from specific customers for a particular quarter are not realized in that quarter or at all, our results could fall short of public expectations and our business, financial condition and results of operations could be materially adversely affected.

***We are dependent on our management and our key development personnel, and the loss of key personnel may prevent us from implementing our business plan in a timely manner.***

Our success depends largely upon the continued services of our existing management. We are also substantially dependent on the continued service of our key development personnel for product innovation and timely development and delivery of upgrades and enhancements to our existing products. The market for expert software developers upon whom we rely has become increasingly competitive. We generally do not have employment or non-compete agreements with our existing management or development personnel, and, therefore, they could terminate their employment with us at any time without penalty and could pursue employment opportunities with any of our competitors. Changes to management and key employees can also lead to additional unplanned losses of key employees. The loss of key employees could seriously harm our ability to release new products on a timely basis and could significantly help our competitors.

***Because competition for our target employees is intense, we may not be able to attract and retain the highly skilled employees we need to support our planned growth, and our compensation expenses may increase.***

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 high levels of experience in designing and developing software. We may not be successful in attracting and retaining qualified personnel. We have from time to time 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 development. In addition, in making employment decisions, particularly in the high-technology industry, job candidates often consider the value of the stock-based compensation they are to receive in connection with their employment. Declines in the value of our stock could adversely affect our ability to attract or retain key employees and result in increased employee compensation expenses. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

***Our success depends upon our ability to develop new products and services, integrate acquired products and services and enhance our existing products and services and develop appropriate business and pricing models.***

If we are unable to develop new products and services, integrate acquired products and services, enhance and improve our products and support services in a timely manner, or position or price our products and services to meet market demand, customers may not buy new software licenses from us, update to new versions of our software or renew product support. In addition, information technology standards from both consortia and formal standards-setting forums as well as de facto marketplace standards are rapidly evolving. We cannot provide any assurance that the standards on which we choose to develop new products will allow us to compete effectively for business opportunities in emerging areas such as cloud computing.

New product development and introduction involves a significant commitment of time and resources and is subject to a number of risks and challenges including:

- managing the length of the development cycle for new products and product enhancements, which has frequently been longer than we originally expected;

- increasing complexity of our product offerings as we introduce product suites such as our vCloud Suite, which can significantly increase the development time and effort necessary to achieve the interoperability of product suite components while maintaining product quality;
- managing customers' transitions to new products, which can result in delays in their purchasing decisions;
- adapting to emerging and evolving industry standards and to technological developments by our competitors and customers;
- entering into new or unproven markets with which we have limited experience;
- tailoring our business and pricing models appropriately as we enter new markets and respond to competitive pressures and technological changes;
- incorporating and integrating acquired products and technologies; and
- developing or expanding efficient sales channels.

In addition, if we cannot adapt our business models to keep pace with industry trends, our revenues could be negatively impacted. For example, if 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. Additionally, we may fail to accurately predict subscription renewal rates or their impact on results of operations, 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. As we offer more products that depend on converting users of free services to users of premium services and as such services grow in size, our ability to maintain or improve and to predict conversion rates will become more important.

***Breaches of our cybersecurity systems could degrade our ability to conduct our business operations and deliver products and services to our customers, delay our ability to recognize revenue, compromise the integrity of our software products, result in significant data losses and the theft of our intellectual property, damage our reputation, expose us to liability to third parties, and require us to incur significant additional costs to maintain the security of our networks and data.***

We increasingly depend upon our IT systems 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. Unauthorized parties have attempted to penetrate our network security and our website. Such cyberattacks threaten to misappropriate our proprietary information and cause interruptions of our IT services. 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 techniques. 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 the system. We have also outsourced a number of our business functions to third party contractors, and our business operations also depend, in part, on the success of our contractors' own cybersecurity measures. We use third parties to provide colocation services (i.e. data center services) for our hybrid cloud offering. Similarly, we rely upon distributors, resellers, system vendors and systems integrators to sell our products and our sales operations depend, in part, on the reliability of their cybersecurity measures. Additionally, we depend upon our employees to appropriately handle confidential data and deploy our IT resources in safe and secure fashion that does not expose our network systems to security breaches and the loss of data. Accordingly, if our cybersecurity systems and those of our contractors, partners and vendors fail to protect against unauthorized access, sophisticated cyberattacks and the mishandling of data by our employees, contractors, partners and vendors, our ability to conduct our business effectively 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 offering, 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 cyberincidents; and
- personally identifiable data of our customers, employees and business partners could be stolen or lost.

Should any of the above events occur, we could be subject to significant claims for liability from our customers, regulatory actions from governmental agencies, our ability to protect our intellectual property rights could be compromised and our

reputation and competitive position could be significantly harmed. Also, the regulatory and contractual actions, litigations, investigations, fines, penalties and liabilities relating to data breaches that result in losses of personally identifiable or credit card information of users of our services can be significant in terms of fines and reputational impact, and necessitate changes to our business operations that may be disruptive to us. Additionally, we could incur significant costs in order to upgrade our cybersecurity systems and remediate damages. Consequently, our financial performance and results of operations could be adversely affected.

***Our products are highly technical and may contain errors, defects or security vulnerabilities which could cause harm to our reputation and adversely affect our business.***

Our products are highly technical and complex and, when deployed, have contained and may contain errors, defects or security vulnerabilities. Some errors in our products may only be discovered after a product has been installed and used by customers. Any errors, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenues or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, financial condition and results of operations. Undiscovered vulnerabilities in our products could expose them to hackers or other unscrupulous third parties who develop and deploy viruses, worms, and other malicious software programs that could attack our 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 that could be exploited by hackers or others. Actual or perceived security vulnerabilities in our products could harm our reputation and lead some customers to return products, to reduce or delay future purchases or use competitive products. End users, who rely on our products and services for the interoperability of enterprise servers and applications that are critical to their information systems, may have a greater sensitivity to product errors and security vulnerabilities than customers for software products generally. Any security breaches could lead to interruptions, delays and data loss and protection concerns. In addition, we could face claims for product liability, tort or breach of warranty, including claims relating to changes to our products made by our channel partners. Our contracts with customers contain provisions relating to warranty disclaimers and liability limitations, which may not be upheld, and customers and channel partners may seek indemnification from us for their losses and those of their customers. Defending a lawsuit, regardless of its merit, is costly and time-consuming and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our business, financial condition and results of operations could be adversely impacted.

***Operating in foreign countries subjects us to additional risks that may harm our ability to increase or maintain our international sales operations and investments.***

Revenues from customers outside the United States comprised approximately 52.4% of our total revenues in the first nine months ended September 30, 2013 and 51.6% in 2012. We have sales, administrative, research and development and technical support personnel in numerous countries worldwide. We expect to continue to add personnel in additional countries. Additionally, our investment portfolio includes investments in non-U.S. financial instruments and holdings in non-U.S. financial institutions, including European institutions. Our international operations subject us to a variety of risks, including:

- the difficulty of managing and staffing international offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- increased exposure to foreign currency exchange rate risk;
- 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 and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- economic or political instability and security concerns in countries that are important to our international sales and operations;
- macroeconomic disruptions, such as monetary and credit crises, that can threaten the stability of local and regional financial institutions and decrease the value of our international investments;
- the overlap of different tax structures or changes in international tax laws;
- reduced protection for intellectual property rights, including reduced protection from software piracy, in some countries;
- difficulties in transferring funds from certain countries; and

- difficulties in maintaining appropriate controls relating to revenue recognition practices.

Additionally, as we continue to expand our business globally, we will need to maintain compliance 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. Our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. We expect a significant portion of our growth to occur in foreign countries, which can add to the difficulties in maintaining adequate management and compliance systems and internal controls over financial reporting, and increase challenges in managing an organization operating in various countries.

Our failure to manage any of these risks successfully could negatively affect our reputation, limit our growth, harm our operations and reduce our international sales.

***If operating system and hardware vendors do not cooperate with us or we are unable to obtain early access to their new products, or access to certain information about their new products to ensure that our solutions interoperate with those products, our product development efforts may be delayed or foreclosed.***

Our products interoperate with Windows, Linux and other operating systems and the hardware devices of numerous manufacturers. Developing products that interoperate properly requires substantial partnering, capital investment and employee resources, as well as the cooperation of the vendors and developers of the operating systems and hardware. Operating system and hardware vendors may not provide us with early access to their technology and products, assist us in these development efforts or share with or sell to us any application programming interfaces, or APIs, formats or protocols we may need. If they do not provide us with the necessary early access, assistance or proprietary technology on a timely basis, we may experience product development delays or be unable to expand our products into other areas. To the extent that software or hardware vendors develop products that compete with ours or those of our controlling stockholder, EMC Corporation (“EMC”), 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. To the extent that we enter into collaborations or joint development and marketing arrangements with certain hardware and software vendors, vendors who compete with our collaborative partners may similarly choose to limit their cooperation with us. In addition, hardware or operating system 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 our business and results of operations may be adversely affected.

***We rely on distributors, resellers, system vendors and systems integrators to sell our products, and our failure to effectively develop, manage or prevent disruptions to our distribution channels and the processes and procedures that support them could cause a reduction in the number of end users of our products.***

Our future success is highly dependent upon maintaining and increasing the number of our relationships with distributors, resellers, system vendors and systems integrators. Because we rely on distributors, resellers, system vendors and systems integrators, we may have little or no contact with the ultimate users of our products, thereby making it more difficult for us to establish brand awareness, ensure proper delivery and installation of our products, service ongoing customer requirements, estimate end-user demand and respond to evolving customer needs.

Recruiting and retaining qualified channel partners and training them in the use of our technology and product offerings requires significant time and resources. In order to develop and expand our distribution channel, we must continue to expand and improve our processes and procedures that support our channel, including our investment in systems and training, and those processes and procedures may become increasingly complex and difficult to manage. The time and expense required for sales and marketing organizations of our channel partners to become familiar with our product offerings, including our new product developments, may make it more difficult to introduce those products to end users and delay end-user adoption of our product offerings.

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. Our competitors may be effective in providing incentives to existing and potential channel partners to favor products of our competitors or to prevent or reduce sales of our products. Certain system vendors now offer competing virtualization products preinstalled on their server products. Additionally, our competitors could attempt to require key distributors to enter into exclusivity arrangements with them or otherwise apply their pricing or marketing leverage to discourage distributors from offering our products. Accordingly, our channel partners may choose not to offer our products exclusively or at all. Our failure to maintain and increase the number of relationships with channel partners would likely lead to a loss of end users of our products which would result in us receiving lower revenues from our channel partners. Three of our distributors each accounted for 10% or more of revenues during the first nine months of 2013. Our agreements with distributors are typically terminable by either party upon 30 to 90 days’ prior written notice to the other party, and neither party has any obligation to purchase or sell any products under the agreements. While 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 revenues from distribution, if we were to lose the distribution services of a significant distributor, such loss could have a materially negative impact on our results of operations until such time as we arrange to replace these distribution services with the services of existing or new distributors.

***The concentration of our product sales among a limited number of distributors and the weakness in credit markets increase our potential credit risk. Additionally, weakness in credit markets could affect the ability of our distributors, resellers and customers to comply with the terms of credit we provide in the ordinary course of business. Accordingly, if our distributors, resellers and customers find it difficult to obtain credit or comply with the terms of their credit obligations, it could cause significant fluctuations or declines in our product revenues.***

Three of our distributors each accounted for 10% or more of revenues during the first nine months of 2013 . We anticipate that sales of our products to a limited number of distributors will continue to account for a significant portion of our total product revenues for the foreseeable future. The concentration of product sales among certain distributors increases our potential credit risks. For example, approximately 42.0% of our total accounts receivable as of September 30, 2013 was from our three largest distributors. Some of our distributors may experience financial difficulties, which could adversely impact our collection of accounts receivable. One or more of these distributors could delay payments or default on credit extended to them. Our exposure to credit risks of our distributors may increase if our distributors and their customers are adversely affected by global or regional economic conditions. Additionally, we provide credit to distributors, resellers, and certain end-user customers in the normal course of business. Credit is generally extended to new customers based upon a credit evaluation. Credit is extended to existing customers based on ongoing credit evaluations, prior payment history, and demonstrated financial stability. We often allow distributors and customers to purchase and receive shipments of products in excess of their established credit limit. We are unable to recognize revenue from such shipments until the collection of those amounts becomes reasonably assured. Any significant delay or default in the collection of significant accounts receivable could result in an increased need for us to obtain working capital from other sources, possibly on worse terms than we could have negotiated if we had established such working capital resources prior to such delays or defaults. Any significant default could result in a negative impact on our results of operations and delay our ability to recognize revenue.

***Our revenues, collection of accounts receivable and financial results may be adversely impacted by fluctuation of foreign currency exchange rates. Although foreign currency hedges can offset some of the risk related to foreign currency fluctuations, we will continue to experience foreign currency gains and losses in certain instances where it is not possible or cost effective to hedge our foreign currency exposures.***

Our revenues and our collection of accounts receivable may be adversely impacted as a result of fluctuations in the exchange rates between the U.S. Dollar and foreign currencies. For example, we have distributors in foreign countries that may incur higher costs in periods when the value of the U.S. Dollar strengthens against foreign currencies. One or more of these distributors could delay payments or default on credit extended to them as a result. Any significant delay or default in the collection of significant accounts receivable could result in an increased need for us to obtain working capital from other sources. If we determine that the amount of accounts receivable that is uncollectible is greater than our estimates, we would recognize an increase in bad debt expense, which would have a negative impact on our results of operations. In addition, in periods when the value of the U.S. Dollar strengthens, we may need to offer additional discounts, reduce prices or offer other incentives to mitigate the negative effect on demand.

We invoice and collect in certain non-U.S. Dollar denominated currencies, thereby conducting a portion of our revenue transactions in currencies other than the U.S. Dollar. Although this program may alleviate credit risk from our distributors during periods when the U.S. Dollar strengthens, it shifts the risk of currency fluctuations to us and may negatively impact our revenues, anticipated cash flows and financial results due to fluctuations in foreign currency exchange rates, particularly the Euro, the British Pound, the Japanese Yen and the Australian Dollar relative to the U.S. Dollar. While variability in operating margin may be reduced due to invoicing in certain of the local currencies in which we also recognize expenses, increased exposure to foreign currency fluctuations will introduce additional risk for variability in revenue-related components of our consolidated financial statements.

We enter into foreign currency forward contracts to hedge a portion of our net outstanding monetary assets and liabilities against movements in certain foreign exchange rates. Although we expect the gains and losses on our foreign currency forward contracts to generally offset the majority of the gains and losses associated with the underlying foreign-currency denominated assets and liabilities that we hedge, our hedging transactions may not yield the results we expect. Additionally, we expect to continue to experience foreign currency gains and losses in certain instances where it is not possible or cost effective to hedge our foreign currency exposures.

***We may become involved in litigation 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 patent, commercial, product liability,

employment, class action, whistleblower and other matters. From time to time, we receive inquiries from government entities regarding the compliance of our contracting and sales practices with applicable regulations. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. While no formal legal proceedings that could have a material impact on our financial condition or results of operations have been commenced, there can be no assurance that actions will not be taken in the future. Furthermore, because litigation and the outcome of regulatory proceedings are inherently unpredictable, it is possible that our business, financial condition or results of operations could be negatively affected by an unfavorable resolution of one or more of such proceedings, claims, demands or investigations.

***Our business is subject to a variety of U.S. and international laws and regulations regarding data protection.***

Our business is subject to federal, state and international laws and regulations regarding privacy and protection of personal data. We collect contact and other personal or identifying information from our customers. Additionally, in connection with some of our new product initiatives, including the hybrid cloud service offering, our customers may use our services to store and process personal information and other user data. We post, on our websites, our privacy policies and practices concerning our treatment of personal data. We also often include privacy commitments in our contracts. Any failure by us to comply with our posted privacy policies, other federal, state or international privacy-related or data protection laws and regulations, or the privacy commitments contained in our contracts could result in proceedings against us by governmental entities or others, which could have a material adverse effect on our business, financial condition and results of operations. In addition, the increased attention focused upon liability issues as a result of lawsuits and legislative proposals could harm our reputation or otherwise impact the growth of our business.

It is possible that these laws and regulations may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines and penalties, a governmental order requiring that we change our data practices could result, which in turn could have a material adverse effect on our business. Compliance with such an order may involve significant costs or require changes in business practices that result in reduced revenue. Noncompliance could result in penalties being imposed on us or we could be ordered to cease conducting the noncompliant activity.

In addition to government regulation, privacy advocacy and industry groups or other third parties may propose new and different self-regulatory standards that either legally or contractually apply to our customers or us. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and standards, could result in additional cost and liability to us, damage our reputation, reduce sales and harm our business.

Additionally, our virtualization technology is used by cloud computing vendors, and we have expanded our involvement in the delivery and provision of cloud computing through business alliances with various providers of cloud computing services and software and expect to continue to do so in the future. The application of U.S. and international data privacy laws to cloud computing vendors is uncertain, and our existing contractual provisions may prove to be inadequate to protect us from claims for data loss or regulatory noncompliance made against cloud computing providers who we may partner with. Accordingly, the failure to comply with data protection laws and regulations by our customers and business partners who provide cloud computing services could have a material adverse effect on our business.

Since some of our products and services are web-based, our customers store their data (including personal data) on our servers and our vendors' servers. Any systems failure or compromise of our security that results in the release of our customers' data could (i) subject us to substantial damage claims from our customers, (ii) expose us to costly regulatory remediation, and (iii) harm our reputation and brand. We may also need to expend significant resources to protect against security breaches.

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

Our contracts with our customers may 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. From time to time, we receive inquiries from government entities regarding the compliance of our contracting and sales practices with applicable regulations. While no formal legal proceedings that could have a material impact on our financial condition or results of operations have been commenced, there can be no assurance that actions will not be commenced in the future. If our customer contracts are terminated, if we are suspended from government work or fines or other government sanctions are imposed, or if our ability to compete for new contracts is adversely affected, our business, operating results or financial condition could be adversely affected.

***If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our 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 preclude 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 United States. Further, with respect to patent rights, we do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims. To the extent that additional patents are issued from our patent applications, which are not certain, they may be contested, circumvented or invalidated in the future. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop similar or superior technologies to our own now or in the future. 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 and proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future 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. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business, financial condition and results of operations, and there is no guarantee that we would be successful. Furthermore, many of our current and potential competitors have the ability to dedicate substantially greater resources to protecting their technology or intellectual property rights than we do. Accordingly, 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.

***We provide access to our hypervisor and other selected source code to partners, which creates additional risk that our competitors could develop products that are similar or better than ours.***

Our success and ability to compete depend substantially upon our internally developed technology, which is incorporated in the source code for our products. We seek to protect the source code, design code, documentation and other information relating to our software, under trade secret and copyright laws. However, we have chosen to provide access to our hypervisor and other selected source code to several dozen of our partners for co-development, as well as for open APIs, formats and protocols. Though we generally control access to our source code and other intellectual property, and enter into confidentiality or license agreements with such partners, as well as with our employees and consultants, this combination of procedural and contractual safeguards may be insufficient to protect our trade secrets and other rights to our technology. Our protective measures may be inadequate, especially because we may not be able to prevent our partners, employees or consultants from violating any agreements or licenses we may have in place or abusing their access granted to our source code. Improper disclosure or use of our source code could help competitors develop products similar to or better than ours.

***We are, and may in the future be, subject to claims by others that we infringe their proprietary technology, which could force us to pay damages or prevent us from using certain technology in our products.***

Companies in the software and technology industries own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. This risk may increase as the number of products and competitors in our market increases and overlaps occur. In addition, as a well-known information technology company, we face a higher risk of being the subject of intellectual property infringement claims. Any claim of infringement by a third party, even one without merit, could cause us to incur substantial costs defending against the claim, and could distract our management from our business. Furthermore, a party making such a claim, if successful, could secure a judgment that requires us to pay substantial damages. 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. Any of these events could seriously harm our business, operating results and financial condition. Third parties may also assert infringement claims against our customers and channel partners. Any of these claims 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. If any of these claims succeed, we may be forced to pay damages on behalf of our customers or channel partners, which could negatively affect our results of operations.

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

A significant portion of the products, technologies or services acquired, licensed, developed or offered by us may incorporate so-called “open source” software, and we may incorporate open source software into other products in the future. Such open source software is generally licensed by its authors or other third parties under open source licenses, including, for example, the GNU General Public License, the GNU Lesser General Public License, “Apache-style” licenses, “BSD-style” licenses and other open source licenses. We monitor our use of open source software in an effort to avoid subjecting our products to conditions we do not intend. 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 many of the terms of most of these licenses, and therefore the potential impact of these terms on our business is somewhat unknown and may result in unanticipated obligations regarding our products and technologies. For example, we may be subjected to certain conditions, including requirements that we offer our products that use the open source software for no cost, that we make available source code for modifications or derivative works we create based upon incorporating, using or distributing the open source software, or that we license such modifications or derivative works under the terms of the particular open source license. Any of these obligations could have an adverse impact on our intellectual property rights and our ability to derive revenue from products incorporating the open source software.

If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations. Although we have received inquiries regarding open source license compliance for software used in our products, no formal legal proceedings that would have a material impact on our results of operations or financial condition have been filed. However, there can be no assurance that actions will not be taken in the future. If our defenses were not successful, we could be subject to significant damages. We could also be enjoined from the distribution of our products that contained the open source software or be required to modify our products in order to comply with the conditions of the open source license(s) in question, either or both of which could disrupt the distribution and sale of some of our products. In addition, if we combine our proprietary software with open source software in a certain manner, under some open source licenses we could be required to release the source code of our proprietary software, which could substantially help our competitors develop products that are similar to or better than ours.

In addition to risks related to license requirements, usage of open source software exposes us to risks that differ from the use of third-party commercial software because open source licensors generally do not provide warranties or assurance of title or controls on origin of the software. In addition, many of the risks associated with usage of open source software such as the lack of warranties or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have established processes to help address these risks, including a review process for screening requests from our development organizations for the use of open source and conducting appropriate due diligence of the use of open source software in the products developed by companies we acquire, but we cannot ensure that our processes are sufficient, all open source software is submitted for approval prior to use in our products, or all open source software is discovered during due diligence.

***We offer a number of products under open source licenses that subject us to additional risks and challenges, which could result in increased development expenses, delays or disruptions to the release or distribution of those software solutions, and increased competition.***

Several of our product offerings are distributed under open source licenses. Additionally, in July 2012, we acquired Nicira whose expertise is in software-defined networking and whose principal products contain some open source software. Software solutions that are substantially or mostly based on open source software subject us to a number of risks and challenges:

- If open source software programmers, most of whom we do not employ, do not continue to develop and enhance open source technologies, our development expenses could be increased and our product release and upgrade schedules could be delayed.
- One of the characteristics of open source software is that anyone can modify the existing software or develop new software that competes with existing open source software. As a result, competition can develop without the degree of overhead and lead time required by traditional proprietary software companies. It is also possible for new competitors with greater resources than ours to develop their own open source solutions, potentially reducing the demand for, and putting price pressure on, our solutions.
- It is possible that a court could hold that the licenses under which our open source products and services are developed and licensed are not enforceable or that someone could assert a claim for proprietary rights in a program developed and distributed under them. Any ruling by a court that these licenses are not enforceable, or that open source components of our product or services offerings may not be liberally copied, modified or distributed, may have the effect of preventing us from distributing or developing all or a portion of our products or services. In addition,

licensors of open source software employed in our offerings may, from time to time, modify the terms of their license agreements in such a manner that those license terms may no longer be compatible with other open source licenses in our offerings or our end-user license agreement or terms of service, and thus could, among other consequences, prevent us from continuing to distribute the software code subject to the modified license or terms of service.

- Actions to protect and maintain ownership and control over our intellectual property could adversely affect our standing in the open source community, which in turn could limit our ability to continue to rely on this community, upon which we are dependent, as a resource to help develop and improve our open source products and services.

If we are unable to successfully address the challenges of integrating offerings based upon open source technology into our business, our ability to realize revenues from such offerings will be negatively affected and our development costs may increase.

***Acquisitions could disrupt our business, cause dilution to our stockholders and harm our business, financial condition and results of operations.***

We have acquired in the past and plan to acquire in the future other businesses, products or technologies. For example, in 2012 we completed a number of acquisitions, including acquisitions of Wanova, Dynamic Ops and Nicira and in 2013, we completed the acquisition of Virsto Software. We may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, or they may be viewed negatively by customers, financial markets or investors.

Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses, and adversely impact our business, financial condition and results of operations. An acquired business may not deliver the expected results. For example, an acquisition may not further our strategies or result in expected benefits, which may include benefits relating to enhanced revenues, technology, human resources, cost savings, operating efficiencies and other synergies. Acquisitions may reduce our cash available for operations, stock repurchase programs and other uses and could result in an increase in amortization expense related to identifiable intangible assets acquired, and result in potentially dilutive issuances of equity securities or the incurrence of debt.

Additionally there can be no assurance that we will be able to manage the integration of acquired businesses effectively or be able to retain and motivate key personnel from these businesses. We may also face difficulties due to the lack of experience in new markets, products or technologies or the initial dependence on unfamiliar supply or distribution partners. Other risks related to acquisitions include the assumption of the liabilities of the acquired business, including acquired litigation-related liabilities, and potential litigation arising from a proposed or completed acquisition.

If our acquisitions do not meet our expectations, or if our strategic focus subsequently changes, we may choose to abandon certain acquired product lines and divest from acquired businesses. For example, in January 2013, we announced a plan to streamline our operations that included a planned exit of certain lines of business, including SlideRocket and Shavlik, and in July 2013 we announced our divestiture of Zimbra. It is generally difficult for an acquirer to completely recover the cost of an acquisition which is subsequently divested. Accordingly, divestitures of acquired businesses and products may result in us taking charges for impairment of assets and goodwill, and result in cash expenditures in connection with headcount reductions.

In addition to the risks commonly encountered in the acquisition of a business as described above, we may also experience risks relating to the challenges and costs of closing a transaction. Further, the risks described above may be exacerbated as a result of managing multiple acquisitions at the same time. We also seek to invest in businesses such as ventured financed companies and joint ventures that offer complementary products, services or technologies. These investments are accompanied by risks similar to those encountered in an acquisition of a business. In addition, we do not control entities where we have a minority investment, and therefore cannot ensure that these investments and joint ventures will make decisions that promote or are complementary to our business strategy.

***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 acquisitions of other companies, which could result in an impairment of goodwill or intangibles. During 2012, our goodwill balance increased by \$1.1 billion or 62% as a result of acquisitions made during the year, primarily for Nicira. We review our 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 be considered a change in circumstances, indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable, include a decline in stock price and market capitalization or cash flows, reduced future cash flow estimates, 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, negatively impacting our results of operations.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, our stockholders could lose confidence in our financial reporting, which could harm our business and the trading price of our Class A common stock.***

As we grow and evolve our business, and in order to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, we need to maintain our processes and systems and adapt them to changes in our business requirements and regulation. We may seek to automate certain processes to improve efficiencies and better ensure ongoing compliance but such automation may itself disrupt existing internal controls and introduce unintended vulnerability to error or fraud. This continuous process of maintaining and adapting our internal controls and compliance with Section 404 is expensive and time-consuming, and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404. Furthermore, as our business grows and changes and as we expand through acquisitions of other companies, our internal controls may become more complex and we will require significantly more resources to ensure our internal controls overall remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations to our investors. If we or our independent registered public accounting firm identify material weaknesses, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our stock price. In addition, if we are unable to continue to comply with Section 404, our non-compliance could subject us to a variety of administrative sanctions, including the suspension or delisting of our Class A common stock from the New York Stock Exchange and the inability of registered broker-dealers to make a market in our Class A common stock, which could reduce our stock price.

***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, delivery of products, providing services and support to our customers, billing and tracking our customers, fulfilling contractual obligations and otherwise running our business. 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. 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. Any disruptions relating to our systems enhancements, particularly any disruptions impacting our operations during the implementation period, could adversely affect our business in a number of respects. Even if we do not encounter these adverse effects, the implementation of these enhancements may be much more costly than we anticipated. If we are unable to successfully implement the information systems enhancements as planned, our financial condition, results of operations and cash flows could be negatively impacted.

***Our financial results may be adversely impacted by higher than expected tax rates, and we may have exposure to additional tax liabilities.***

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 United States and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file and changes to tax laws. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. From time to time, we are subject to income and non-income tax audits. While we believe we have complied with all applicable income tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed with additional taxes, there could be a material adverse effect on our financial condition or results of operations.

Our future effective tax rate may be affected by such factors as changes in tax laws, regulations or rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation, the impact of accounting for business combinations, changes in our international organization, and changes in overall levels of income before tax. For example, the U.S. federal research credit, which provided a significant reduction in our effective tax rate, expired on December 31, 2011. Reinstatement of the U.S. federal research credit would have a favorable effect on our effective tax rate. In January 2013, the United States Congress retroactively enacted an extension of the federal research credit through December 31, 2013. There can be no assurance that the federal research credit will be extended or will not be reduced.

In addition, in the ordinary course of our global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. Although we believe that our tax estimates are reasonable, we cannot ensure that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

Additionally, our rate of taxation in foreign jurisdictions is lower than the U.S. tax rate. Our international income is primarily earned by our subsidiaries in Ireland, where the statutory tax rate is 12.5%. All income earned abroad, except for previously taxed income for U.S. tax purposes, is considered indefinitely reinvested in our foreign operations and no provision

for U.S. taxes has been provided with respect to such income. If management determines these overseas funds are needed for our operations in the U.S., we would be required to accrue U.S. taxes on the related undistributed earnings in the period management determines the earnings will no longer be indefinitely invested outside the U.S. and to repatriate these funds.

***Our business is subject to the risks of earthquakes, fire, floods and other natural catastrophic events such as pandemics, and to interruption by man-made problems, such as computer viruses, unanticipated disruptions in local infrastructure or terrorism, which could result in delays or cancellations of customer orders or the deployment of our products.***

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, financial condition and results of operations. As we continue to grow internationally, increasing amounts of our business will be located in foreign countries that may be more subject to political or social instability that could disrupt operations. 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. In addition, our servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems. 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. Natural disasters that affect the manufacture of IT products, such as the 2011 flooding in Thailand, can also delay customer spending on our software, which is often coupled with customer purchases of new servers and IT systems. Furthermore, acts of terrorism or war could cause disruptions in our or our customers' business or the economy as a whole, and disease pandemics could temporarily sideline a substantial part of our or our customers' workforce at any particular time. 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 revenues would be adversely affected. Additionally, we may incur significant costs to repair damages to our facilities, equipment and infrastructure.

***Changes in accounting principles and guidance, or their interpretation, could result in unfavorable accounting charges or effects, including changes to our previously-filed financial statements, which could cause our stock price to decline.***

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles and guidance. A change in these principles or guidance, or in their interpretations, may have a significant effect on our reported results and retroactively affect previously reported results.

#### **Risks Related to Our Relationship with EMC**

***As long as EMC controls us, other holders of our Class A common stock will have limited ability to influence matters requiring stockholder approval.***

As of September 30, 2013, EMC owned 43,025,000 shares of our Class A common stock and all 300,000,000 shares of our Class B common stock, representing 79.7% of the total outstanding shares of common stock or 97.2% of the voting power of outstanding common stock. The holders of our Class A common stock and our Class B common stock have identical rights, preferences and privileges except with respect to voting and conversion rights, the election of directors, certain actions that require the consent of holders of Class B common stock and other protective provisions as set forth in our certificate of incorporation. Holders of our Class B common stock are entitled to 10 votes per share of Class B common stock on all matters except for the election of our Group II directors, in which case they are entitled to one vote per share, and the holders of our Class A common stock are entitled to one vote per share of Class A common stock. The holders of Class B common stock, voting separately as a class, are entitled to elect 80% of the total number of directors on our board of directors that we would have if there were no vacancies on our board of directors at the time. These are our Group I directors. Subject to any rights of any series of preferred stock to elect directors, the holders of Class A common stock and the holders of Class B common stock, voting together as a single class, are entitled to elect our remaining directors, which at no time will be less than one director-our Group II director(s). Accordingly, the holders of our Class B common stock currently are entitled to elect 8 of our 9 directors.

If EMC transfers shares of our Class B common stock to any party other than a successor-in-interest or a subsidiary of EMC prior to a distribution to its stockholders under Section 355 of the Internal Revenue Code of 1986, as amended (a "355 distribution"), those shares will automatically convert into Class A common stock. Additionally, if, prior to a 355 distribution, EMC's 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. 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. For so long as EMC or its successor-in-interest 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, EMC will be able to elect all of the members of our board of directors.

In addition, until such time as EMC or its successor-in-interest beneficially owns shares of our common stock representing less than a majority of the votes entitled to be cast by the holders of outstanding voting stock, EMC will have the ability to take stockholder action without the vote of any other stockholder and without having to call a stockholder meeting, and holders of our Class A common stock will not be able to affect the outcome of any stockholder vote during this period. As a result, EMC will have the ability to control all matters affecting us, including:

- the composition of our board of directors and, through our board of directors, any determination with respect to our business plans and policies;
- any determinations with respect to mergers, acquisitions and other business combinations;
- our acquisition or disposition of assets;
- our financing activities;
- certain changes to our certificate of incorporation;
- changes to the agreements we entered into in connection with our transition to becoming a public company;
- corporate opportunities that may be suitable for us and EMC;
- determinations with respect to enforcement of rights we may have against third parties, including with respect to intellectual property rights;
- the payment of dividends on our common stock; and
- the number of shares available for issuance under our stock plans for our prospective and existing employees.

Our certificate of incorporation and the master transaction agreement entered into between us and EMC in connection with our initial public offering (“IPO”) also contain provisions that require that as long as EMC beneficially owns at least 20% or more of the outstanding shares of our common stock, the prior affirmative vote or written consent of EMC (or its successor-in-interest) as the holder of the Class B common stock is required (subject in each case to certain exceptions) in order to authorize us to:

- consolidate or merge with any other entity;
- acquire the stock or assets of another entity in excess of \$100 million;
- issue any stock or securities except to our subsidiaries or pursuant to our employee benefit plans;
- establish the aggregate annual amount of shares we may issue in equity awards;
- dissolve, liquidate or wind us up;
- declare dividends on our stock;
- enter 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; and
- amend, terminate or adopt any provision inconsistent with certain provisions of our certificate of incorporation or bylaws.

If EMC does not provide any requisite consent allowing us to conduct such activities when requested, we will not be able to conduct such activities and, as a result, our business and our operating results may be harmed. EMC’s voting control and its additional rights described above may discourage transactions involving a change of control of us, 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. EMC 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 EMC. Accordingly, shares of Class A common stock may be worth less than they would be if EMC did not maintain voting control over us or if EMC did not have the additional rights described above.

In the event EMC is acquired or otherwise undergoes a change of control, any acquirer or successor will be entitled to exercise the voting control and contractual rights of EMC, and may do so in a manner that could vary significantly from EMC’s historic practice.

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.

***Our business and that of EMC overlap, and EMC may compete with us, which could reduce our market share.***

EMC and we are both IT infrastructure companies providing products related to storage management, back-up, disaster recovery, security, system management and automation, provisioning and resource management. There can be no assurance that EMC will not engage in increased competition with us in the future. In addition, the intellectual property agreement that we have entered into with EMC 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.

EMC could assert control over us in a manner which could impede our growth or our ability to enter new markets or otherwise adversely affect our business. Further, EMC 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 or product development initiatives that could adversely affect our competitive position, including our competitive position relative to that of EMC in markets where we compete with them. In addition, EMC maintains significant partnerships with certain of our competitors, including Microsoft.

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

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

EMC 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 may have the ability to impact our relationship with those of our partners that compete with EMC, which could have a material adverse effect on our results of operations or our ability to pursue opportunities which may otherwise be available to us.

***Our joint launch of GoPivotal, Inc. ( " Pivotal " ) with EMC may not prove successful.***

In April 2013, we contributed technology and transferred employees to Pivotal, a subsidiary of EMC, established to focus on Big Data and Cloud Application Platforms. Pivotal is led by Paul Maritz, its Chief Executive Officer and our former Chief Executive Officer, and includes most employees and resources formerly working within EMC's Greenplum and Pivotal Labs organizations, and our vFabric (including Spring and Gemfire), Cloud Foundry and Cetas organizations, as well as related efforts. Pivotal's ability to operate successfully will require, among other factors:

- successfully integrating technology from both us and EMC;
- creating offerings for which there is suitable demand in the marketplace;
- developing an effective go-to-market strategy;
- successfully competing and differentiating its offerings from those of its competitors; and
- having access to adequate financial resources to fund its operations.

In the event that Pivotal is unable to operate successfully, we may be asked to contribute capital resources to Pivotal or accept dilution in our ownership interest, and we may be unable to realize any value from the technology and resources that we contributed to Pivotal.

***In order to preserve the ability for EMC to distribute its shares of our Class B common stock on a tax-free basis, we may be prevented from pursuing opportunities to raise capital, to effectuate acquisitions or to provide equity incentives to our employees, which could hurt our ability to grow.***

Beneficial ownership of at least 80% of the total voting power is required in order for EMC to affect a tax-free spin-off of VMware or certain other tax-free transactions. 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 EMC's or its successor-in-interest's ability to undertake a tax-free spin-off. Additionally, under our certificate of incorporation and the master transaction agreement we entered into with EMC, we must obtain the consent of EMC or its successor-in-interest, as the holder of our Class B common stock, to issue 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), which could cause us to forgo capital raising or acquisition opportunities that would otherwise be available to us. As a result, we may be precluded from pursuing certain growth initiatives.

***Third parties may seek to hold us responsible for liabilities of EMC, which could result in a decrease in our income.***

Third parties may seek to hold us responsible for EMC's liabilities. Under our master transaction agreement with EMC, EMC will indemnify us for claims and losses relating to liabilities related to EMC's business and not related to our business. However, if those liabilities are significant and we are ultimately held liable for them, we cannot be certain that we will be able to recover the full amount of our losses from EMC.

***Although we have entered into a tax sharing agreement with EMC under which our tax liabilities effectively will be determined as if we were not part of any consolidated, combined or unitary tax group of EMC Corporation or its subsidiaries, we nonetheless could be held liable for the tax liabilities of other members of these groups.***

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. Pursuant to our tax sharing agreement with EMC, we and EMC 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 EMC's consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of EMC Corporation or its subsidiaries, the amount of taxes to be paid by us will be determined, subject to certain 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.

We have been included in the EMC consolidated group for U.S. federal income tax purposes since our acquisition by EMC, and expect to continue to be included in such consolidated group for periods in which EMC 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 EMC consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of EMC Corporation and/or 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.

***Any inability to resolve favorably any disputes that arise between us and EMC with respect to our past and ongoing relationships may result in a significant reduction of our revenues and earnings.***

Disputes may arise between EMC and us in a number of areas relating to our ongoing relationships, including:

- labor, tax, employee benefit, indemnification and other matters arising from our separation from EMC;
- our reseller arrangements with EMC;
- employee retention and recruiting;
- business combinations involving us;
- our ability to engage in activities with certain channel, technology or other marketing partners;
- sales or dispositions by EMC of all or any portion of its ownership interest in us;
- the nature, quality and pricing of services EMC has agreed to provide us or we have agreed to provide to EMC;
- arrangements with third parties that are exclusionary to EMC;
- arrangements with EMC for collaborative product or technology development, marketing and sales activities involving our technology, employees and other resources;
- business opportunities that may be attractive to both EMC and us; and
- product or technology development or marketing activities or customer agreements which may require the consent of EMC.

We may not be able to resolve any potential conflicts, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party.

The agreements we enter into with EMC may be amended upon agreement between the parties. While we are controlled by EMC, we may not have the leverage to negotiate amendments to these agreements if required on terms as favorable to us as those we would negotiate with an unaffiliated third party.

***Our CEO and some of our directors own EMC common stock or equity awards to acquire EMC common stock, and some of our directors hold management positions with EMC, which could cause conflicts of interests that result in our not acting on opportunities we otherwise may have.***

Our CEO and some of our directors own EMC common stock or equity awards to purchase EMC common stock. In addition, some of our directors are executive officers or directors of EMC, and EMC, as the sole holder of our Class B common stock, is entitled to elect 8 of our 9 directors. Ownership of EMC common stock, restricted shares of EMC common stock and equity awards to purchase EMC common stock by our directors and the presence of executive officers or directors of EMC on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and EMC that could have different implications for EMC than they do for us. Provisions of our certificate of incorporation and the master transaction agreement between EMC and us address corporate opportunities that are presented to our directors or officers that are also directors or officers of EMC. There can be no assurance that the provisions in our certificate of incorporation or the master transaction agreement will adequately address potential conflicts of interest or that potential conflicts of interest will be resolved in our favor, or that we will be able to take advantage of corporate opportunities presented to individuals who are officers or directors of both us and EMC. As a result, we may be precluded from pursuing certain growth initiatives.

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

So long as EMC 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, EMC can effectively control and direct our board of directors. Further, the interests of EMC and our other stockholders may diverge. Under these circumstances, persons who might otherwise accept our invitation to join our board of directors may decline.

***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."***

EMC owns more than 50% of the total voting power of our common stock and, as a result, we are a "controlled company" under the New York Stock Exchange corporate governance standards. As a controlled company, we are exempt under the New York Stock Exchange standards from the obligation to comply with certain New York Stock Exchange 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 in compliance with the requirements of the New York Stock Exchange, 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 New York Stock Exchange corporate governance requirements.

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

The financial information covering the periods included in this Quarterly Report on Form 10-Q does not necessarily reflect what our financial condition, results of operations 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 EMC subsidiaries for support services and EMC personnel who are managed by us. The costs incurred by EMC 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 in our consolidated statements of income. Additionally, we and EMC engage in intercompany transactions, including agreements regarding the use of EMC's and our intellectual property and real estate, agreements regarding the sale of goods and services to one another and to Pivotal, and an agreement for EMC to resell our products and services to third party customers. Accordingly, our historical financial information is not necessarily indicative of what our financial condition, results of operations or cash flows will 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 EMC. In the three and nine months ended September 30, 2013, we recognized revenues of \$54 million and \$177 million, respectively and as of September 30, 2013, \$201 million of revenues were included in unearned

revenues from such transactions with EMC. For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto.

### **Risks Related to Owning Our Class A Common Stock**

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

The trading price of our Class A common stock has fluctuated significantly since our IPO in August 2007. For example, between January 1, 2012 and September 30, 2013, the closing trading price of our Class A common stock was very volatile, ranging between \$65.53 and \$114.62 per share. Our trading price could fluctuate substantially in the future due to the factors discussed in this Risk Factors section and elsewhere in this Quarterly Report on Form 10-Q.

Substantial amounts of Class A common stock are held by our employees, EMC and Cisco, and all of the shares of our Class B common stock, which may be converted to Class A common stock upon request of the holder, are held by EMC. Shares of Class A common stock held by EMC (including shares of Class A common stock that might be issued upon the conversion of Class B common stock) are eligible for sale subject to the volume, manner of sale and other restrictions of Rule 144 of the Securities Act of 1933, as amended (the “Securities Act”), which allows the holder to sell up to the greater of 1% of our outstanding Class A common stock or our four-week average weekly trading volume during any three-month period and following the expiration of their contractual restrictions. Additionally, EMC possesses registration rights with respect to the shares of our common stock that it holds. If EMC chooses to exercise such rights, its sale of the shares that are registered would not be subject to the Rule 144 limitations. If a significant amount of the shares that become eligible for resale enter the public trading markets in a short period of time, the market price of our Class A common stock may decline.

Additionally, broad market and industry factors may 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. 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.

*Delaware law and our certificate of incorporation and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.*

Provisions in our certificate of incorporation and bylaws will 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 EMC 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 EMC 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.

Until such time as EMC or its successor-in-interest ceases to beneficially own 20% or more of the outstanding shares of our common stock, the affirmative vote or written consent of the holders of a majority of the outstanding shares of the Class B common stock will be required to:

- amend certain provisions of our bylaws or certificate of incorporation;
- make certain acquisitions or dispositions;
- declare dividends, or undertake a recapitalization or liquidation;
- adopt any stockholder rights plan, “poison pill” or other similar arrangement;
- approve any transactions that would involve a merger, consolidation, restructuring, sale of substantially all of our assets or any of our subsidiaries or otherwise result in any person or entity obtaining control of us or any of our subsidiaries; or
- undertake certain other actions.

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 Purchasers

Purchases of equity securities during the three months ended September 30, 2013 :

	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (4)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs (2)(3)(4)
July 1 – July 31, 2013	863,735	\$ 68.46	863,735	\$ 107,024,874
August 1 – August 31, 2013	106,300	83.97	106,300	798,098,654
September 1 – September 30, 2013	258,452	86.58	258,452	775,722,925
	1,228,487	73.61	1,228,487	775,722,925

- (1) Includes no shares repurchased by EMC in open market transactions. In 2010, EMC announced a stock purchase program of VMware’s Class A common stock to maintain its approximate level of ownership in VMware over the long term. Inclusion of EMC’s purchases in the above table does not indicate that EMC is deemed to be an “affiliated purchaser” with respect to the VMware stock repurchase program discussed in the following footnote. Shares purchased by EMC remain issued and outstanding.
- (2) In November 2012, VMware’s Board of Directors authorized the repurchase of up to \$250 million of VMware’s Class A common stock through the end of 2014 . In August 2013, VMware’s Board of Directors authorized the repurchase of up to an additional \$700 million of VMware’s Class A common stock through the end of 2015 . VMware’s Class A common stock has been, and may in the future be, purchased pursuant to our stock repurchase authorizations, from time to time, in the open market or through private transactions, subject to market conditions. We are not obligated to purchase any shares under our stock repurchase program. Subject to applicable laws, repurchases under our stock repurchase program may be made at such times and in such amounts as we deem appropriate. 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 and regulatory requirements and other market and economic conditions. Purchases under our stock repurchase program can be discontinued at any time that we feel additional purchases are not warranted.

(3) Represents the amounts remaining in the VMware stock repurchase authorizations.

(4) Amounts do not include potential purchases by EMC.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Filed Herewith	Form/ File No.	Date
3.1	Amended and Restated Certificate of Incorporation		S-1/A-2	7/9/2007
3.2	Amended and Restated Bylaws		8-K	3/8/2011
10.20+	Executive Bonus Program, as amended and restated August 14, 2013	X		
10.25+	Form of Performance Stock Unit Agreement, as amended August 14, 2013	X		
10.26+	Non-Qualified Deferred Compensation Plan, effective as of January 1, 2014	X		
10.27+	Non-Qualified Deferred Compensation Plan Adoption Agreement, effective as of January 1, 2014	X		
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14 (a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X		
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14 (a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X		
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X		
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X		
101.INS	XBRL Instance Document	X		
101.SCH	XBRL Taxonomy Extension Schema	X		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X		
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X		
101.LAB	XBRL Taxonomy Extension Label Linkbase	X		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X		

+ Management contract or compensatory plan or arrangement

**SIGNATURES**

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

**VMWARE, INC.**

Dated: November 7, 2013

By: /s/ Kevan Krysler

**Kevan Krysler**  
**Senior Vice President, Chief Accounting Officer**  
**(Principal Accounting Officer)**

**EXHIBIT INDEX**

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10.27+	Non-Qualified Deferred Compensation Plan Adoption Agreement, effective as of January 1, 2014	X		
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14 (a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X		
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14 (a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X		
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X		
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X		
101.INS	XBRL Instance Document	X		
101.SCH	XBRL Taxonomy Extension Schema	X		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X		
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X		
101.LAB	XBRL Taxonomy Extension Label Linkbase	X		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X		

+ Management contract or compensatory plan or arrangement

**VMware, Inc.**  
**Executive Bonus Program**

**Executive Bonus Program Objectives**

Among the objectives of the VMware Bonus Program are to:

- motivate our executives to achieve our strategic, operational and financial goals
- reward superior performance
- attract and retain exceptional executives; and
- reward behaviors that result in long term increased stockholder value

**Overview**

The Compensation and Corporate Governance Committee has adopted a cash bonus program relating to performance (the "Executive Bonus Program") under the 2007 Equity and Incentive Plan (the "Plan") providing for possible cash bonuses to specified executives of VMware, Inc. and its consolidated subsidiaries (the "Company"). Unless otherwise indicated herein, provisions of the Plan shall apply to the Executive Bonus Program.

In keeping with VMware's philosophy of tying a substantial portion of our executive compensation to the achievement of measurable achievements, a goals-based cash bonus program has been developed and implemented. The determination of bonus payouts will be made semiannually after the conclusion of the semi-annual measurement periods ending on June 30 and December 31 based on results achieved by the company, as reported to the Compensation and Corporate Governance Committee by the Chief Financial Officer, Chief Accounting Officer or Corporate Controller. Bonuses will be determined by the Compensation and Corporate Governance Committee of the Board of Directors (the "Administrator"). Bonus payments will only occur if certain predetermined company and individual ("MBO") objectives are successfully achieved. Bonus amounts will be calculated ("Calculated Bonus Amounts") based upon the degree of achievement of the predetermined objectives. The Compensation and Corporate Governance Committee shall determine final bonus payouts and, in its discretion, taking into account review and discussion of recommendations made by the Chief Executive Officer, may reduce, but not increase, final bonus payouts from the Calculated Bonus Amounts.

Bonus awards represent an unfunded, unsecured promise by the Company to pay a bonus amount determined by the Compensation and Corporate Governance Committee to each Participant, but only upon satisfaction of the performance criteria determined by the Compensation and Corporate Governance Committee in accordance with the provisions set forth below.

**Eligibility**

All senior executives are eligible to be considered for participation. However, no person is automatically entitled to participate in the Executive Bonus Program. Participants will be approved solely at the discretion of the Compensation and Corporate Governance Committee and may be amended at any time by the Compensation and Corporate Governance Committee. Additionally, the executive must be an employee of the Company at the time the bonus is paid out in order to vest in right to receive payment.

Participants may include executive officers of the Company as defined under Rule 3b-7 of the 1934 Securities Exchange Act ("Executive Officers") and other senior executives who are not Executive Officers. At its discretion, the Compensation and Corporate Governance Committee may delegate authority to the Chief Executive Officer to add senior executives who are not Executive Officers to the Executive Bonus Program.

**Administration**

As Administrator, the Compensation and Corporate Governance Committee is ultimately responsible for administering the Executive Bonus Program. The Administrator has all powers

and discretion necessary or appropriate to review and approve the Executive Bonus Program and its operation, including, but not limited to, the power to (a) determine Participants, (b) interpret the provisions of the Executive Bonus Program, (c) adopt rules for the administration, interpretation and application of the Executive Bonus Program consistent with the Plan, and (d) interpret, amend or revoke any such rules. All determinations and decisions made by the Administrator and any decision of the Administrator shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law. The Administrator, in its sole discretion, may amend or terminate the Executive Bonus Program, or any part thereof, at any time and for any reason, subject to the limitations set forth in Sections 3, 6(b)(iv) and 7 of the Plan.

The Administrator shall exercise full authority to make final determinations with respect to bonuses granted under the Executive Bonus Program to Executive Officers. The Administrator may, in its discretion, delegate authority over bonuses to Participants who are not Executive Officers to the Chief Executive Officer of the Company.

#### **Target Percentage**

The Administrator shall establish target bonuses and bonus formulas for the Executive Bonus Program.

Target bonus amounts will be a designated percentage (the "Target Bonus Percentage") of a Participant's actual semi-annual base salary earned for the Performance Period (the "Semi-Annual Base Salary"). The Target Bonus Percentage will be determined by the Committee within 45 days of the commencement of the performance period.

The Calculated Bonus Amount, if any, may range 0% to 200% of the Target Bonus Percentage multiplied by the Participant's Semi-Annual Base Salary depending upon performance achievement. Minimum bonus thresholds are described below. For purposes of this calculation, a Participant's Semi-Annual Base Salary shall not exceed 200% of the Participant's base salary rate as of the date that semi-annual performance targets are approved.

#### **Performance Period**

Unless otherwise indicated, the performance periods for bonuses granted under the Executive Bonus Program shall run each year from January 1 to June 30 and from July 1 to December 31 . (each, a "Performance Period"). Participants are rewarded during the period that they are actively employed by VMware.

Participants are not eligible to participate in any other Company bonus or incentive plan during a Performance Period. This exclusion does not apply, however, to applicable employee referral bonuses, spot bonuses, equity awards, or Company contributions to qualified retirement or savings plans.

**New Hires** : Calculated Bonus Amounts will be prorated for newly hired participants based on the number of days they are employed during the Performance Period.

**Leaves of Absence:** Calculated Bonus Amounts will be prorated for any time during the Performance Period that a Participant is on an unpaid leave of absence status. Unpaid leaves of absence exclude those absences for which vacation, sick leave or other compensation is paid directly by the Company. Unpaid absences include those absences for which compensation is received from any source other than directly from the Company.

**Changes in Position** : Participants who move from one bonus-eligible position to a different bonus-eligible position with a different target bonus percentage may earn a target bonus prorated based on base pay and bonus at the start of each period.

**Termination** : In order to vest and the right to receive a bonus under the Executive Bonus Program, an employee must be in an active employment status or on approved leave at the day the bonus is paid out. An employee whose employment ends for any reason prior to that date will not earn and will not be paid any bonus under this Executive Bonus Program.

The Compensation and Corporate Governance Committee shall have the exclusive discretion to determine when a Participant is no longer actively employed for purposes of the Executive Bonus Program. Participants have no right or interest in any bonus and such bonus is not earned unless the Administrator determines a bonus payout is due.

**Performance Metrics**

The Calculated Bonus Amount will depend on both a company component (“Corporate Financial Metric”) and an individual component (“MBO”) selected from the performance goals from the 2007 Plan. The Company must meet a minimum performance threshold established within the Corporate Financial Metric in order for any bonus payouts to be made. If the minimum threshold is not achieved, the Executive Bonus Program shall not be funded and no bonus payouts shall be made. The Corporate Financial Metrics and the relative weighting of the Corporate Financial Metrics and the MBOs shall be determined by the Committee within 45 days of the commencement of the performance period. The MBOs shall be determined by the Committee within 45 days of the commencement of the performance period; provided, however, that if the MBOs are used solely solely as a factor for the Administrator to consider in determining whether to exercise negative discretion, then they can be established or amended at any time during the performance period.

**Corporate Financial Metric Component**

The Corporate Financial Metric shall be determined by calculating success against company-wide financial metrics and, as applicable, business unit performance metrics, as determined by the Compensation and Corporate Governance Committee.

**MBO (Individual) Component**

Each Participant will be assigned individual performance goals by the Compensation and Corporate Governance Committee that are appropriate to the Participant’s role at the Company. If threshold achievement of 80% of the Corporate Financial Metric is met, then the MBO component is funded at the same percentage as the Corporate Financial Metric. The Compensation and Corporate Governance Committee can exercise negative discretion to reduce the bonus for the MBO component. In making its determination whether to reduce the bonus for the MBO component, the Committee’s shall review and discuss the Chief Executive Officer’s assessment of each Participant’s achievement of his or her individual performance goals.

**Bonus Determination and Payment**

The Compensation and Corporate Governance Committee shall determine final bonus payouts to Participants based upon achievement of the foregoing metrics and goals. The Committee reserves the right to reduce bonus payouts below Calculated Bonus Amounts or not make any bonus payouts in its sole discretion.

**Cancellation, Rescission and Recoupment of Awards**

Any bonus granted under this Executive Bonus Program to a Participant shall be subject to cancellation, rescission, repayment or other action at the discretion of the Compensation Committee as set forth in Section 7(d) of the Plan in the event that such Participant engages in “Detrimental Activity” as such term is defined in Section 7(d).

Additionally, the Compensation and Corporate Governance Committee shall have the discretion to require that each Participant reimburse the Company for all or any portion of any bonuses paid under the Executive Bonus Program 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 Board's view, 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 payment, award, or vesting would have occurred based upon the restated financial results.

In each such instance, upon the determination of the Compensation and Corporate Governance Committee to require recoupment of a previously paid bonus awarded under the Executive Bonus Program, the Company will, to the extent practicable and allowable under applicable laws, require reimbursement of any bonus awarded for the relevant period exceeded the lower payment that would have been made based on the restated financial results, provided that the Company will not seek to recover bonuses compensation paid more than three years prior to the date the applicable restatement is disclosed.

**At-Will Employment (US Only)**

This Plan does not affect the terminable-at-will status of the employment relationship. Neither the attainment of goals nor the continuous service requirement necessary to earn a bonus alters the ability of an employee or the Company to terminate employment at any time, with or without reason and with or without advance notice.

VMWARE, INC.

2007 EQUITY AND INCENTIVE PLAN
PERFORMANCE STOCK UNIT AGREEMENT

I. NOTICE OF GRANT

Unless otherwise defined herein, the terms defined in the VMware, Inc. 2007 Equity and Incentive Plan (the "Plan") will have the same defined meanings in this notice of grant ("Notice of Grant") and Performance Stock Unit Agreement ("Agreement").

Name: ("Participant")

Address: \_\_\_\_\_
\_\_\_\_\_

The Participant has been granted an award (the "Award") of Performance Stock Units (the "PSUs"), subject to the terms and conditions of the Plan and this Agreement. Except as set forth in Section 4(a), 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").

Grant Number: \_\_\_\_\_

Date of Grant: \_\_\_\_\_

Number of PSUs: \_\_\_\_\_

Performance Period: \_\_\_\_\_

Vesting Schedule :

Except as set forth in Section 4, the Award will vest in full on

[the date the “Administrator” (as defined below) determines the Conversion Ratio pursuant to the Performance Schedule (the “**Vesting Date**”). Such determination will occur no later than sixty days after the end of the Performance Period.]

[[\_\_\_\_\_]] (the “**Vesting Date**”).]

Vesting in this Award is subject to the Participant’s continuing employment with the Company or any Subsidiary through the Vesting Date.

## 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 Sections 2(b) and 4 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 reconveyed to the Company and the Company will thereafter be the legal and beneficial owner of the unvested PSUs and will have all the rights and interest in or related thereto without further action by the Participant. 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 Section 4(b) and 4(c) below. In all cases, the date of termination of employment 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 Participant by 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 Participant is employed by the Company. The Company’s consent must be approved by the Company’s chief financial officer, provided, however, that if 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 a Change in Control, as set forth in Section 4 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.

(b) 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 Section 7(m) of the Plan, 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.

(c) Acceleration of Vesting Following Change in Control. Notwithstanding anything in this Agreement to the contrary, if, following a Change in Control:

1) the Participant's employment is terminated by reason of death or termination by the Company due to "disability" (as defined in Section 2 above), then, any unvested portion of the PSUs will automatically accelerate, and 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; or

2) the Participant incurs an involuntary termination of service other than for "Cause" (as defined below), the Participant terminates employment for "Good Reason" (as defined below), then, subject to the Participant signing and not revoking the Release (as defined below), any unvested portion of the PSUs will automatically accelerate, and 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. Subject to Section 23 below, all payments and benefits under this subsection (c)(2) and the effective date of any

acceleration of vesting under this subsection as to any PSUs held by the Participant will become effective on the 60th day following the Participant's termination of employment or on the next business day if such 60th day is not a business day, with such date referred to as the "**Payment Date**." The Company will provide the Release to the Participant within five business days of the Participant's termination of employment. The Participant will not be entitled to any payment or benefit under this subsection (c)(2) if the Participant's Release has not become effective as of the third business day preceding the Payment Date.

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. As set forth in Section 7(b) of the Plan, the Committee may determine, in its 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 Section 7(b) of 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 PSU, 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 PSU. 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 PSU or the subsequent sale of Stock issuable pursuant to the PSU. The Company and the Employer do not commit and are under no obligation to structure the PSU 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 (but 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. 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 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.

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 right to terminate the Participant's employment at any time in accordance with applicable law, or (iii) entitle the Participant to pay 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 Participant's participation in the Plan, or 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 Participant's participation in the Plan before taking any action related to the Plan.

12. Black Out 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 PSU; 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 Rule 10b5-1 trading plan of the Participant which 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 the 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.

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 transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other PSU grant materials (“**Data**”) by and among, as applicable, the Employer, the Company, the Parent, the Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing the Participant’s participation in the Plan.

The Participant understands that the Company and the Employer may hold certain personal information about the Participant, including, but not limited to, the Participant’s name, home address and telephone number, date of birth, social insurance 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. 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’ country (e.g., the U.S.) may have different data privacy laws and protections than 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.

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. Definitions. Unless otherwise defined in an employment agreement entered into between the Participant and the Company that covers this grant, the terms set forth below will have the following meanings:

(a) **Cause**. The occurrence of any of the following, as reasonably determined by the Company in good faith, will constitute "Cause":

(1) willful neglect, failure or refusal by the Participant to perform his or her employment duties (except resulting from the Participant's incapacity due to illness) as reasonably directed by his or her employer;

(2) willful misconduct by the Participant in the performance of his or her employment duties;

(3) the Participant's indictment for a felony (other than traffic related offense) or a misdemeanor involving moral turpitude; or

(4) the Participant's commission of an act involving personal dishonesty that results in financial, reputational, or other harm to the Company and its Affiliates and Subsidiaries, including, but not limited to, an act constituting misappropriation or embezzlement of property.

The Company is required to deliver a Notice of Termination (as defined below) to the Participant and to provide 30 days to remedy the event or condition giving rise to Cause (if such event or condition is capable of remedy) in order to terminate his or her employment for Cause. No act or failure to act on the Participant's part will be deemed "willful" for purposes of this Cause definition unless committed or omitted by the Participant in bad faith and without reasonable belief that his or her act or failure to act was in, or not opposed to, the best interests of the Company.

(b) **Change in Control** . "Change in Control" of the Company means and includes any of the following occurrences:

(1) Any Person is or becomes the "**Beneficial Owner**" (as defined in Rule 13d-3 promulgated under the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**")), directly or indirectly, of securities of the Company representing 35% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes a Beneficial Owner in connection with subsection 2 below. For the avoidance of doubt, any change in the Persons who are the direct or indirect Beneficial Owners of the securities of Parent will not be deemed to constitute a change in the direct or indirect Beneficial Owners of the Company for purposes of this subsection (1);

(2) There is consummated a merger or consolidation of the Company with any other corporation or similar entity, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its affiliates) representing 35% or more of the combined voting power of the Company's then outstanding securities; or

(3) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than, following a "355 Distribution" (as defined below), a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Any other provision of this definition notwithstanding, the term Change in Control will not be deemed to have occurred by virtue of: (i) any transaction which results in such Participant, or a group of Persons in which such Participant has a substantial interest, acquiring, directly or indirectly, 35% or more of either the then outstanding shares of common

stock of the Company or the combined voting power of the Company's then outstanding securities, or (ii) Parent's distribution of the Company's shares in a transaction intended to qualify as a distribution under Section 355 (" **355 Distribution** ") of the Internal Revenue Code of 1986, as amended (the " **Code** ").

(c) " **Good Reason** " for a Participant to resign his or her employment means that one or more of the following has occurred without his or her express written consent:

(1) any materially adverse alteration in the Participant's role, reporting relationship or in the nature or status of the Participant's responsibilities relative to his or her role, reporting relationship or responsibilities at any time following the Change in Control, provided that neither a mere change in title nor in the fact that the Participant no longer holds following a Change in Control the same position in a public company as he or she held before the transaction will alone constitute Good Reason;

(2) a material diminution by the Company in the Participant's base salary (excluding a reduction that also is applied to all similarly situated employees of the Company and that reduces the Participant's base salary by a percentage reduction that is no greater than the lowest percentage reduction applied to any other such individual), or a material diminution by the Company in the Participant's target level of annual incentive bonus relative to his or her highest base salary and highest target level of annual incentive bonus, respectively, following a Change in Control, or ineligibility for a bonus program providing for a target level of annual incentive bonus [except that, with respect to the General Counsel and Chief Financial Officer of the Company, no longer holding the position of General Counsel or Chief Financial Officer, respectively, in a public company following a Change in Control will itself be a materially adverse alteration in the Participant's responsibility, role and status constituting Good Reason];

(3) relocation of the Participant's principal place of employment to a location more than 50 miles from his or her principal place of employment at any time following a Change in Control (which may be his or her home); or

(4) a material breach of the Company's obligations under this Agreement.

In order for a Participant to invoke a termination due to Good Reason in a manner that would entitle him or her to acceleration pursuant to Section 4 above, (i) the Participant must provide a Notice of Termination to the senior officer of the Company's Human Resources group of his or her intention to terminate due to such event or condition within 90 days of the initial occurrence or existence of such event or condition and provide the Company with 30 days from receipt of the notice to remedy the event or condition, (ii) the Company must fail to effect such remedy within the 30-day cure period, and (iii) the effective date of the resignation must occur within 90 days after the end of the 30-day cure period.

(d) " **Notice of Termination** " means a written notice by the Company in the event it is terminating the Participant's employment with Cause or by the Participant in the event

he or she is resigning for Good Reason, which written notice indicates the specific provision in this Plan being relied upon and sets forth in reasonable detail any facts and circumstances claimed to provide a basis for such termination of the Participant's employment under the provision so indicated.

(e) “**Person**” has the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a group as defined in Section 13(d) of the Exchange Act but excluding (i) the Company or Parent, any of their respective subsidiaries or any employee benefit plan sponsored or maintained by the Company, Parent or any of their respective subsidiaries (including any trustee or other fiduciary of any such plan), (ii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iii) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(f) “**Release**” means the Company's standard form of employee termination certificate and a general release of all claims that the Participant may have against the Company in a form reasonably satisfactory to the Company, which form will include customary non-solicit and non-disparagement provisions.

22. Cancellation, Rescission and Recoupment of Award. Participant hereby acknowledges that this Award and any shares of Stock issued pursuant to this Award are subject to cancellation, rescission, repayment or other action at the discretion of the Board or the Committee as set forth in Section 7(d) of the Plan in the event that Participant engages in “Detrimental Activity” as such term is defined therein. 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 made 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.

23. Section 409A Exemption. It is intended that the Award satisfy, to the greatest extent possible, the exemption from the application of Section 409A of the Code provided under Treasury Regulation Section 1.409A-1(b)(4) 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 Plan 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.

24. 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.

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

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

27. Notices. Any notice 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 22 above. The Participant acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, which are incorporated herein by reference. Participant hereby agrees to accept as binding, conclusive

and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement.

PARTICIPANT

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

Date: \_\_\_\_\_, 201\_\_

**Exhibit A**  
**Performance Schedule**

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# **VMware, Inc. Non-Qualified Deferred Compensation Plan**

Effective as of January 1, 2014

## **IMPORTANT NOTE**

This document has not been approved by the Department of Labor, Internal Revenue Service or any other governmental entity. An adopting Employer must determine whether the Plan is subject to the Federal securities laws and the securities laws of the various states. An adopting Employer may not rely on this document to ensure any particular tax consequences or to ensure that the Plan is “unfunded and maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees” under Title I of the Employee Retirement Income Security Act of 1974, as amended, with respect to the Employer’s particular situation. Fidelity Employer Services Company, its affiliates and employees cannot provide you with legal advice in connection with the execution of this document. This document should be reviewed by the Employer’s attorney prior to execution.

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## **PREAMBLE**

The Plan is intended to be a “plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended, or an “excess benefit plan” within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended, or a combination of both. The Plan is further intended to conform with the requirements of Internal Revenue Code Section 409A and the final regulations issued thereunder and shall be interpreted, implemented and administered in a manner consistent therewith.

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## ARTICLE 1 – GENERAL

**1.1 Plan.** The Plan will be referred to by the name specified in the Adoption Agreement.

**1.2 Effective Dates.**

- (a) Original Effective Date. The Original Effective Date is the date as of which the Plan was initially adopted.
- (b) Amendment Effective Date. The Amendment Effective Date is the date specified in the Adoption Agreement as of which the Plan is amended and restated. Except to the extent otherwise provided herein or in the Adoption Agreement, the Plan shall apply to amounts deferred and benefit payments made on or after the Amendment Effective Date.
- (c) Special Effective Date. A Special Effective Date may apply to any given provision if so specified in Appendix A of the Adoption Agreement. A Special Effective Date will control over the Original Effective Date or Amendment Effective Date, whichever is applicable, with respect to such provision of the Plan.

## ARTICLE 2 – DEFINITIONS

Pronouns used in the Plan are in the masculine gender but include the feminine gender unless the context clearly indicates otherwise. Wherever used herein, the following terms have the meanings set forth below, unless a different meaning is clearly required by the context:

- 2.1 “**Account**” means an account established for the purpose of recording amounts credited on behalf of a Participant and any income, expenses, gains, losses or distributions included thereon. The Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant or to the Participant’s Beneficiary pursuant to the Plan.
- 2.2 “**Administrator**” means the person or persons designated by the Plan Sponsor in Section 1.05 of the Adoption Agreement to be responsible for the administration of the Plan. If no Administrator is designated in the Adoption Agreement, the Administrator is the Plan Sponsor.
- 2.3 “**Adoption Agreement**” means the agreement adopted by the Plan Sponsor that establishes the Plan.
- 2.4 “**Beneficiary**” means the persons, trusts, estates or other entities entitled under Section 8.2 to receive benefits under the Plan upon the death of a Participant.
- 2.5 “**Board**” or “**Board of Directors**” means the Board of Directors of the Plan Sponsor.
- 2.6 “**Bonus**” means an amount of incentive remuneration payable by the Employer to a Participant.
- 2.7 “**Change in Control**” means the occurrence of an event involving the Plan Sponsor that is described in Section 9.7.
- 2.8 “**Code**” means the Internal Revenue Code of 1986, as amended.
- 2.9 “**Compensation**” has the meaning specified in Section 3.01 of the Adoption Agreement.
- 2.10 “**Director**” means a non-employee member of the Board who has been designated by the Employer as eligible to participate in the Plan.

- 2.11 “Disability”** means a determination by the Administrator that the Participant is either (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer. Additionally, a Participant will be considered to have incurred a Disability if he is determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board.
- 2.12 “Eligible Employee”** means an employee of the Employer who satisfies the requirements in Section 2.01 of the Adoption Agreement.
- 2.13 “Employer”** means the Plan Sponsor and any other entity which is authorized by the Plan Sponsor to participate in and, in fact, does adopt the Plan.
- 2.14 “ERISA”** means the Employee Retirement Income Security Act of 1974, as amended.
- 2.15 “Identification Date”** means the date as of which Key Employees are determined which is specified in Section 1.06 of the Adoption Agreement.
- 2.16 “Key Employee”** means an employee who satisfies the conditions set forth in Section 9.6.
- 2.17 “Participant”** means an Eligible Employee or Director who commences participation in the Plan in accordance with Article 3.
- 2.18 “Plan”** means the unfunded plan of deferred compensation set forth herein, including the Adoption Agreement and any trust agreement, as adopted by the Plan Sponsor and as amended from time to time.
- 2.19 “Plan Sponsor”** means the entity identified in Section 1.03 of the Adoption Agreement or any successor by merger, consolidation or otherwise.
- 2.20 “Plan Year”** means the period identified in Section 1.02 of the Adoption Agreement.
- 2.21 “Related Employer”** means the Employer and (a) any corporation that is a member of a controlled group of corporations as defined in Code Section 414(b) that includes the Employer and (b) any trade or business

that is under common control as defined in Code Section 414(c) that includes the Employer.

**2.22 “Retirement”** has the meaning specified in 6.01(f) of the Adoption Agreement.

**2.23 “Separation from Service”** means the date that the Participant dies, retires or otherwise has a termination of employment with respect to all entities comprising the Related Employer. A Separation from Service does not occur if the Participant is on military leave, sick leave or other bona fide leave of absence if the period of leave does not exceed six months or such longer period during which the Participant’s right to re-employment is provided by statute or contract. If the period of leave exceeds six months and the Participant’s right to re-employment is not provided either by statute or contract, a Separation from Service will be deemed to have occurred on the first day following the six-month period. If the period of leave is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where the impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a 29 month period of absence may be substituted for the six month period.

Whether a termination of employment has occurred is based on whether the facts and circumstances indicate that the Related Employer and the Participant reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Participant would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36 month period (or the full period of services to the Related Employer if the employee has been providing services to the Related Employer for less than 36 months).

An independent contractor is considered to have experienced a Separation from Service with the Related Employer upon the expiration of the contract (or, in the case of more than one contract, all contracts) under which services are performed for the Related Employer if the expiration constitutes a good-faith and complete termination of the contractual relationship.

If a Participant provides services as both an employee and an independent contractor of the Related Employer, the Participant must separate from service both as an employee and as an independent

contractor to be treated as having incurred a Separation from Service. If a Participant ceases providing services as an independent contractor and begins providing services as an employee, or ceases providing services as an employee and begins providing services as an independent contractor, the Participant will not be considered to have experienced a Separation from Service until the Participant has ceased providing services in both capacities.

If a Participant provides services both as an employee and as a member of the board of directors of a corporate Related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as a director are not taken into account in determining whether the Participant has incurred a Separation from Service as an employee for purposes of a nonqualified deferred compensation plan in which the Participant participates as an employee that is not aggregated under Code Section 409A with any plan in which the Participant participates as a director.

If a Participant provides services both as an employee and as a member of the board of directors of a corporate related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as an employee are not taken into account in determining whether the Participant has experienced a Separation from Service as a director for purposes of a nonqualified deferred compensation plan in which the Participant participates as a director that is not aggregated under Code Section 409A with any plan in which the Participant participates as an employee.

All determinations of whether a Separation from Service has occurred will be made in a manner consistent with Code Section 409A and the final regulations thereunder.

**2.24 “Unforeseeable Emergency”** means a severe financial hardship of the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary, or the Participant’s dependent (as defined in Code Section 152, without regard to Code section 152(b)(1), (b)(2) and (d)(1)(B); loss of the Participant’s property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

**2.25 “Valuation Date”** means each business day of the Plan Year that the New York Stock Exchange is open.

**2.26 “Years of Service”** means each one year period for which the Participant receives service credit in accordance with the provisions of Section 7.01(d) of the Adoption Agreement.

## ARTICLE 3 – PARTICIPATION

- 3.1 Participation.** The Participants in the Plan shall be those Directors and employees of the Employer who satisfy the requirements of Section 2.01 of the Adoption Agreement.
- 3.2 Termination of Participation.** The Administrator may terminate a Participant's participation in the Plan in a manner consistent with Code Section 409A. If the Employer terminates a Participant's participation before the Participant experiences a Separation from Service the Participant's vested Accounts shall be paid in accordance with the provisions of Article 9.

## ARTICLE 4 – PARTICIPANT ELECTIONS

- 4.1 Deferral Agreement.** If permitted by the Plan Sponsor in accordance with Section 4.01 of the Adoption Agreement, each Eligible Employee and Director may elect to defer his Compensation within the meaning of Section 3.01 of the Adoption Agreement by executing in writing or electronically, a deferral agreement in accordance with rules and procedures established by the Administrator and the provisions of this Article 4.

A new deferral agreement must be timely executed for each Plan Year during which the Eligible Employee or Director desires to defer Compensation. An Eligible Employee or Director who does not timely execute a deferral agreement shall be deemed to have elected zero deferrals of Compensation for such Plan Year.

A deferral agreement may be changed or revoked during the period specified by the Administrator. Except as provided in Section 9.3 or in Section 4.01(c) of the Adoption Agreement, a deferral agreement becomes irrevocable at the close of the specified period.

- 4.2 Amount of Deferral.** An Eligible Employee or Director may elect to defer Compensation in any amount permitted by Section 4.01(a) of the Adoption Agreement.
- 4.3 Timing of Election to Defer.** Each Eligible Employee or Director who desires to defer Compensation otherwise payable during a Plan Year must execute a deferral agreement within the period preceding the Plan Year specified by the Administrator. Each Eligible Employee who desires to defer Compensation that is a Bonus must execute a deferral agreement within the period preceding the Plan Year during which the Bonus is earned that is specified by the Administrator, except that if the Bonus can be treated as performance based compensation as described in Code Section 409A(a)(4)(B)(iii), the deferral agreement may be executed within the period specified by the Administrator, which period, in no event, shall end after the date which is six months prior to the end of the period during which the Bonus is earned, provided the Participant has performed services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Participant executed the deferral agreement and provided further that the compensation has not yet become 'readily ascertainable' within the meaning of Reg. Sec 1.409A-2(a)(8). In addition, if the Compensation qualifies as 'fiscal year compensation' within the meaning of Reg. Sec.

1.409A-2(a)(6), the deferral agreement may be made not later than the end of the Employer's taxable year immediately preceding the first taxable year of the Employer in which any services are performed for which such Compensation is payable.

Except as otherwise provided below, an employee who is classified or designated as an Eligible Employee during a Plan Year or a Director who is designated as eligible to participate during a Plan Year may elect to defer Compensation otherwise payable during the remainder of such Plan Year in accordance with the rules of this Section 4.3 by executing a deferral agreement within the thirty (30) day period beginning on the date the employee is classified or designated as an Eligible Employee or the date the Director is designated as eligible, whichever is applicable, if permitted by Section 4.01(b)(ii) of the Adoption Agreement. If Compensation is based on a specified performance period that begins before the Eligible Employee or Director executes his deferral agreement, the election will be deemed to apply to the portion of such Compensation equal to the total amount of Compensation for the performance period multiplied by the ratio of the number of days remaining in the performance period after the election becomes irrevocable and effective over the total number of days in the performance period. The rules of this paragraph shall not apply unless the Eligible Employee or Director can be treated as initially eligible in accordance with Reg. Sec. 1.409A-2(a)(7).

#### **4.4 Election of Payment Schedule and Form of Payment.**

All elections of a payment schedule and a form of payment will be made in accordance with rules and procedures established by the Administrator and the provisions of this Section 4.4.

(a) If the Plan Sponsor has elected to permit annual distribution elections in accordance with Section 6.01(h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director completes a deferral agreement, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for the Compensation subject to the deferral agreement from among the options the Plan Sponsor has made available for this purpose and which are specified in 6.01(b) of the Adoption Agreement. Prior to the time required by Reg. Sec. 1.409A-2, the Eligible Employee or Director shall elect a distribution event (which includes a specified time) and a form of payment for any Employer contributions that may be credited to the Participant's Account during the Plan Year. If an Eligible Employee or Director fails to elect a distribution event, he shall be deemed to have elected Separation from Service as the distribution event. If he fails to

elect a form of payment, he shall be deemed to have elected a lump sum form of payment.

(b) If the Plan Sponsor has elected not to permit annual distribution elections in accordance with Section 6.01 (h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director first completes a deferral agreement but in no event later than the time required by Reg. Sec. 1.409A-2, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for amounts credited to his Account from among the options the Plan Sponsor has made available for this purpose and which are specified in Section 6.01(b) of the Adoption Agreement. If an Eligible Employee or Director fails to elect a distribution event, he shall be deemed to have elected Separation from Service in the distribution event. If the fails to elect a form of payment, he shall be deemed to have elected a lump sum form of payment.

## ARTICLE 5 – EMPLOYER CONTRIBUTIONS

- 5.1 Matching Contributions.** If elected by the Plan Sponsor in Section 5.01(a) of the Adoption Agreement, the Employer will credit the Participant's Account with a matching contribution determined in accordance with the formula specified in Section 5.01(a) of the Adoption Agreement. The matching contribution will be treated as allocated to the Participant's Account at the time specified in Section 5.01(a)(iii) of the Adoption Agreement.
- 5.2 Other Contributions.** If elected by the Plan Sponsor in Section 5.01(b) of the Adoption Agreement, the Employer will credit the Participant's Account with a contribution determined in accordance with the formula or method specified in Section 5.01(b) of the Adoption Agreement. The contribution will be treated as allocated to the Participant's Account at the time specified in Section 5.01(b)(iii) of the Adoption Agreement.

## ARTICLE 6 – ACCOUNTS AND CREDITS

- 6.1 Establishment of Account.** For accounting and computational purposes only, the Administrator will establish and maintain an Account on behalf of each Participant which will reflect the credits made pursuant to Section 6.2, distributions or withdrawals, along with the earnings, expenses, gains and losses allocated thereto, attributable to the hypothetical investments made with the amounts in the Account as provided in Article 7. The Administrator will establish and maintain such other records and accounts, as it decides in its discretion to be reasonably required or appropriate to discharge its duties under the Plan.
- 6.2 Credits to Account.** A Participant's Account will be credited for each Plan Year with the amount of his elective deferrals under Section 4.1 as soon as reasonably practicable following the time the amount subject to the deferral election would otherwise have been payable to the Participant and the amount of Employer contributions treated as allocated on his behalf under Article 5.

## ARTICLE 7 – INVESTMENT OF CONTRIBUTIONS

- 7.1 Investment Options.** The amount credited to each Account shall be treated as invested in the investment options designated for this purpose by the Administrator.
- 7.2 Adjustment of Accounts.** The amount credited to each Account shall be adjusted for hypothetical investment earnings, expenses, gains or losses in an amount equal to the earnings, expenses, gains or losses attributable to the investment options selected by the party designated in Section 9.01 of the Adoption Agreement from among the investment options provided in Section 7.1. If permitted by Section 9.01 of the Adoption Agreement, a Participant (or the Participant's Beneficiary after the death of the Participant) may, in accordance with rules and procedures established by the Administrator, select the investments from among the options provided in Section 7.1 to be used for the purpose of calculating future hypothetical investment adjustments to the Account or to future credits to the Account under Section 6.2 effective as of the Valuation Date coincident with or next following notice to the Administrator. Each Account shall be adjusted as of each Valuation Date to reflect: (a) the hypothetical earnings, expenses, gains and losses described above; (b) amounts credited pursuant to Section 6.2; and (c) distributions or withdrawals. In addition, each Account may be adjusted for its allocable share of the hypothetical costs and expenses associated with the maintenance of the hypothetical investments provided in Section 7.1.

## ARTICLE 8 – RIGHT TO BENEFITS

- 8.1 Vesting.** A Participant, at all times, has a 100% nonforfeitable interest in the amounts credited to his Account attributable to his elective deferrals made in accordance with Section 4.1.

A Participant's right to the amounts credited to his Account attributable to Employer contributions made in accordance with Article 5 shall be determined in accordance with the relevant schedule and provisions in Section 7.01 of the Adoption Agreement. Upon a Separation from Service and after application of the provisions of Section 7.01 of the Adoption Agreement, the Participant shall forfeit the nonvested portion of his Account.

- 8.2 Death.** The Plan Sponsor may elect to accelerate vesting upon the death of the Participant in accordance with Section 7.01(c) of the Adoption Agreement and/or to accelerate distributions upon Death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement. If the Plan Sponsor does not elect to accelerate distributions upon death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the vested amount credited to the Participant's Account will be paid in accordance with the provisions of Article 9.

A Participant may designate a Beneficiary or Beneficiaries, or change any prior designation of Beneficiary or Beneficiaries in accordance with rules and procedures established by the Administrator.

A copy of the death notice or other sufficient documentation must be filed with and approved by the Administrator. If upon the death of the Participant there is, in the opinion of the Administrator, no designated Beneficiary for part or all of the Participant's vested Account, such amount will be paid to his estate (such estate shall be deemed to be the Beneficiary for purposes of the Plan) in accordance with the provisions of Article 9.

- 8.3 Disability.** If the Plan Sponsor has elected to accelerate vesting upon the occurrence of a Disability in accordance with Section 7.01(c) of the Adoption Agreement and/or to permit distributions upon Disability in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the determination of whether a Participant has incurred a Disability shall be made by the Administrator in its sole discretion in a manner consistent with the requirements of Code Section 409A.

## ARTICLE 9 – DISTRIBUTION OF BENEFITS

- 9.1 Amount of Benefits.** The vested amount credited to a Participant's Account as determined under Articles 6, 7 and 8 shall determine and constitute the basis for the value of benefits payable to the Participant under the Plan.
- 9.2 Method and Timing of Distributions.** Except as otherwise provided in this Article 9, distributions under the Plan shall be made in accordance with the elections made or deemed made by the Participant under Article 4. Subject to the provisions of Section 9.6 requiring a six month delay for certain distributions to Key Employees, distributions following a payment event shall commence at the time specified in Section 6.01(a) of the Adoption Agreement. If permitted by Section 6.01(g) of the Adoption Agreement, a Participant may elect, at least twelve months before a scheduled distribution event, to delay the payment date for a minimum period of sixty months from the originally scheduled date of payment, provided the election does not take effect for at least twelve months from the date on which the election is made. The distribution election change must be made in accordance with procedures and rules established by the Administrator. The Participant may, at the same time the date of payment is deferred, change the form of payment but such change in the form of payment may not effect an acceleration of payment in violation of Code Section 409A or the provisions of Reg. Sec. 1.409A-2(b). For purposes of this Section 9.2, a series of installment payments is always treated as a single payment and not as a series of separate payments.
- 9.3 Unforeseeable Emergency.** A Participant may request a distribution due to an Unforeseeable Emergency if the Plan Sponsor has elected to permit Unforeseeable Emergency withdrawals under Section 8.01(a) of the Adoption Agreement. The request must be in writing and must be submitted to the Administrator along with evidence that the circumstances constitute an Unforeseeable Emergency. The Administrator has the discretion to require whatever evidence it deems necessary to determine whether a distribution is warranted, and may require the Participant to certify that the need cannot be met from other sources reasonably available to the Participant. Whether a Participant has incurred an Unforeseeable Emergency will be determined by the Administrator on the basis of the relevant facts and circumstances in its sole discretion, but, in no event, will an Unforeseeable Emergency be deemed to exist if the hardship can be relieved: (a) through reimbursement or compensation by insurance or otherwise, (b) by liquidation of the Participant's assets to the extent such liquidation would not itself cause severe financial hardship, or

(c) by cessation of deferrals under the Plan. A distribution due to an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the emergency need and may include any amounts necessary to pay any federal, state, foreign or local income taxes and penalties reasonably anticipated to result from the distribution. The distribution will be made in the form of a single lump sum cash payment. If permitted by Section 8.01(b) of the Adoption Agreement, a Participant's deferral elections for the remainder of the Plan Year will be cancelled upon a withdrawal due to an Unforeseeable Emergency. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with Section 9.6 at the time he experiences an Unforeseeable Emergency, the amount being delayed shall not be subject to the provisions of this Section 9.3 until the expiration of the six month period of delay required by section 9.6.

- 9.4 Payment Election Overrides.** If the Plan Sponsor has elected one or more payment election overrides in accordance with Section 6.01(d) of the Adoption Agreement, the following provisions apply. Upon the occurrence of the first event selected by the Plan Sponsor, the remaining vested amount credited to the Participant's Account shall be paid in the form designated to the Participant or his Beneficiary regardless of whether the Participant had made different elections of time and /or form of payment or whether the Participant was receiving installment payments at the time of the event.
- 9.5 Cashouts Of Amounts Not Exceeding Stated Limit.** If the vested amount credited to the Participant's Account does not exceed the limit established for this purpose by the Plan Sponsor in Section 6.01(e) of the Adoption Agreement at the time he incurs a Separation from Service for any reason, the Employer shall distribute such amount to the Participant at the time specified in Section 6.01(a) of the Adoption Agreement in a single lump sum cash payment following such Separation from Service regardless of whether the Participant had made different elections of time or form of payment as to the vested amount credited to his Account or whether the Participant was receiving installments at the time of such termination. A Participant's Account, for purposes of this Section 9.5, shall include any amounts described in Section 1.3.
- 9.6 Required Delay in Payment to Key Employees .** Except as otherwise provided in this Section 9.6, a distribution made on account of Separation from Service (or Retirement, if applicable) to a Participant who is a Key Employee as of the date of his Separation from Service (or Retirement, if applicable) shall not be made before the date which is six months after the Separation from Service (or Retirement, if applicable). If payments to a

Key Employee are delayed in accordance with this Section 9.6, the payments to which the Key Employee would otherwise have been entitled during the six month period shall be accumulated and paid in a single lump sum at the time specified in Section 6.01(a) of the Adoption Agreement after the six month period elapses.

(a) A Participant is treated as a Key Employee if (i) he is employed by a Related Employer any of whose stock is publicly traded on an established securities market, and (ii) he satisfies the requirements of Code Section 416(i)(1)(A)(i), (ii) or (iii), determined without regard to Code Section 416(i)(5), at any time during the twelve month period ending on the Identification Date.

(b) A Participant who is a Key Employee on an Identification Date shall be treated as a Key Employee for purposes of the six month delay in distributions for the twelve month period beginning on the first day of a month no later than the fourth month following the Identification Date. The Identification Date and the effective date of the delay in distributions shall be determined in accordance with Section 1.06 of the Adoption Agreement.

(c) The Plan Sponsor may elect to apply an alternative method to identify Participants who will be treated as Key Employees for purposes of the six month delay in distributions if the method satisfies each of the following requirements. The alternative method is reasonably designed to include all Key Employees, is an objectively determinable standard providing no direct or indirect election to any Participant regarding its application, and results in either all Key Employees or no more than 200 Key Employees being identified in the class as of any date. Use of an alternative method that satisfies the requirements of this Section 9.6(c) will not be treated as a change in the time and form of payment for purposes of Reg. Sec. 1.409A-2(b).

(d) The six month delay does not apply to payments described in Section 9.9(a),(b) or (d) or to payments that occur after the death of the Participant. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with this Section 9.6 at the time he incurs a Disability which would otherwise require a distribution under the terms of the Plan, no amount shall be paid until the expiration of the six month period of delay required by this Section 9.6.

**9.7 Change in Control.** If the Plan Sponsor has elected to permit distributions upon a Change in Control, the following provisions shall apply. A distribution made upon a Change in Control will be made at the time specified in Section 6.01(a) of the Adoption Agreement in the form elected by the Participant in accordance with the procedures described in Article 4. Alternatively, if the Plan Sponsor has elected in accordance with Section 11.02 of the Adoption Agreement to require distributions upon a Change in Control, the Participant's remaining vested Account shall be paid to the Participant or the Participant's Beneficiary at the time specified in Section 6.01(a) of the Adoption Agreement as a single lump sum payment. A Change in Control, for purposes of the Plan, will occur upon a change in the ownership of the Plan Sponsor, a change in the effective control of the Plan Sponsor or a change in the ownership of a substantial portion of the assets of the Plan Sponsor, but only if elected by the Plan Sponsor in Section 11.03 of the Adoption Agreement. The Plan Sponsor, for this purpose, includes any corporation identified in this Section 9.7. All distributions made in accordance with this Section 9.7 are subject to the provisions of Section 9.6.

If a Participant continues to make deferrals in accordance with Article 4 after he has received a distribution due to a Change in Control, the residual amount payable to the Participant shall be paid at the time and in the form specified in the elections he makes in accordance with Article 4 or upon his death or Disability as provided in Article 8.

Whether a Change in Control has occurred will be determined by the Administrator in accordance with the rules and definitions set forth in this Section 9.7. A distribution to the Participant will be treated as occurring upon a Change in Control if the Plan Sponsor terminates the Plan in accordance with Section 10.2 and distributes the Participant's benefits within twelve months of a Change in Control as provided in Section 10.3.

(a) **Relevant Corporations.** To constitute a Change in Control for purposes of the Plan, the event must relate to (i) the corporation for whom the Participant is performing services at the time of the Change in Control, (ii) the corporation that is liable for the payment of the Participant's benefits under the Plan (or all corporations liable if more than one corporation is liable) but only if either the deferred compensation is attributable to the performance of services by the Participant for such corporation (or corporations) or there is a bona fide business purpose for such corporation (or corporations) to be liable for such payment and, in either case, no significant purpose of making such corporation (or corporations) liable for such payment is the avoidance of federal income tax, or (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii), or any

corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii). A majority shareholder is defined as a shareholder owning more than fifty percent (50%) of the total fair market value and voting power of such corporation.

- (b) **Stock Ownership.** Code Section 318(a) applies for purposes of determining stock ownership. Stock underlying a vested option is considered owned by the individual who owns the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). If, however, a vested option is exercisable for stock that is not substantially vested (as defined by Treasury Regulation Section 1.83-3(b) and (j)) the stock underlying the option is not treated as owned by the individual who holds the option.
- (c) **Change in the Ownership of a Corporation.** A change in the ownership of a corporation occurs on the date that any one person or more than one person acting as a group, acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. If any one person or more than one person acting as a group is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation as discussed below in Section 9.7(d)). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock. Section 9.7(c) applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction. For purposes of this Section 9.7(c), persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time or as a result of a public offering. Persons will, however, be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a

corporation only with respect to ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

- (d) **Change in the effective control of a corporation.** A change in the effective control of a corporation occurs on the date that either (i) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing thirty percent (30%) or more of the total voting power of the stock of such corporation, or (ii) a majority of members of the corporation's board of directors is replaced during any twelve month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election, provided that for purposes of this paragraph (ii), the term corporation refers solely to the relevant corporation identified in Section 9.7(a) for which no other corporation is a majority shareholder for purposes of Section 9.7(a). In the absence of an event described in Section 9.7(d)(i) or (ii), a change in the effective control of a corporation will not have occurred. A change in effective control may also occur in any transaction in which either of the two corporations involved in the transaction has a change in the ownership of such corporation as described in Section 9.7(c) or a change in the ownership of a substantial portion of the assets of such corporation as described in Section 9.7(e). If any one person, or more than one person acting as a group, is considered to effectively control a corporation within the meaning of this Section 9.7(d), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control of the corporation or to cause a change in the ownership of the corporation within the meaning of Section 9.7(c). For purposes of this Section 9.7(d), persons will or will not be considered to be acting as a group in accordance with rules similar to those set forth in Section 9.7(c) with the following exception. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.
- (e) **Change in the ownership of a substantial portion of a corporation's assets.** A change in the ownership of a substantial

portion of a corporation's assets occurs on the date that any one person, or more than one person acting as a group (as determined in accordance with rules similar to those set forth in Section 9.7(d)), acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation or the value of the assets being disposed of determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 9.7(e) when there is a transfer to an entity that is controlled by the shareholders of the transferring corporation immediately after the transfer. A transfer of assets by a corporation is not treated as a change in ownership of such assets if the assets are transferred to (i) a shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the corporation, (iii) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the corporation, or (iv) an entity, at least fifty (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 9.7(e)(iii). For purposes of the foregoing, and except as otherwise provided, a person's status is determined immediately after the transfer of assets.

**9.8 Permissible Delays in Payment.** Distributions may be delayed beyond the date payment would otherwise occur in accordance with the provisions of Articles 8 and 9 in any of the following circumstances as long as the Employer treats all payments to similarly situated Participants on a reasonably consistent basis.

- (a) The Employer may delay payment if it reasonably anticipates that its deduction with respect to such payment would be limited or eliminated by the application of Code Section 162(m). Payment must be made during the Participant's first taxable year in which the Employer reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year the deduction of such payment will not be barred by the application of Code Section 162(m) or during the period beginning with the Participant's Separation from Service and ending on the later of the last day of the

Employer's taxable year in which the Participant separates from service or the 15th day of the third month following the Participant's Separation from Service. If a scheduled payment to a Participant is delayed in accordance with this Section 9.8(a), all scheduled payments to the Participant that could be delayed in accordance with this Section 9.8(a) will also be delayed.

- (b) The Employer may also delay payment if it reasonably anticipates that the making of the payment will violate federal securities laws or other applicable laws provided payment is made at the earliest date on which the Employer reasonably anticipates that the making of the payment will not cause such violation.
- (c) The Employer reserves the right to amend the Plan to provide for a delay in payment upon such other events and conditions as the Secretary of the Treasury may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.

**9.9 Permitted Acceleration of Payment .** The Employer may permit acceleration of the time or schedule of any payment or amount scheduled to be paid pursuant to a payment under the Plan provided such acceleration would be permitted by the provisions of Reg. Sec. 1.409A-3(j)(4), including the following events:

- (a) **Domestic Relations Order.** A payment may be accelerated if such payment is made to an alternate payee pursuant to and following the receipt and qualification of a domestic relations order as defined in Code Section 414(p).
- (b) **Compliance with Ethics Agreements and Legal Requirements.** A payment may be accelerated as may be necessary to comply with ethics agreements with the Federal government or as may be reasonably necessary to avoid the violation of Federal, state, local or foreign ethics law or conflicts of laws, in accordance with the requirements of Code Section 409A.
- (c) **De Minimis Amounts.** A payment will be accelerated if (i) the amount of the payment is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), (ii) at the time the payment is made the amount constitutes the Participant's entire interest under the Plan and all other plans that are aggregated with the Plan under Reg. Sec. 1.409A-1(c)(2).
- (d) **FICA Tax.** A payment may be accelerated to the extent required to pay the Federal Insurance Contributions Act tax imposed under

Code Sections 3101, 3121(a) and 3121(v)(2) of the Code with respect to compensation deferred under the Plan (the "FICA Amount"). Additionally, a payment may be accelerated to pay the income tax on wages imposed under Code Section 3401 of the Code on the FICA Amount and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. The total payment under this subsection (d) may not exceed the aggregate of the FICA Amount and the income tax withholding related to the FICA Amount.

- (e) **Section 409A Additional Tax.** A payment may be accelerated if the Plan fails to meet the requirements of Code Section 409A; provided that such payment may not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A.
- (f) **Offset.** A payment may be accelerated in the Employer's discretion as satisfaction of a debt of the Participant to the Employer, where such debt is incurred in the ordinary course of the service relationship between the Participant and the Employer, the entire amount of the reduction in any of the Employer's taxable years does not exceed \$5,000, and the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.
- (g) **Other Events.** A payment may be accelerated in the Administrator's discretion in connection with such other events and conditions as permitted by Code Section 409A.

## ARTICLE 10 – AMENDMENT AND TERMINATION

- 10.1 Amendment by Plan Sponsor.** The Plan Sponsor reserves the right to amend the Plan (for itself and each Employer) through action of its Board of Directors (or the Board's designee). No amendment can directly or indirectly deprive any current or former Participant or Beneficiary of all or any portion of his Account which had accrued and vested prior to the amendment.
- 10.2 Plan Termination Following Change in Control or Corporate Dissolution.** If so elected by the Plan Sponsor in 11.01 of the Adoption Agreement, the Plan Sponsor reserves the right to terminate the Plan and distribute all amounts credited to all Participant Accounts within the 30 days preceding or the twelve months following a Change in Control as determined in accordance with the rules set forth in Section 9.7. For this purpose, the Plan will be treated as terminated only if all agreements, methods, programs and other arrangements sponsored by the Related Employer immediately after the Change in Control which are treated as a single plan under Reg. Sec. 1.409A-1(c)(2) are also terminated so that all participants under the Plan and all similar arrangements are required to receive all amounts deferred under the terminated arrangements within twelve months of the date the Plan Sponsor irrevocably takes all necessary action to terminate the arrangements. In addition, the Plan Sponsor reserves the right to terminate the Plan within twelve months of a corporate dissolution taxed under Code Section 331 or with the approval of a bankruptcy court pursuant to 11 U. S. C. Section 503(b)(1)(A) provided that amounts deferred under the Plan are included in the gross incomes of Participants in the latest of (a) the calendar year in which the termination and liquidation occurs, (b) the first calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (c) the first calendar year in which payment is administratively practicable.
- 10.3 Other Plan Terminations.** The Plan Sponsor retains the discretion to terminate the Plan if (a) all arrangements sponsored by the Plan Sponsor that would be aggregated with any terminated arrangement under Code Section 409A and Reg. Sec. 1.409A-1(c)(2) are terminated, (b) no payments other than payments that would be payable under the terms of the arrangements if the termination had not occurred are made within twelve months of the termination of the arrangements, (c) all payments are made within twenty-four months of the date the Plan Sponsor takes all necessary action to irrevocably terminate and liquidate the arrangements, (d) the Plan Sponsor does not adopt a new arrangement that would be aggregated with any terminated arrangement under Code Section 409A and the regulations thereunder at any time within the three year period

following the date of termination of the arrangement, and (e) the termination does not occur proximate to a downturn in the financial health of the Plan sponsor. The Plan Sponsor also reserves the right to amend the Plan to provide that termination of the Plan will occur under such conditions and events as may be prescribed by the Secretary of the Treasury in generally applicable guidance published in the Internal Revenue Bulletin.

## ARTICLE 11 – THE TRUST

- 11.1 Establishment of Trust.** The Plan Sponsor may but is not required to establish a trust to hold amounts which the Plan Sponsor may contribute from time to time to correspond to some or all amounts credited to Participants under Section 6.2. In the event that the Plan Sponsor wishes to establish a trust to provide a source of funds for the payment of Plan benefits, any such trust shall be constructed to constitute an unfunded arrangement that does not affect the status of the Plan as an unfunded plan for purposes of Title I of ERISA and the Code. If the Plan Sponsor elects to establish a trust in accordance with Section 10.01 of the Adoption Agreement, the provisions of Sections 11.2 and 11.3 shall become operative.
- 11.2 Rabbi Trust.** Any trust established by the Plan Sponsor shall be between the Plan Sponsor and a trustee pursuant to a separate written agreement under which assets are held, administered and managed, subject to the claims of the Plan Sponsor's creditors in the event of the Plan Sponsor's insolvency. The trust is intended to be treated as a rabbi trust in accordance with existing guidance of the Internal Revenue Service, and the establishment of the trust shall not cause the Participant to realize current income on amounts contributed thereto. The Plan Sponsor must notify the trustee in the event of a bankruptcy or insolvency.
- 11.3 Investment of Trust Funds.** Any amounts contributed to the trust by the Plan Sponsor shall be invested by the trustee in accordance with the provisions of the trust and the instructions of the Administrator. Trust investments need not reflect the hypothetical investments selected by Participants under Section 7.1 for the purpose of adjusting Accounts and the earnings or investment results of the trust need not affect the hypothetical investment adjustments to Participant Accounts under the Plan.

## ARTICLE 12 – PLAN ADMINISTRATION

**12.1 Powers and Responsibilities of the Administrator.** The Administrator has the full power and the full responsibility to administer the Plan in all of its details, subject, however, to the applicable requirements of ERISA. The Administrator's powers and responsibilities include, but are not limited to, the following:

- (a) To make and enforce such rules and procedures as it deems necessary or proper for the efficient administration of the Plan;
- (b) To interpret the Plan, its interpretation thereof to be final, except as provided in Section 12.2, on all persons claiming benefits under the Plan;
- (c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan;
- (d) To administer the claims and review procedures specified in Section 12.2;
- (e) To compute the amount of benefits which will be payable to any Participant, former Participant or Beneficiary in accordance with the provisions of the Plan;
- (f) To determine the person or persons to whom such benefits will be paid;
- (g) To authorize the payment of benefits;
- (h) To comply with the reporting and disclosure requirements of Part 1 of Subtitle B of Title I of ERISA;
- (i) To appoint such agents, counsel, accountants, and consultants as may be required to assist in administering the Plan;
- (j) By written instrument, to allocate and delegate its responsibilities, including the formation of an Administrative Committee to administer the Plan.

## 12.2 Claims and Review Procedures.

### (a) Claims Procedure.

If any person believes he is being denied any rights or benefits under the Plan, such person may file a claim in writing with the Administrator. If any such claim is wholly or partially denied, the Administrator will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the person's right to bring a civil action following an adverse decision on review. Such notification will be given within 90 days (45 days in the case of a claim regarding Disability) after the claim is received by the Administrator. The Administrator may extend the period for providing the notification by 90 days (30 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the claim and if written notice of such extension and circumstance is given to such person within the initial 90 day period (45 day period in the case of a claim regarding Disability). If such notification is not given within such period, the claim will be considered denied as of the last day of such period and such person may request a review of his claim.

### (b) Review Procedure.

Within 60 days (180 days in the case of a claim regarding Disability) after the date on which a person receives a written notification of denial of claim (or, if written notification is not provided, within 60 days (180 days in the case of a claim regarding Disability) of the date denial is considered to have occurred), such person (or his duly authorized representative) may (i) file a written request with the Administrator for a review of his denied claim and of pertinent documents and (ii) submit written issues and comments to the Administrator. The Administrator will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The notification will explain that the

person is entitled to receive, upon request and free of charge, reasonable access to and copies of all pertinent documents and has the right to bring a civil action following an adverse decision on review. The decision on review will be made within 60 days (45 days in the case of a claim regarding Disability). The Administrator may extend the period for making the decision on review by 60 days (45 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the request such as an election by the Administrator to hold a hearing, and if written notice of such extension and circumstances is given to such person within the initial 60-day period (45 days in the case of a claim regarding Disability). If the decision on review is not made within such period, the claim will be considered denied.

(c) **Exhaustion of Claims Procedures and Right to Bring Legal Claim**

No action at law or equity shall be brought more than one (1) year after the Administrator's affirmation of a denial of a claim, or, if earlier, more than four (4) years after the facts or events giving rising to the claimant's allegation(s) or claim(s) first occurred.

**12.3 Plan Administrative Costs.** All reasonable costs and expenses (including legal, accounting, and employee communication fees) incurred by the Administrator in administering the Plan shall be paid by the Plan to the extent not paid by the Employer.

## ARTICLE 13 – MISCELLANEOUS

- 13.1 Unsecured General Creditor of the Employer.** Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of the Employer. For purposes of the payment of benefits under the Plan, any and all of the Employer's assets shall be, and shall remain, the general, unpledged, unrestricted assets of the Employer. Each Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.
- 13.2 Employer's Liability .** Each Employer's liability for the payment of benefits under the Plan shall be defined only by the Plan and by the deferral agreements entered into between a Participant and the Employer. An Employer shall have no obligation or liability to a Participant under the Plan except as provided by the Plan and a deferral agreement or agreements. An Employer shall have no liability to Participants employed by other Employers.
- 13.3 Limitation of Rights .** Neither the establishment of the Plan, nor any amendment thereof, nor the creation of any fund or account, nor the payment of any benefits, will be construed as giving to the Participant or any other person any legal or equitable right against the Employer, the Plan or the Administrator, except as provided herein; and in no event will the terms of employment or service of the Participant be modified or in any way affected hereby.
- 13.4 Anti-Assignment .** Except as may be necessary to fulfill a domestic relations order within the meaning of Code Section 414(p), none of the benefits or rights of a Participant or any Beneficiary of a Participant shall be subject to the claim of any creditor. In particular, to the fullest extent permitted by law, all such benefits and rights shall be free from attachment, garnishment, or any other legal or equitable process available to any creditor of the Participant and his or her Beneficiary. Neither the Participant nor his or her Beneficiary shall have the right to alienate, anticipate, commute, pledge, encumber, or assign any of the payments which he or she may expect to receive, contingently or otherwise, under the Plan, except the right to designate a Beneficiary to receive death benefits provided hereunder. Notwithstanding the preceding, the benefit payable from a Participant's Account may be reduced, at the discretion of the administrator, to satisfy any debt or liability to the Employer.
- 13.5 Facility of Payment .** If the Administrator determines, on the basis of medical reports or other evidence satisfactory to the Administrator, that the recipient of

any benefit payments under the Plan is incapable of handling his affairs by reason of minority, illness, infirmity or other incapacity, the Administrator may direct the Employer to disburse such payments to a person or institution designated by a court which has jurisdiction over such recipient or a person or institution otherwise having the legal authority under State law for the care and control of such recipient. The receipt by such person or institution of any such payments therefore, and any such payment to the extent thereof, shall discharge the liability of the Employer, the Plan and the Administrator for the payment of benefits hereunder to such recipient.

- 13.6 Notices.** Any notice or other communication to the Employer or Administrator in connection with the Plan shall be deemed delivered in writing if addressed to the Plan Sponsor at the address specified in Section 1.03 of the Adoption Agreement and if either actually delivered at said address or, in the case of a letter, 5 business days shall have elapsed after the same shall have been deposited in the United States mails, first-class postage prepaid and registered or certified.
- 13.7 Tax Withholding .** If the Employer concludes that tax is owing with respect to any deferral or payment hereunder, the Employer shall withhold such amounts from any payments due the Participant or from amounts deferred, as permitted by law, or otherwise make appropriate arrangements with the Participant or his Beneficiary for satisfaction of such obligation. Tax, for purposes of this Section 13.7 means any federal, state, local or any other governmental income tax, employment or payroll tax, excise tax, or any other tax or assessment owing with respect to amounts deferred, any earnings thereon, and any payments made to Participants under the Plan.
- 13.8 Indemnification.** (a) Each Indemnitee (as defined in Section 13.8(e)) shall be indemnified and held harmless by the Employer for all actions taken by him and for all failures to take action (regardless of the date of any such action or failure to take action), to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated, against all expense, liability, and loss (including, without limitation, attorneys' fees, judgments, fines, taxes, penalties, and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Indemnitee in connection with any Proceeding (as defined in Subsection (e)). No indemnification pursuant to this Section shall be made, however, in any case where (1) the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness or (2) there is a settlement to which the Employer does not consent.
- (b) The right to indemnification provided in this Section shall include the right to have the expenses incurred by the Indemnitee in defending any Proceeding paid by the Employer in advance of the final disposition of the

Proceeding, to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated; provided that, if such law requires, the payment of such expenses incurred by the Indemnitee in advance of the final disposition of a Proceeding shall be made only on delivery to the Employer of an undertaking, by or on behalf of the Indemnitee, to repay all amounts so advanced without interest if it shall ultimately be determined that the Indemnitee is not entitled to be indemnified under this Section or otherwise.

(c) Indemnification pursuant to this Section shall continue as to an Indemnitee who has ceased to be such and shall inure to the benefit of his heirs, executors, and administrators. The Employer agrees that the undertakings made in this Section shall be binding on its successors or assigns and shall survive the termination, amendment or restatement of the Plan.

(d) The foregoing right to indemnification shall be in addition to such other rights as the Indemnitee may enjoy as a matter of law or by reason of insurance coverage of any kind and is in addition to and not in lieu of any rights to indemnification to which the Indemnitee may be entitled pursuant to the by-laws of the Employer.

(e) For the purposes of this Section, the following definitions shall apply:

(1) "Indemnitee" shall mean each person serving as an Administrator (or any other person who is an employee, director, or officer of the Employer) who was or is a party to, or is threatened to be made a party to, or is otherwise involved in, any Proceeding, by reason of the fact that he is or was performing administrative functions under the Plan.

(2) "Proceeding" shall mean any threatened, pending, or completed action, suit, or proceeding (including, without limitation, an action, suit, or proceeding by or in the right of the Employer), whether civil, criminal, administrative, investigative, or through arbitration.

**13.9 Successors** . The provisions of the Plan shall bind and inure to the benefit of the Plan Sponsor, the Employer and their successors and assigns and the Participant and the Participant's designated Beneficiaries.

**13.10 Disclaimer**. It is the Plan Sponsor's intention that the Plan comply with the requirements of Code Section 409A. Neither the Plan Sponsor nor the Employer shall have any liability to any Participant should any provision of the Plan fail to satisfy the requirements of Code Section 409A.

**13.11 Governing Law** . The Plan will be construed, administered and enforced according to the laws of the State specified by the Plan Sponsor in Section 12.01 of the Adoption Agreement.

# ADOPTION AGREEMENT

**1.01 PREAMBLE**

By the execution of this Adoption Agreement the Plan Sponsor hereby [complete (a) or (b)]

- (a)  adopts a new plan as of January 1, 2014 [month, day, year]
- (b)  amends and restates its existing plan as of \_\_\_\_\_ [month, day, year] which is the Amendment Restatement Date. Except as otherwise provided in Appendix A, all amounts deferred under the Plan prior to the Amendment Restatement Date shall be governed by the terms of the Plan as in effect on the day before the Amendment Restatement Date.

Original Effective Date: \_\_\_\_\_ [month, day, year]

Pre-409A Grandfathering:     Yes     No

**1.02 PLAN**

Plan Name: VMware, Inc. Non-Qualified Deferred Compensation Plan  
 Plan Year: Year ending December 31

**1.03 PLAN SPONSOR**

Name:	<u>VMware, Inc.</u>
Mailing Address:	<u>3401 Hillview Avenue, Palo Alto, CA 94304</u>
Physical Address:	<u>900 Arastradero Road, Building C, Palo Alto, CA 94304</u>
Phone # :	<u>650-427-4361</u>
EIN:	<u>94-3292913</u>
Fiscal Yr:	<u>Year ending December 31</u>

Is stock of the Plan Sponsor, any Employer or any Related Employer publicly traded on an established securities market?

Yes     No

**1.04 EMPLOYER**

The following entities, in addition to the Plan Sponsor, have been authorized by the Plan Sponsor to participate in and have adopted the Plan (insert "Not Applicable" if none have been authorized):

<u>Entity</u>	<u>Publicly Traded on Est. Securities Market</u>	
	Yes	No
Nicira, Inc. _____	<input type="checkbox"/>	<input checked="" type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>

**1.05 ADMINISTRATOR**

The Plan Sponsor has designated the following party or parties to be responsible for the administration of the Plan:

Name: Persons delegated authority by the Compensation & Corporate Governance Committee

Address: \_\_\_\_\_

Note: The Administrator is the person or persons designated by the Plan Sponsor to be responsible for the administration of the Plan. Neither Fidelity Employer Services Company nor any other Fidelity affiliate can be the Administrator.

**1.06 KEY EMPLOYEE DETERMINATION DATES**

The Employer has designated December 31 as the Identification Date for purposes of determining Key Employees.

In the absence of a designation, the Identification Date is December 31.

The Employer has designated April 1 as the effective date for purposes of applying the six month delay in distributions to Key Employees.

In the absence of a designation, the effective date is the first day of the fourth month following the Identification Date.

**2.01 PARTICIPATION**

(a)  Employees [complete (i), (ii) or (iii)]

(i)  Eligible Employees are selected by the Employer.

(ii)  Eligible Employees are those employees of the Employer who satisfy the following criteria:

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(iii)  Employees are not eligible to participate.

(b)  Directors [complete (i), (ii) or (iii)]

(i)  All Directors are eligible to participate.

(ii)  Only Directors selected by the Employer are eligible to participate.

(iii)  Directors are not eligible to participate.

**3.01 COMPENSATION**

For purposes of determining Participant contributions under Article 4 and Employer contributions under Article 5, Compensation shall be defined in the following manner [complete (a) or (b) and select (c) and/or (d), if applicable]:

- (a)  Compensation is defined as:  
Base Salary, Semi-Annual Bonus and Commissions  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
- (b)  Compensation as defined in \_\_\_\_\_ [insert name of qualified plan] without regard to the limitation in Section 401(a)(17) of the Code for such Plan Year.
- (c)  Director Compensation is defined as:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
- (d)  Compensation shall, for all Plan purposes, be limited to \$ \_\_\_\_\_.
- (e)  Not Applicable.

**3.02 BONUSES**

Compensation, as defined in Section 3.01 of the Adoption Agreement, includes the following type of bonuses that will be the subject of a separate deferral election:

<u>Type</u>	<u>Will be treated as Performance Based Compensation</u>	
	<u>Yes</u>	<u>No</u>
<u>Semi-Annual Bonus</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>

Not Applicable.

**4.01 PARTICIPANT CONTRIBUTIONS**

If Participant contributions are permitted, complete (a), (b), and (c). Otherwise complete (d).

**(a) Amount of Deferrals**

A Participant may elect within the period specified in Section 4.01(b) of the Adoption Agreement to defer the following amounts of remuneration. For each type of remuneration listed, complete “dollar amount” and / or “percentage amount”.

(i) Compensation Other than Bonuses [do not complete if you complete (iii)]

Type of Remuneration	Dollar Amount		% Amount		Increment
	Min	Max	Min	Max	
(a) Base Salary			5%	75%	1%
(b) Commissions			5%	100%	1%
(c)					

Note: The increment is required to determine the permissible deferral amounts. For example, a minimum of 0% and maximum of 20% with a 5% increment would allow an individual to defer 0%, 5%, 10%, 15% or 20%.

(ii) Bonuses [do not complete if you complete (iii)]

Type of Bonus	Dollar Amount		% Amount		Increment
	Min	Max	Min	Max	
(a) Semi-Annual Bonus			5%	100%	1%
(b)					
(c)					

(iii) Compensation [do not complete if you completed (i) and (ii)]

Dollar Amount		% Amount		Increment
Min	Max	Min	Max	

(iv) Director Compensation

Type of Compensation	Dollar Amount		% Amount		Increment
	Min	Max	Min	Max	
Annual Retainer					
Meeting Fees					
Other:					
Other:					

**(b) Election Period**

(i) Performance Based Compensation

A special election period

Does  Does Not

apply to each eligible type of performance based compensation referenced in Section 3.02 of the Adoption Agreement.

The special election period, if applicable, will be determined by the Employer.

(ii) Newly Eligible Participants

An employee who is classified or designated as an Eligible Employee during a Plan Year

May  May Not

elect to defer Compensation earned during the remainder of the Plan Year by completing a deferral agreement within the 30 day period beginning on the date he is eligible to participate in the Plan.

**(c) Revocation of Deferral Agreement**

A Participant's deferral agreement

Will  
 Will Not

be cancelled for the remainder of any Plan Year during which he receives a hardship distribution of elective deferrals from a qualified cash or deferred arrangement maintained by the Employer to the extent necessary to satisfy the requirements of Reg. Sec. 1.401(k)-1(d)(3). If cancellation occurs, the Participant may resume participation in accordance with Article 4 of the Plan.

**(d) No Participant Contributions**

Participant contributions are not permitted under the Plan.

**5.01 EMPLOYER CONTRIBUTIONS**

If Employer contributions are permitted, complete (a) and/or (b). Otherwise complete (c).

**(a) Matching Contributions**

(i) Amount

For each Plan Year, the Employer shall make a Matching Contribution on behalf of each Participant who defers Compensation for the Plan Year and satisfies the requirements of Section 5.01(a)(ii) of the Adoption Agreement equal to [complete the ones that are applicable]:

- (A)  \_\_\_\_\_ [insert percentage] of the Compensation the Participant has elected to defer for the Plan Year
- (B)  An amount determined by the Employer in its sole discretion
- (C)  Matching Contributions for each Participant shall be limited to \$ \_\_\_\_\_ and/or \_\_\_\_\_ % of Compensation.
- (D)  Other:  
\_\_\_\_\_
- (E)  Not Applicable [Proceed to Section 5.01(b)]

(ii) Eligibility for Matching Contribution

A Participant who defers Compensation for the Plan Year shall receive an allocation of Matching Contributions determined in accordance with Section 5.01(a)(i) provided he satisfies the following requirements [complete the ones that are applicable]:

- (A)  Describe requirements:
- (B)  Is selected by the Employer in its sole discretion to receive an allocation of Matching Contributions
- (C)  No requirements

(iii) Time of Allocation

Matching Contributions, if made, shall be treated as allocated [select one]:

- (A)  As of the last day of the Plan Year
- (B)  At such times as the Employer shall determine in its sole discretion
- (C)  At the time the Compensation on account of which the Matching Contribution is being made would otherwise have been paid to the Participant
- (D)  Other:

**(b) Other Contributions**

(i) Amount

The Employer shall make a contribution on behalf of each Participant who satisfies the requirements of Section 5.01(b)(ii) equal to [complete the ones that are applicable]:

- (A)  An amount equal to \_\_\_\_\_ [insert number] % of the Participant's Compensation
- (B)  An amount determined by the Employer in its sole discretion
- (C)  Contributions for each Participant shall be limited to \$ \_\_\_\_\_
- (D)  Other:
  
- (E)  Not Applicable [Proceed to Section 6.01]

(ii) Eligibility for Other Contributions

A Participant shall receive an allocation of other Employer contributions determined in accordance with Section 5.01(b)(i) for the Plan Year if he satisfies the following requirements [complete the one that is applicable]:

- (A)  Describe requirements:
- (B)  Is selected by the Employer in its sole discretion to receive an allocation of other Employer contributions
- (C)  No requirements

(iii) Time of Allocation

Employer contributions, if made, shall be treated as allocated [select one]:

- (A)  As of the last day of the Plan Year
- (B)  At such time or times as the Employer shall determine in its sole discretion
- (C)  Other:

**(c) No Employer Contributions**

- Employer contributions are not permitted under the Plan.

## 6.01 DISTRIBUTIONS

The timing and form of payment of distributions made from the Participant's vested Account shall be made in accordance with the elections made in this Section 6.01 of the Adoption Agreement except when Section 9.6 of the Plan requires a six month delay for certain distributions to Key Employees of publicly traded companies.

### (a) Timing of Distributions

- (i) All distributions shall commence in accordance with the following [choose one]:
- (A)  As soon as administratively feasible following the distribution event but in no event later than prescribed by Treas. Reg. Sec. 1.409A-3(d).
  - (B)  Monthly on specified day \_\_\_\_\_ [insert day]
  - (C)  Semi-Annually on specified month and day (January 1 or July 1) [insert month and day]
  - (D)  Calendar quarter on specified month and day [ 1<sup>st</sup> month of quarter (insert 1,2 or 3); 1<sup>st</sup> day (insert day)]
- (ii) The timing of distributions as determined in Section 6.01(a)(i) shall be modified by the adoption of:
- (A)  Event Delay – Distribution events other than those based on Specified Date or Specified Amount will be treated as not having occurred for six (6) months [insert number of months].
  - (B)  Hold Until Next Year – Distribution events other than those based on Specified Date or Specified Amount will be treated as not having occurred for twelve months from the date of the event if payment pursuant to Section 6.01(a)(i) will thereby occur in the next calendar year or on the first payment date in the next calendar year in all other cases.
  - (C)  Immediate Processing – The timing method selected by the Plan Sponsor under Section 6.01(a)(i) shall be overridden for the following distribution events [insert events]:
  - (D)  Not applicable.

**(b) Distribution Events**

Participants may elect the following payment events and the associated form or forms of payment. If multiple events are selected, the earliest to occur will trigger payment. For installments, insert the range of available periods (e.g., 5-15) or insert the periods available (e.g., 5,7,9).

	<u>Lump Sum</u>	<u>Installments</u>
(i) <input checked="" type="checkbox"/> Specified Date	<u>x</u>	<u>5, 11 or 15</u> years
(ii) <input type="checkbox"/> Specified Age		_____ years
(iii) <input checked="" type="checkbox"/> Separation from Service	<u>x</u>	<u>5, 11 or 15</u> years
(iv) <input type="checkbox"/> Separation from Service plus 6 months		_____ years
(v) <input type="checkbox"/> Separation from Service plus _____ months [not to exceed _____ months]		_____ years
(vi) <input type="checkbox"/> Retirement		_____ years
(vii) <input type="checkbox"/> Retirement plus 6 months		_____ years
(viii) <input type="checkbox"/> Retirement plus _____ months [not to exceed _____ months]		_____ years
(ix) <input type="checkbox"/> Disability		_____ years
(x) <input type="checkbox"/> Death		_____ years
(xi) <input type="checkbox"/> Change in Control		_____ years

The minimum deferral period for Specified Date or Specified Age event shall be three (3) years.

Installments may be paid [select each that applies]

- Monthly
- Quarterly
- Annually

(c) Specified Date and Specified Age elections may not extend beyond age Not Applicable [insert age or "Not Applicable" if no maximum age applies].

(d) Payment Election Override

Payment of the remaining vested balance of the Participant's Account will automatically occur at the time specified in Section 6.01(a) of the Adoption Agreement in the form indicated upon the earliest to occur of the following events [check each event that applies and for each event include only a single form of payment]:

<u>EVENTS</u>		<u>FORM OF PAYMENT</u>
<input type="checkbox"/> Separation from Service	_____ Lump sum	_____ Installments
<input type="checkbox"/> Separation from Service before Retirement	_____ Lump sum	_____ Installments
<input checked="" type="checkbox"/> Death	<u>x</u> Lump sum	_____ Installments
<input checked="" type="checkbox"/> Disability	<u>x</u> Lump sum	_____ Installments
<input type="checkbox"/> Not Applicable		

(e) Involuntary Cashouts

- If the Participant's vested Account at the time of his Separation from Service does not exceed \$ 50,000 distribution of the vested Account shall automatically be made in the form of a single lump sum in accordance with Section 9.5 of the Plan.
- There are no involuntary cashouts.

(f) Retirement

- Retirement shall be defined as a Separation from Service that occurs on or after the Participant [insert description of requirements]:
- No special definition of Retirement applies.

(g) Distribution Election Change

A Participant

- Shall
- Shall Not

be permitted to modify a scheduled distribution date and/or payment option in accordance with Section 9.2 of the Plan.

A Participant shall generally be permitted to elect such modification two (2) number of times.

Administratively, allowable distribution events will be modified to reflect all options necessary to fulfill the distribution change election provision.

(h) Frequency of Elections

The Plan Sponsor

- Has
- Has Not

Elected to permit annual elections of a time and form of payment for amounts deferred under the Plan. If a single election of a time and/or form of payment is required, the Participant will make such election at the time he first completes a deferral agreement which, in all cases, will be no later than the time required by Reg. Sec. 1.409A-2.

**7.01 VESTING**

**(a) Matching Contributions**

The Participant's vested interest in the amount credited to his Account attributable to Matching Contributions shall be based on the following schedule:

<input type="checkbox"/>	Years of Service	Vesting %
	0	(insert '100' if there is immediate vesting)
	1	
	2	
	3	
	4	
	5	
	6	
	7	
	8	
	9	

Other:  
As determined by the Administrator

Class year vesting applies.  
\_\_\_\_\_

Not applicable.

**(b) Other Employer Contributions**

The Participant's vested interest in the amount credited to his Account attributable to Employer contributions other than Matching Contributions shall be based on the following schedule:

<input type="checkbox"/>	Years of Service	Vesting %	
	0		(insert '100' if there is immediate vesting)
	1		
	2		
	3		
	4		
	5		
	6		
	7		
	8		
	9		

Other:  
As determined by the Administrator

Class year vesting applies.  
 \_\_\_\_\_

Not applicable.

**(c) Acceleration of Vesting**

A Participant's vested interest in his Account will automatically be 100% upon the occurrence of the following events: [select the ones that are applicable]:

- (i)  Death
- (ii)  Disability
- (iii)  Change in Control
- (iv)  Eligibility for Retirement
- (v)  Other: As determined by the Administrator  
\_\_\_\_\_
- (vi)  Not applicable.

**(d) Years of Service**

(i) A Participant's Years of Service shall include all service performed for the Employer and

- Shall
- Shall Not

include service performed for the Related Employer.

(ii) Years of Service shall also include service performed for the following entities:

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(iii) Years of Service shall be determined in accordance with (select one)

- (A)  The elapsed time method in Treas. Reg. Sec. 1.410(a)-7
- (B)  The general method in DOL Reg. Sec. 2530.200b-1 through b-4
- (C)  The Participant's Years of Service credited under [insert name of plan] \_\_\_\_\_  
\_\_\_\_\_
- (D)  Other: As determined by the Administrator  
\_\_\_\_\_  
\_\_\_\_\_

(iv)  Not applicable.

**8.01 UNFORESEEABLE EMERGENCY**

(a) A withdrawal due to an Unforeseeable Emergency as defined in Section 2.24:

- Will
- Will Not [if Unforeseeable Emergency withdrawals are not permitted, proceed to Section 9.01]

be allowed.

(b) Upon a withdrawal due to an Unforeseeable Emergency, a Participant's deferral election for the remainder of the Plan Year:

- Will
- Will Not

be cancelled. If cancellation occurs, the Participant may resume participation in accordance with Article 4 of the Plan.

**9.01 INVESTMENT DECISIONS**

Investment decisions regarding the hypothetical amounts credited to a Participant's Account shall be made by [select one]:

(a)  The Participant or his Beneficiary

(b)  The Employer

**10.01 TRUST**

The Employer [select one]:

- Does
- Does Not

intend to establish a rabbi trust as provided in Article 11 of the Plan.

**11.01 TERMINATION UPON CHANGE IN CONTROL**

The Plan Sponsor

- Reserves
- Does Not Reserve

the right to terminate the Plan and distribute all vested amounts credited to Participant Accounts upon a Change in Control as described in Section 9.7.

**11.02 AUTOMATIC DISTRIBUTION UPON CHANGE IN CONTROL**

Distribution of the remaining vested balance of each Participant's Account

- Shall
- Shall Not

automatically be paid as a lump sum payment upon the occurrence of a Change in Control as provided in Section 9.7.

**11.03 CHANGE IN CONTROL**

A Change in Control for Plan purposes includes the following [select each definition that applies]:

- (a)  A change in the ownership of the Employer as described in Section 9.7(c) of the Plan.
- (b)  A change in the effective control of the Employer as described in Section 9.7(d) of the Plan.
- (c)  A change in the ownership of a substantial portion of the assets of the Employer as described in Section 9.7 (e) of the Plan.
- (d)  Not Applicable.

**12.01 GOVERNING STATE LAW**

The laws of California shall apply in the administration of the Plan to the extent not preempted by ERISA.

# EXECUTION PAGE

The Plan Sponsor has caused this Adoption Agreement to be executed this 1st day of October, 2013.

PLAN SPONSOR: /s/ Denise Devlin

By: Denise Devlin

Title: VP Total Rewards

**APPENDIX A**

**SPECIAL EFFECTIVE DATES**

Not Applicable

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

I, Patrick P. 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: November 7, 2013

By: /s/ Patrick P. Gelsinger

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**Patrick P. Gelsinger**  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Jonathan C. Chadwick, 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: November 7, 2013

By: /s/ Jonathan C. Chadwick

**Jonathan C. Chadwick**  
**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 P. 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 September 30, 2013 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: November 7, 2013

By: /s/ Patrick P. Gelsinger

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**Patrick P. 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, Jonathan C. Chadwick, 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 September 30, 2013 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: November 7, 2013

By: /s/ Jonathan C. Chadwick

**Jonathan C. Chadwick**  
**Chief Financial Officer and Executive Vice President**  
**(Principal Financial Officer)**