

**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, 2016

OR

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

For the transition period from to

Commission File Number 001-33622

VMWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-3292913

(I.R.S. Employer
Identification Number)

3401 Hillview Avenue
Palo Alto, CA

(Address of principal executive offices)

94304

(Zip Code)

(650) 427-5000

(Registrant's telephone number, including area code)

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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 31, 2016, the number of shares of common stock, par value \$0.01 per share, of the registrant outstanding was 411,565,890 of which 111,565,890 shares were Class A common stock and 300,000,000 were Class B common stock.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1.	<u>Financial Statements (unaudited)</u> <u>3</u>
	<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015</u> <u>3</u>
	<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015</u> <u>4</u>
	<u>Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015</u> <u>5</u>
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015</u> <u>6</u>
	<u>Notes to Condensed Consolidated Financial Statements</u> <u>7</u>
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> <u>23</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>34</u>
Item 4.	<u>Controls and Procedures</u> <u>34</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u> <u>35</u>
Item 1A.	<u>Risk Factors</u> <u>35</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>52</u>
Item 6.	<u>Exhibits</u> <u>53</u>
	<u>SIGNATURE</u> <u>54</u>
	<u>EXHIBIT INDEX</u> <u>55</u>

VMware, vSphere, NSX, vCloud, vCloud Air, vCloud Air Network, Workspace ONE, AirWatch, vSAN, VMworld, and Horizon are registered trademarks or trademarks of VMware or its subsidiaries in the United States and other jurisdictions. All other marks and names mentioned herein may be trademarks of their respective companies.

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue:				
License	\$ 691	\$ 681	\$ 1,907	\$ 1,896
Services	1,087	991	3,153	2,883
GSA settlement	—	—	—	(76)
Total revenue	1,778	1,672	5,060	4,703
Operating expenses ⁽¹⁾ :				
Cost of license revenue	40	46	121	142
Cost of services revenue	226	212	658	609
Research and development	389	331	1,109	958
Sales and marketing	564	556	1,708	1,656
General and administrative	178	201	516	568
Realignment	—	—	52	20
Operating income	381	326	896	750
Investment income	21	13	56	38
Interest expense with Dell	(7)	(7)	(20)	(20)
Other income (expense), net	(8)	(7)	(8)	(8)
Income before income taxes	387	325	924	760
Income tax provision	68	69	179	137
Net income	\$ 319	\$ 256	\$ 745	\$ 623
Net income per weighted-average share, basic for Class A and Class B	\$ 0.76	\$ 0.61	\$ 1.76	\$ 1.47
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.75	\$ 0.60	\$ 1.75	\$ 1.46
Weighted-average shares, basic for Class A and Class B	421,704	422,329	423,341	424,799
Weighted-average shares, diluted for Class A and Class B	425,008	423,981	425,851	427,466

⁽¹⁾ Includes stock-based compensation as follows:

Cost of license revenue	\$ —	\$ —	\$ 2	\$ 1
Cost of services revenue	13	11	38	32
Research and development	80	56	224	164
Sales and marketing	51	43	146	124
General and administrative	26	16	62	47

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$ 319	\$ 256	\$ 745	\$ 623
Other comprehensive income (loss):				
Changes in market value of available-for-sale securities:				
Unrealized gains (losses), net of taxes of \$(2), \$1, \$12 and \$1	(4)	1	19	2
Reclassification of (gains) losses realized during the period, net of taxes of \$0, \$0, \$3 and \$0	—	—	4	—
Net change in market value of available-for-sale securities	(4)	1	23	2
Changes in market value of effective foreign currency forward contracts:				
Unrealized gains (losses), net of taxes of \$0 for all periods	—	1	—	(4)
Reclassification of (gains) losses realized during the period, net of taxes of \$0 for all periods	—	(2)	1	—
Net change in market value of effective foreign currency forward contracts	—	(1)	1	(4)
Total other comprehensive income (loss)	(4)	—	24	(2)
Total comprehensive income (loss), net of taxes	\$ 315	\$ 256	\$ 769	\$ 621

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

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,654	\$ 2,493
Short-term investments	5,600	5,016
Accounts receivable, net of allowance for doubtful accounts of \$2 and \$2	1,119	1,633
Due from related parties, net	23	74
Other current assets	159	144
Total current assets	9,555	9,360
Property and equipment, net	1,050	1,128
Other assets	232	193
Deferred tax assets	462	456
Intangible assets, net	538	616
Goodwill	4,032	3,993
Total assets	\$ 15,869	\$ 15,746
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 104	\$ 138
Accrued expenses and other	649	746
Unearned revenue	3,279	3,245
Total current liabilities	4,032	4,129
Notes payable to Dell	1,500	1,500
Unearned revenue	1,815	1,831
Other liabilities	388	363
Total liabilities	7,735	7,823
Contingencies (refer to Note I)		
Stockholders' equity:		
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 113,870 and 121,947 shares	1	1
Class B convertible common stock, par value \$.01; authorized 1,000,000 shares; issued and outstanding 300,000 shares	3	3
Additional paid-in capital	2,174	2,728
Accumulated other comprehensive income (loss)	16	(8)
Retained earnings	5,940	5,195
Total VMware, Inc.'s stockholders' equity	8,134	7,919
Non-controlling interests	—	4
Total stockholders' equity	8,134	7,923
Total liabilities and stockholders' equity	\$ 15,869	\$ 15,746

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

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

	Nine Months Ended September 30,	
	2016	2015
Operating activities:		
Net income	\$ 745	\$ 623
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	261	246
Stock-based compensation	472	368
Excess tax benefits from stock-based compensation	(7)	(27)
Deferred income taxes, net	(24)	(44)
Impairment of strategic investments	12	5
Gain on sales of strategic investments	(1)	—
Loss on disposal of assets	12	—
Other	(1)	—
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	513	508
Other assets	(22)	14
Due to/from related parties, net	55	31
Accounts payable	(26)	(36)
Accrued expenses	(64)	(153)
Income taxes payable	(26)	24
Unearned revenue	18	(148)
Net cash provided by operating activities	<u>1,917</u>	<u>1,411</u>
Investing activities:		
Additions to property and equipment	(109)	(274)
Purchases of available-for-sale securities	(3,337)	(2,675)
Sales of available-for-sale securities	1,769	1,700
Maturities of available-for-sale securities	1,015	840
Proceeds from disposal of assets	3	—
Purchases of strategic investments	(33)	(11)
Sales of strategic investments	1	2
Business acquisitions, net of cash acquired	(59)	(21)
Decrease (increase) in restricted cash	(2)	77
Net cash used in investing activities	<u>(752)</u>	<u>(362)</u>
Financing activities:		
Proceeds from issuance of common stock	106	123
Proceeds from non-controlling interests	—	4
Payment to acquire non-controlling interests	(4)	—
Repurchase of common stock	(1,016)	(1,050)
Excess tax benefits from stock-based compensation	7	27
Shares repurchased for tax withholdings on vesting of restricted stock	(97)	(141)
Net cash used in financing activities	<u>(1,004)</u>	<u>(1,037)</u>
Net increase in cash and cash equivalents	161	12
Cash and cash equivalents at beginning of the period	2,493	2,071
Cash and cash equivalents at end of the period	<u>\$ 2,654</u>	<u>\$ 2,083</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 21	\$ 21
Cash paid for taxes, net	212	155
Non-cash items:		
Changes in capital additions, accrued but not paid	\$ (15)	\$ (49)

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

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

A. Overview and Basis of Presentation

Company and Background

VMware, Inc. (“VMware” or the “Company”) is a leader in virtualization and cloud infrastructure solutions that enable businesses to transform the way they build, deliver and consume information technology (“IT”) resources in a manner that is based on their specific needs. VMware’s virtualization infrastructure solutions, which include a suite of products and services designed to deliver a software-defined data center, run on industry-standard desktop computers, servers and mobile devices 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

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, for a fair statement of VMware’s condensed consolidated results of operations, financial position and cash flows for the periods presented. Results of operations are not necessarily indicative of the results that may be expected for the full year 2016. Certain information and footnote disclosures typically included in annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in VMware’s 2015 Annual Report on Form 10-K.

Effective September 7, 2016, Dell Technologies Inc. (“Dell”) (formerly Denali Holding Inc.) acquired EMC Corporation (“EMC”) which resulted in a change in control of VMware (the “Dell Acquisition”). As a result of the Dell Acquisition, EMC became a wholly-owned subsidiary of Dell and VMware became an indirectly-held, majority-owned subsidiary of Dell. As of September 30, 2016, Dell controlled 82.9% of VMware’s outstanding common stock and 97.7% of the combined voting power of VMware’s outstanding common stock held by EMC, including 43 million shares of VMware’s Class A common stock and all of VMware’s Class B common stock.

In connection with the Dell Acquisition, Michael S. Dell was elected to the VMware Board of Directors as Chairman and Egon Durban was elected to the VMware Board. Additionally, both Joseph M. Tucci, VMware’s Chairman of the Board, and John R. Egan resigned from the VMware Board.

As VMware is a majority-owned and controlled subsidiary of Dell, its results of operations and financial position are consolidated with Dell’s financial statements. Pushdown accounting was not applied as a result of the Dell Acquisition and consequently no change in basis was reflected in VMware’s condensed consolidated financial statements. References to transactions with Dell within the financial statements and accompanying notes include transactions with EMC prior to September 7, 2016.

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

Principles of Consolidation

The condensed consolidated financial statements include the accounts of VMware and subsidiaries in which VMware has a controlling financial interest. Non-controlling interests are presented as a separate component within total stockholders’ equity and represent the equity and cumulative pro-rata share of the results of operations attributable to the non-controlling interests. The portion of results of operations attributable to the non-controlling interests is eliminated in other income (expense), net on the condensed consolidated statements of income and is not presented separately as the amount was not material for the periods presented. During the second quarter of 2016, VMware acquired all of the non-controlling interests previously presented as a separate component within total stockholders’ equity. Refer to Note B for further discussion. All intercompany transactions and

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

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

Use of Accounting Estimates

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

New Accounting Pronouncements

During October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740), which requires entities to recognize at the transaction date the income tax consequences of intra-entity asset transfers. Previous guidance requires the tax effects from intra-entity asset transfers to be deferred until that asset is sold to a third party or recovered through use. The updated standard is effective in annual and interim periods in fiscal years beginning after December 15, 2017, with early adoption permitted during the first interim period of a fiscal year, and requires a modified retrospective transition method. The Company is currently evaluating the effect that ASU 2016-16 will have on its consolidated financial statements and related disclosures.

During March 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718), which impacts the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated standard is effective for interim and annual periods beginning after December 15, 2016 and permits early adoption in any interim or annual period. The Company is currently evaluating the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

During February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires a lessee to recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. This ASU also requires additional disclosure regarding leasing arrangements. The updated lease standard is effective for interim and annual periods beginning after December 15, 2018 and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures, and expects that most of its lease commitments will be subject to the updated standard and recognized as lease liabilities and right-of-use assets upon adoption of ASU 2016-02.

During May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The updated revenue standard establishes principles for recognizing revenue and develops a common revenue standard for all industries. In 2016, the FASB issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, which provide interpretive clarifications on the new guidance in Topic 606. The updates are effective for the Company for interim and annual periods beginning after December 15, 2017 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted for annual periods beginning after December 15, 2016. The Company has not selected a transition method and is currently evaluating the effect that the updates will have on its consolidated financial statements and related disclosures.

B. Business Combination, Definite-Lived Intangible Assets, Net, Goodwill and Joint Venture

Business Combination

On June 21, 2016, VMware acquired all of the outstanding shares of Arkin Net, Inc. (“Arkin”) for approximately \$67 million of cash, net of liabilities assumed. VMware acquired Arkin, a provider of software-defined data center security and operations, as part of a strategy to accelerate customers’ adoption of VMware NSX and software-defined data centers. The pro forma financial information assuming the acquisition had occurred as of the beginning of the calendar year prior to the year of acquisition, as well as the revenue and earnings generated during the current year, were not material for disclosure purposes.

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

The following table summarizes the preliminary allocation of the consideration to the fair value of the assets acquired and liabilities assumed (table in millions):

Cash	\$	7
Intangible assets		26
Goodwill		38
Deferred tax assets		5
Other acquired assets		1
Total assets acquired		77
Deferred tax liabilities		(10)
Total liabilities assumed		(10)
Fair value of assets acquired and liabilities assumed	\$	67

The identifiable intangible assets acquired were primarily related to purchased technology with estimated useful lives of four to five years . Goodwill is not expected to be deductible for U.S. income tax purposes.

Prior to the closing of the acquisition on June 21, 2016, EMC owned approximately 16% of the outstanding shares of Arkin. As a result of the acquisition, cash paid to EMC was approximately \$13 million .

Definite-Lived Intangible Assets, Net

As of September 30, 2016 and December 31, 2015 , definite-lived intangible assets consisted of the following (amounts in tables in millions):

September 30, 2016				
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	6.6	\$ 632	\$ (337)	\$ 295
Leasehold interest	34.9	149	(23)	126
Customer relationships and customer lists	8.2	135	(60)	75
Trademarks and tradenames	8.6	61	(22)	39
Other	5.4	5	(2)	3
Total definite-lived intangible assets		\$ 982	\$ (444)	\$ 538
December 31, 2015				
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	6.6	\$ 648	\$ (298)	\$ 350
Leasehold interest	34.9	149	(20)	129
Customer relationships and customer lists	8.4	148	(62)	86
Trademarks and tradenames	8.6	61	(16)	45
Other	2.9	20	(14)	6
Total definite-lived intangible assets		\$ 1,026	\$ (410)	\$ 616

Amortization expense on definite-lived intangible assets was \$33 million and \$99 million during the three and nine months ended September 30, 2016 , respectively, and \$36 million and \$110 million during the three and nine months ended September 30, 2015 , respectively.

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

Based on intangible assets recorded as of September 30, 2016 and assuming no subsequent additions, dispositions or impairment of underlying assets, the remaining estimated annual amortization expense is expected to be as follows (table in millions):

Remainder of 2016	\$	32
2017		125
2018		115
2019		92
2020		42
Thereafter		132
Total	\$	<u>538</u>

Goodwill

The following table summarizes the changes in the carrying amount of goodwill during the nine months ended September 30, 2016 (table in millions):

Balance, January 1, 2016	3,993
Increase in goodwill related to a business combination	39
Balance, September 30, 2016	<u>\$ 4,032</u>

Joint Venture

During the year ended December 31, 2014, VMware established a joint venture intended to expand VMware vCloud Air services in Japan. At December 31, 2015, VMware had a controlling interest in the joint venture and approximately 51% of the ownership. Accordingly, VMware consolidated the financial results of the joint venture. During the second quarter of 2016, VMware acquired all of the remaining non-controlling interests in the joint venture for \$4 million.

C. Realignment

On January 22, 2016, VMware approved a plan to streamline its operations, with plans to reinvest the associated savings in field, technical and support resources associated with growth products. As a result of these actions, approximately 800 positions were eliminated during the nine months ended September 30, 2016. VMware recognized \$49 million of severance-related realignment expenses during the nine months ended September 30, 2016 on the condensed consolidated statements of income. Additionally, VMware consolidated certain facilities as part of this plan, which resulted in the recognition of \$3 million of related expenses during the nine months ended September 30, 2016 on the condensed consolidated statements of income. Actions associated with this plan were substantially completed by June 30, 2016.

During fiscal 2015, VMware eliminated approximately 350 positions across all major functional groups and geographies to streamline its operations. As a result of these actions, \$20 million of realignment expenses were recognized during the nine months ended September 30, 2015, which consisted of severance-related costs.

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

The following table summarizes the activity for the accrued realignment expenses for the nine months ended September 30, 2016 and September 30, 2015 (tables in millions):

	For the Nine Months Ended September 30, 2016			
	Balance as of January 1, 2016	Realignment	Utilization	Balance as of September 30, 2016
Severance-related costs	\$ 3	\$ 49	\$ (51)	\$ 1
Costs to exit facilities	—	3	(1)	2
Total	\$ 3	\$ 52	\$ (52)	\$ 3

	For the Nine Months Ended September 30, 2015			
	Balance as of January 1, 2015	Realignment	Utilization	Balance as of September 30, 2015
Severance-related costs	\$ 8	20	(27)	\$ 1

D. Net Income per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of common shares outstanding and potentially dilutive securities outstanding during the period, as calculated using the treasury stock method. Potentially dilutive securities primarily include unvested restricted stock units, including performance stock units, and stock options, including 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 net income per share as both classes share the same rights in dividends, therefore basic and diluted earnings per share are the same for both classes.

The following table sets forth the computations of basic and diluted net income per share during the three and nine months ended September 30, 2016 and 2015 (net income in millions, shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 319	\$ 256	\$ 745	\$ 623
Weighted-average shares, basic for Class A and Class B	421,704	422,329	423,341	424,799
Effect of dilutive securities	3,304	1,652	2,510	2,667
Weighted-average shares, diluted for Class A and Class B	425,008	423,981	425,851	427,466
Net income per weighted-average share, basic for Class A and Class B	\$ 0.76	\$ 0.61	\$ 1.76	\$ 1.47
Net income per weighted-average share, diluted for Class A and Class B	\$ 0.75	\$ 0.60	\$ 1.75	\$ 1.46

The following table sets forth the weighted-average common share equivalents of Class A common stock that were excluded from the diluted net income per share calculations during the three and nine months ended September 30, 2016 and 2015, because their effect would have been anti-dilutive (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Anti-dilutive securities:				
Employee stock options	1,655	2,129	2,027	2,173
Restricted stock units	3,632	365	2,416	58
Total	5,287	2,494	4,443	2,231

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

E. Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments as of September 30, 2016 and December 31, 2015 consisted of the following (tables in millions):

	September 30, 2016			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Cash	\$ 565	\$ —	\$ —	\$ 565
Cash equivalents:				
Money-market funds	\$ 2,015	\$ —	\$ —	\$ 2,015
Time deposits	35	—	—	35
Municipal obligations	39	—	—	39
Total cash equivalents	\$ 2,089	\$ —	\$ —	\$ 2,089
Short-term investments:				
U.S. Government and agency obligations	\$ 818	\$ 2	\$ —	\$ 820
U.S. and foreign corporate debt securities	4,109	19	(2)	4,126
Foreign governments and multi-national agency obligations	35	—	—	35
Municipal obligations	401	—	—	401
Asset-backed securities	5	—	—	5
Mortgage-backed securities	213	1	(1)	213
Total short-term investments	\$ 5,581	\$ 22	\$ (3)	\$ 5,600
Other assets:				
Marketable available-for-sale equity securities	\$ 15	\$ 7	\$ —	\$ 22
	December 31, 2015			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Cash	\$ 725	\$ —	\$ —	\$ 725
Cash equivalents:				
Money-market funds	\$ 1,763	\$ —	\$ —	\$ 1,763
Time deposits	5	—	—	5
Total cash equivalents	\$ 1,768	\$ —	\$ —	\$ 1,768
Short-term investments:				
Time deposits	\$ 12	\$ —	\$ —	\$ 12
U.S. Government and agency obligations	753	—	(3)	750
U.S. and foreign corporate debt securities	3,263	1	(12)	3,252
Foreign governments and multi-national agency obligations	35	—	—	35
Municipal obligations	705	1	—	706
Asset-backed securities	20	—	—	20
Mortgage-backed securities	243	—	(2)	241
Total short-term investments	\$ 5,031	\$ 2	\$ (17)	\$ 5,016
Other assets:				
Marketable available-for-sale equity securities	\$ 15	\$ 3	\$ —	\$ 18

Refer to Note F for further information regarding the fair value of VMware's cash equivalents and investments.

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

VMware evaluated its available-for-sale investments as of September 30, 2016 and December 31, 2015 to determine whether or not any security had experienced an other-than-temporary decline in fair value. As of September 30, 2016 and December 31, 2015, VMware did not consider any of its available-for-sale investments to be other-than-temporarily impaired. The realized gains and losses on investments during the three and nine months ended September 30, 2016 and 2015 were not significant.

Unrealized losses on cash equivalents and available-for-sale investments as of September 30, 2016 and December 31, 2015, which have been in a net loss position for less than twelve months, were classified by asset class as follows (table in millions):

	September 30, 2016		December 31, 2015	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	\$ 170	\$ —	\$ 657	\$ (3)
U.S. and foreign corporate debt securities	915	(2)	2,564	(11)
Mortgage-backed securities	88	(1)	171	(1)
Total	\$ 1,173	\$ (3)	\$ 3,392	\$ (15)

As of September 30, 2016 and December 31, 2015, unrealized losses on cash equivalents and available-for-sale investments in the other investment categories, which have been in a net loss position for less than twelve months, were not significant. Unrealized losses on cash equivalents and available-for-sale investments, which have been in a net loss position for twelve months or greater, were not significant as of September 30, 2016 and December 31, 2015.

Contractual Maturities

The contractual maturities of short-term investments held at September 30, 2016 consisted of the following (table in millions):

	Amortized Cost Basis	Aggregate Fair Value
Due within one year	\$ 1,693	\$ 1,694
Due after 1 year through 5 years	3,545	3,562
Due after 5 years through 10 years	111	112
Due after 10 years	232	232
Total short-term investments	\$ 5,581	\$ 5,600

F. Fair Value Measurements

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

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

- Level 1 - Quoted prices in active markets for identical assets or liabilities
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are noted active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

VMware's fixed income securities are primarily classified as Level 2, with the exception of some of the U.S. Government and agency obligations which are classified as Level 1. Additionally, VMware's Level 2 classification includes forward contracts and notes payable to Dell. At September 30, 2016 and December 31, 2015, VMware's Level 2 securities were generally priced using 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, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)

VMware did not have any significant assets or liabilities that fell into Level 3 of the fair value hierarchy as of September 30, 2016 and December 31, 2015, and there have been no transfers between fair value measurement levels during the three and nine months ended September 30, 2016 and 2015.

The following tables set forth the fair value hierarchy of VMware's cash equivalents, available-for-sale securities, and forward contracts that were required to be measured at fair value as of September 30, 2016 and December 31, 2015 (tables in millions):

	September 30, 2016		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 2,015	\$ —	\$ 2,015
Time deposits	—	35	35
Municipal obligations	—	39	39
Total cash equivalents	<u>\$ 2,015</u>	<u>\$ 74</u>	<u>\$ 2,089</u>
Short-term investments:			
U.S. Government and agency obligations	\$ 485	\$ 335	\$ 820
U.S. and foreign corporate debt securities	—	4,126	4,126
Foreign governments and multi-national agency obligations	—	35	35
Municipal obligations	—	401	401
Asset-backed securities	—	5	5
Mortgage-backed securities	—	213	213
Total short-term investments	<u>\$ 485</u>	<u>\$ 5,115</u>	<u>\$ 5,600</u>
Other assets:			
Marketable available-for-sale equity securities	\$ 22	\$ —	\$ 22
December 31, 2015			
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 1,763	\$ —	\$ 1,763
Time deposits	—	5	5
Total cash equivalents	<u>\$ 1,763</u>	<u>\$ 5</u>	<u>\$ 1,768</u>
Short-term investments:			
Time deposits	\$ —	\$ 12	\$ 12
U.S. Government and agency obligations	543	207	750
U.S. and foreign corporate debt securities	—	3,252	3,252
Foreign governments and multi-national agency obligations	—	35	35
Municipal obligations	—	706	706
Asset-backed securities	—	20	20
Mortgage-backed securities	—	241	241
Total short-term investments	<u>\$ 543</u>	<u>\$ 4,473</u>	<u>\$ 5,016</u>
Other assets:			
Marketable available-for-sale equity securities	\$ 18	\$ —	\$ 18
Accrued expenses and other:			
Forward contracts	\$ —	\$ (1)	\$ (1)

VMware has elected not to record its notes payable to Dell at fair value, but has measured the notes at fair value for disclosure purposes. As of September 30, 2016, the fair value of the notes payable to Dell approximated its carrying value due to the minimal difference between the fair market interest rate as of September 30, 2016 and the fixed interest rate for the notes.

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

payable to Dell. As of December 31, 2015, the fair value of the notes payable to Dell was approximately \$1,474 million. Fair value was estimated primarily based on observable market interest rates (Level 2 inputs).

VMware offers a deferred compensation plan for eligible employees that allows participants to defer payment for part or all of their compensation. The net impact to the condensed consolidated statements of income is not significant since changes in the fair value of the assets substantially offset changes in the fair value of the liabilities. As such, assets and liabilities associated with this plan have not been included in the above tables. Assets and liabilities associated with this plan were both approximately \$33 million and \$20 million as of September 30, 2016 and December 31, 2015, respectively, and are included in other assets and other liabilities on the condensed consolidated balance sheets.

Assets Measured and Recorded at Fair Value on a Non-Recurring Basis

VMware has strategic investments in its portfolio accounted for under the cost method, which are periodically assessed for other-than-temporary impairment. VMware evaluates these investments to assess whether any of its strategic investments were other-than-temporarily impaired. VMware uses Level 3 inputs as part of its impairment analysis, including, pre- and post-money valuations of recent financing events and the impact of those on its fully diluted ownership percentages, as well as other available information regarding the issuer's historical and forecasted performance. The estimated fair value of these investments is considered in VMware's impairment review if any events or changes in circumstances occur that might have a significant adverse effect on their value. If VMware determines that an other-than-temporary impairment has occurred, VMware writes down the investments to their fair value.

During the three and nine months ended September 30, 2016, VMware determined that certain strategic investments were considered to be other-than-temporarily impaired and accordingly, approximately \$7 million and \$12 million, respectively, was recognized as an impairment charge. During the three and nine months ended September 30, 2015, approximately \$5 million was recognized as an impairment charge. All other realized gains and losses on investments during the three and nine months ended September 30, 2016 and 2015 were not significant. Strategic investments are included in other assets on the condensed consolidated balance sheets. The carrying value of VMware's strategic investments was \$124 million and \$103 million as of September 30, 2016 and December 31, 2015, respectively.

G. Derivatives and Hedging Activities

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

Cash Flow Hedges

To mitigate its exposure to foreign currency fluctuations resulting from operating expenses denominated in certain foreign currencies, VMware enters into forward contracts. The Company designates these forward contracts as cash flow hedging instruments as the accounting criteria for such designation have 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 condensed consolidated balance sheets and is subsequently reclassified to the related operating expense line item on the condensed consolidated statements of income in the same period that the underlying expenses are incurred. During the three and nine months ended September 30, 2016 and 2015, the effective portion of gains or losses reclassified to the condensed consolidated statements of income was not significant. Interest charges or "forward points" on VMware's forward contracts are excluded from the assessment of hedge effectiveness and are recorded in other income (expense), net on the condensed consolidated statements of income as incurred.

VMware enters into forward contracts annually, which have maturities of twelve months or less. As of September 30, 2016 and December 31, 2015, VMware had forward contracts designated as cash flow hedges with a total notional value of \$54 million and \$213 million, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract.

During the three and nine months ended September 30, 2016 and 2015, all cash flow hedges were considered effective.

Forward Contracts Not Designated as Hedges

VMware has established a program that utilizes forward contracts to offset the foreign currency risk associated with net outstanding monetary asset and liability positions. These forward contracts are not designated as hedging instruments under

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

applicable accounting guidance, and therefore all changes in the fair value of the forward contracts are reported in other income (expense), net on the condensed consolidated statements of income.

VMware enters into forward contracts on a monthly basis, which typically have a contractual term of one month. As of September 30, 2016 and December 31, 2015, VMware had outstanding forward contracts with a total notional value of \$539 million and \$721 million, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract.

VMware recognized a loss of \$12 million during the nine months ended September 30, 2016 relating to the settlement of forward contracts. During the three and nine months ended September 30, 2015, VMware recognized gains of \$12 million and \$33 million, respectively. Gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

The combined gains and losses derived from the settlement of forward contracts and the underlying foreign currency denominated assets and liabilities resulted in a net loss of \$10 million during the nine months ended September 30, 2015, respectively, and were not significant for all other periods presented. Net gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

H. Unearned Revenue

Unearned revenue as of September 30, 2016 and December 31, 2015 consisted of the following (table in millions):

	September 30, 2016	December 31, 2015
Unearned license revenue	\$ 425	\$ 428
Unearned software maintenance revenue	4,201	4,174
Unearned professional services revenue	468	474
Total unearned revenue	<u>\$ 5,094</u>	<u>\$ 5,076</u>

Unearned license revenue is generally recognized upon delivery of existing or future products or services, or are otherwise recognized ratably over the term of the arrangement. 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 the future product at no additional charge. To the extent the future product has not been delivered and vendor-specific objective evidence (“VSOE”) of fair value cannot be established, the revenue for the entire order is deferred until such time as all product delivery obligations have been fulfilled. In the event the arrangement does not include professional services, unearned license revenue may also be recognized ratably, if the customer is granted the right to receive unspecified future products or VSOE of fair value on the software maintenance element of the arrangement does not exist.

Unearned software maintenance revenue is attributable to VMware’s maintenance contracts and are generally recognized ratably over the contract period. The weighted-average remaining term at September 30, 2016 was approximately two years. Unearned professional services revenue results primarily from prepaid professional services, including training, and are generally recognized as the services are delivered.

Unearned license and software maintenance revenue will fluctuate based upon a variety of factors including sales volume, the timing of both product promotion offers and delivery of the future products offered, and the amount of arrangements sold with ratable revenue recognition. Additionally, the amount of unearned revenue derived from transactions denominated in a foreign currency is impacted by fluctuations in the foreign currencies in which VMware invoices.

I. Contingencies

Litigation

On March 27, 2015, Phoenix Technologies (“Phoenix”) filed a complaint against VMware in the U.S. District Court for the Northern District of California asserting claims for copyright infringement and breach of contract relating to a version of Phoenix’s BIOS software that VMware licensed from Phoenix. In the lawsuit, Phoenix is seeking injunctive relief and monetary damages. Trial is in process of being rescheduled to 2017. VMware believes that it has meritorious defenses in connection with this lawsuit, and currently a reasonably possible loss or range of loss cannot be estimated.

On March 4, 2015, Christoph Hellwig, a software developer who alleges that software code he wrote is used in a component of the Company’s vSphere product, filed a lawsuit against VMware in the Hamburg Regional Court in Germany alleging copyright infringement for failing to comply with the terms of an open source General Public License v.2 (“GPL v.2”) and seeking an order requiring VMware to comply with the GPL v.2 or cease distribution of any affected code within Germany.

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

On July 8, 2016, the German court issued a written decision dismissing Mr. Hellwig's lawsuit because he failed to show that his protectable software code had been used in VMware's product. On August 9, 2016, a Notice of Appeal was filed.

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

On November 17, 2015, Francis M. Ford, a VMware Class A stockholder, filed an action in the Delaware Chancery Court against certain current and former VMware directors, among others, alleging that the directors breached their fiduciary duties in connection with the Dell Acquisition, and the proposed issuance of tracking stock that is intended to track the performance of VMware. The plaintiff does not assert claims directly against VMware, but purports to bring class claims on behalf of other VMware Class A stockholders and derivative claims on behalf of VMware. In addition, on November 10, 2015, David Jacobs, also a VMware stockholder, filed an action in Massachusetts Superior Court against, among others, EMC and four directors who serve on both the EMC board and the VMware board, setting forth similar allegations to those in the *Ford* matter. While VMware does not believe that the cases represent material adverse exposures, no assurances can be given that the litigation will not have any adverse consequences for the company or the directors named in the suits.

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

VMware is also subject to other legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business or in connection with business mergers and acquisitions, including claims with respect to commercial, contracting and sales practices, product liability, intellectual property, employment, corporate and securities law, class action, whistleblower and other matters. From time to time, VMware also receives inquiries from and has discussions with government entities and stockholders on various matters. As of September 30, 2016, amounts accrued relating to these other matters arising as part of the ordinary course of business were not considered material. VMware does not believe that any liability from any reasonably foreseeable disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on its condensed consolidated financial statements.

J. Stockholders' Equity

VMware Stock Repurchases

During April 2016, VMware's board of directors authorized the repurchase of up to an aggregate of \$1,200 million of VMware's Class A common stock through the end of 2016. The aggregate authorized stock repurchase amount of \$1,200 million included the amount remaining from VMware's previous stock repurchase authorization announced on January 27, 2015 of \$835 million. All shares repurchased under VMware's stock repurchase programs are retired. The cumulative authorized amount remaining for stock repurchases as of September 30, 2016 was utilized during the fourth quarter of fiscal 2016.

The following table summarizes stock repurchase activity during the three and nine months ended September 30, 2016 and 2015 (aggregate purchase price in millions, shares in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Aggregate purchase price	\$ 1,016	\$ 200	\$ 1,016	\$ 1,050
Class A common shares repurchased	13,999	2,408	13,999	12,524
Weighted-average price per share	\$ 72.57	\$ 83.06	\$ 72.57	\$ 83.84

The aggregate purchase price of repurchased shares includes commissions and is classified as a reduction to additional paid-in capital.

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

VMware Stock Options

Stock option activity was not significant during the nine months ended September 30, 2016 . As of September 30, 2016 , there were 2.2 million stock options outstanding. The stock options outstanding as of September 30, 2016 had an aggregate intrinsic value of \$43 million based on VMware’s closing stock price as of September 30, 2016 .

VMware Restricted Stock

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

VMware’s 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 and, in certain cases, a time-based vesting component. Upon vesting, each PSU award will convert into VMware’s Class A common stock at various ratios ranging from 0.5 to 2.0 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 during the nine months ended September 30, 2016 (units in thousands):

	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Outstanding, January 1, 2016	18,693	\$ 77.29
Granted	11,008	57.73
Vested	(4,660)	79.72
Forfeited	(2,916)	77.01
Outstanding, September 30, 2016	22,125	67.08

The total fair value of VMware restricted stock that vested during the nine months ended September 30, 2016 was \$272 million . As of September 30, 2016 , restricted stock representing 22.1 million shares of VMware’s Class A common stock were outstanding, with an aggregate intrinsic value of \$1,623 million based on VMware’s closing stock price as of September 30, 2016 .

As of September 30, 2016, the total unrecognized compensation cost for stock options and restricted stock was \$1,080 million and will be recognized through 2020 with a weighted-average remaining period of 1.4 years.

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

Accumulated Other Comprehensive Income (Loss)

The changes in components of accumulated other comprehensive income (loss) during the nine months ended September 30, 2016 and 2015 were as follows (tables in millions):

	Unrealized Gain (Loss) on Available-for-Sale Securities	Unrealized Gain (Loss) on Forward Contracts	Total
Balance, January 1, 2016	\$ (7)	\$ (1)	\$ (8)
Unrealized gains (losses), net of taxes of \$12, \$0 and \$12	19	—	19
Amounts reclassified from accumulated other comprehensive income (loss) to the consolidated statement of income, net of taxes of \$3, \$0 and \$3	4	1	5
Balance, September 30, 2016	<u>\$ 16</u>	<u>\$ —</u>	<u>\$ 16</u>
	Unrealized Gain (Loss) on Available-for-Sale Securities	Unrealized Gain (Loss) on Forward Contracts	Total
Balance, January 1, 2015	\$ —	\$ (1)	\$ (1)
Unrealized gains (losses), net of taxes of \$1, \$0 and \$1	2	(4)	(2)
Balance, September 30, 2015	<u>\$ 2</u>	<u>\$ (5)</u>	<u>\$ (3)</u>

Unrealized gains on VMware's available-for-sale securities are reclassified to investment income on the condensed consolidated statements of income in the period that such gains 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 condensed consolidated statements of income in the same period that the underlying expenses are incurred. The amounts recorded to their related operating expense functional line items on the condensed consolidated statements of income during the three and nine months ended September 30, 2016 and 2015 were not significant to the individual functional line items.

K. Related Parties

The information provided below includes a summary of the transactions entered into with Dell and Dell's consolidated subsidiaries including EMC (collectively "Dell") from the effective date of the Dell Acquisition through September 30, 2016. References to transactions with Dell include transactions with EMC prior to September 7, 2016.

Transactions with Dell

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

- Pursuant to ongoing reseller arrangements with Dell, Dell bundles VMware's products and services with Dell's products and sells them to end users.
- Dell purchases products and services from VMware for internal use.
- VMware provides professional services to end users based upon contractual agreements with Dell.
- Pursuant to an ongoing distribution agreement, VMware acts as the selling agent for certain products and services of Pivotal Software, Inc. ("Pivotal"), a subsidiary of Dell, in exchange for an agency fee. Under this agreement, cash is collected from the end user by VMware and remitted to Pivotal, net of the contractual agency fee.
- VMware provides various services to Pivotal. Support costs incurred by VMware are reimbursed to VMware and are recorded as a reduction to the costs incurred by VMware.

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

Information about VMware's revenue and receipts from such arrangements during the three and nine months ended September 30, 2016 and 2015 and unearned revenue from such arrangements as of September 30, 2016 and December 31, 2015 consisted of the following (table in millions):

	Revenue and Receipts				Unearned Revenue	
	Three Months Ended		Nine Months Ended		As of	As of
	September 30,		September 30,		September 30,	December 31,
	2016	2015	2016	2015	2016	2015
Reseller revenue	\$ 98	\$ 68	\$ 261	\$ 199	\$ 553	\$ 292
Internal-use revenue	5	4	24	13	17	11
Professional services revenue	28	20	79	68	—	3
Agency fee revenue	1	1	3	4	—	—
Reimbursement for services to Pivotal	—	2	1	3	n/a	n/a

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

- VMware purchases and leases products and purchases services from Dell.
- From time to time, VMware and Dell enter into agreements to collaborate on technology projects, and VMware pays Dell for services provided to VMware by Dell related to such projects.
- In certain geographic regions where VMware does not have an established legal entity, VMware contracts with Dell subsidiaries for support services and Dell personnel who are managed by VMware. The costs incurred by Dell on VMware's behalf related to these employees are charged to VMware with a mark-up intended to approximate costs that would have been incurred had VMware contracted for such services with an unrelated third party. These costs are included as expenses on VMware's condensed consolidated statements of income and primarily include salaries, benefits, travel and rent expenses. Dell also incurs certain administrative costs on VMware's behalf in the U.S. that are recorded as expenses on VMware's condensed consolidated statements of income.
- From time to time, VMware invoices end users on behalf of Dell for certain services rendered by Dell. Cash related to these services is collected from the end user by VMware and remitted to Dell.

Information about VMware's costs from such arrangements for the three and nine months ended September 30, 2016 and 2015 consisted of the following (table in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Purchases and leases of products and purchases of services	\$ 24	\$ 14	\$ 58	\$ 45
Collaborative technology project costs	—	1	—	4
Dell subsidiary support and administrative costs	30	24	74	79

VMware also purchases Dell products through Dell's channel partners. Purchases of Dell products through Dell's channel partners were not significant during the three and nine months ended September 30, 2016. Purchases of Dell products through Dell's channel partners were \$7 million and \$33 million during the three and nine months ended September 30, 2015, respectively.

Dell Financial Services ("DFS")

DFS provides financing to certain of VMware's end customers based on the customer's discretion. Upon acceptance of the financing arrangement by both VMware's end customer and DFS, amounts classified as trade accounts receivable are reclassified to due from related parties on the condensed consolidated balance sheets. Amounts due from DFS as of September 30, 2016 were not significant.

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

Tax Sharing Agreement with Dell

On September 6, 2016, VMware entered into an amended tax sharing agreement with Dell, in connection with, and effective as of, the Dell Acquisition. The amended tax sharing agreement amends and restates the tax sharing agreement dated August 13, 2007 between VMware and EMC. Key contractual terms of the amended tax sharing agreement are substantially unchanged from the original agreement with EMC.

VMware has made payments to Dell pursuant to the tax sharing agreement. The following table summarizes the payments made during the three and nine months ended September 30, 2016 and 2015 (table in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Payments from VMware to Dell	\$ 54	\$ —	\$ 148	\$ 92

Payments from VMware to Dell under the tax sharing agreement relate to VMware's portion of federal income taxes on Dell's consolidated tax return as well as the state payments for combined states. The timing of the tax payments due to and from related parties is governed by the tax sharing agreement. The amounts that VMware pays to Dell for its portion of federal income taxes on Dell's consolidated tax return differ from the amounts VMware would owe on a separate return basis and the difference is presented as a component of stockholders' equity. The difference between the amount of tax calculated on a separate return basis and the amount of tax calculated per the tax sharing agreement was not significant during the three months ended September 30, 2016 and was \$13 million during the nine months ended September 30, 2016. During the three and nine months ended September 30, 2015, the difference was not significant.

EMC Equity Awards Held by VMware Employees

In connection with the Dell Acquisition, vesting was accelerated for all outstanding EMC stock options and restricted stock units and stock options were automatically exercised on the last trading day prior to the effective date of the merger. VMware's portion of the expense associated with accelerated EMC equity awards held by VMware employees was \$7 million and was included within stock-based compensation expense on the condensed consolidated statement of income during the three and nine months ended September 30, 2016.

Due To/From Related Parties, Net

As a result of the related party transactions with Dell described above, amounts due to and from related parties, net as of September 30, 2016 and December 31, 2015 consisted of the following (table in millions):

	September 30, 2016	December 31, 2015
Due (to) related parties	\$ (54)	\$ (68)
Due from related parties	77	142
Due (to) from related parties, net	\$ 23	\$ 74
Income tax due (to) from related parties	\$ —	\$ (18)

Balances due to and from related parties, which are unrelated to DFS and tax obligations, are generally settled in cash within 60 days of each quarter-end.

Notes Payable to Dell

VMware and Dell entered into a note exchange agreement on January 21, 2014 providing for the issuance of three promissory notes in the aggregate principal amount of \$1,500 million. The total debt of \$1,500 million includes \$450 million that was exchanged for the \$450 million promissory note issued to Dell in April 2007, as amended and restated in June 2011.

The three notes issued may be prepaid without penalty or premium, and outstanding principal is due on the following dates: \$680 million due May 1, 2018, \$550 million due May 1, 2020 and \$270 million due December 1, 2022. The notes bear interest, payable quarterly in arrears, at the annual rate of 1.75%. During the three and nine months ended September 30, 2016, \$7 million and \$20 million, respectively, of interest expense was recognized. During the three and nine months ended September 30, 2015, \$7 million and \$20 million, respectively, of interest expense was recognized.

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

Pivotal

During 2013, VMware transferred certain assets and liabilities to Pivotal in exchange for preferred equity interests in Pivotal's outstanding shares. As of December 31, 2015, VMware's ownership interest in Pivotal was 28% .

In April 2016, VMware contributed \$20 million in cash to Pivotal in exchange for additional preferred equity interests in Pivotal. After VMware's contribution, VMware's ownership interest in Pivotal was 17% and the cost method is being applied to this strategic investment. The decrease in VMware's ownership interest was a result of investments made by other investors.

L. Segment Information

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

Revenue by geographic area for the three and nine months ended September 30, 2016 and 2015 were as follows (table in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
United States	\$ 916	\$ 861	\$ 2,587	\$ 2,364
International	862	811	2,473	2,339
Total	\$ 1,778	\$ 1,672	\$ 5,060	\$ 4,703

Revenue by geographic area are based on the ship-to addresses of VMware's customers. No individual country other than the United States accounted for 10% or more of revenue for the three and nine months ended September 30, 2016 and 2015 .

Long-lived assets by geographic area, which primarily include property and equipment, net, as of September 30, 2016 and December 31, 2015 were as follows (table in millions):

	September 30, 2016	December 31, 2015
United States	\$ 793	\$ 831
International	128	148
Total	\$ 921	\$ 979

No individual country other than the United States accounted for 10% or more of these assets as of September 30, 2016 and December 31, 2015 , respectively.

M. Subsequent Events

On October 25, 2016, the VMware Board of Directors approved a change to VMware's fiscal year (which currently ends on December 31 of each calendar year) whereby each fiscal year will consist of a 52- or 53-week period ending on the Friday nearest to January 31 of each year. The change in VMware's fiscal year will be effective January 1, 2017 with the period ending on February 3, 2017, which will be reported as a transition period. Accordingly, VMware's first full fiscal year under the revised fiscal calendar will begin on February 4, 2017 and end on February 2, 2018.

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

The following management's discussion and analysis ("MD&A") is provided in addition to the accompanying condensed consolidated financial statements and notes to assist in understanding our results of operations and financial condition. Financial information as of September 30, 2016 should be read in conjunction with our consolidated financial statements for the year ended December 31, 2015 contained in our Form 10-K filed on February 25, 2016.

Period-over-period changes are calculated based upon the respective underlying, non-rounded data. Unless the context requires otherwise, we are referring to VMware, Inc. and its consolidated subsidiaries when we use the terms "VMware," the "Company," "we," "our" or "us."

Overview

The information technology ("IT") industry is transforming, moving from a hardware-based traditional model to one of a software-defined infrastructure. We are a leader in virtualization and cloud infrastructure solutions utilized by organizations to help transform the way they build, deliver and consume IT resources. We develop and market our product and service offerings within three main product groups, which are discussed in more detail below and allow organizations to leverage synergies and manage IT resources across complex multi-cloud, multi-device environments. Our three main product groups are:

- SDDC or Software-Defined Data Center
- Hybrid Cloud Computing
- End-User Computing

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

SDDC or Software-Defined Data Center

Our SDDC technologies are the basis for the private cloud environment and provide the capabilities for our customers to extend their private cloud to the public cloud and to help them run, manage, secure and connect all their applications across all clouds and devices. Historically, the majority of our license sales have been from VMware vSphere, which is included in our compute product category within our SDDC product group. However, the market for our compute products is reaching maturity, and VMware vSphere license sales have been declining. As the transformation of the IT industry continues, we expect that our growth of license sales within the SDDC product group will be increasingly derived from sales of our newer products and services solutions across our SDDC portfolio. We have experienced continued growth in sales volume of VMware NSX ("NSX"), our network virtualization solution. We also continue to see growth in sales volume of our VMware vSAN ("vSAN") products as well as other newer offerings.

Hybrid Cloud Computing

Our cloud strategy has three components: (i) continue to expand beyond compute virtualization in the private cloud, (ii) extend the private cloud into the public cloud, and (iii) connect and secure endpoints across a range of public clouds.

Hybrid cloud computing is comprised of VMware vCloud Air Network ("vCAN") Service Providers Program and VMware vCloud Air ("vCloud Air") offerings. We continue to see growth in revenue derived from vCAN. We have narrowed the focus of vCloud Air to provide specialized cloud software and services unique to VMware that are distinct from those offered by other cloud providers.

End-User Computing

End-user computing includes VMware Workspace ONE, which consists primarily of VMware AirWatch ("AirWatch") and Horizon desktop and application virtualization ("Horizon"). Our AirWatch business model includes an on-premise solution that we offer through the sale of perpetual licenses and an off-premise solution that we offer as software-as-a-service ("SaaS"). AirWatch products and services continued to contribute to the growth of our end-user computing product group during the three and nine months ended September 30, 2016.

Dell and EMC Merger

In October 2015, EMC Corporation ("EMC") and Dell Technologies Inc. ("Dell") (formerly Denali Holdings Inc.) entered into a definitive merger agreement, pursuant to which Dell acquired EMC in a transaction that closed on September 7, 2016 (the "Dell Acquisition").

As a result of the Dell Acquisition, VMware became a majority-owned subsidiary of Dell. As of September 30, 2016, Dell controlled 82.9% of our outstanding common stock and 97.7% of the combined voting power of our outstanding common stock, including 43 million shares of our Class A common stock and all of our Class B common stock. We will continue to operate as a publicly traded company.

On October 25, 2016, our Board of Directors approved a change to our fiscal year (which currently ends on December 31 of each calendar year) whereby each fiscal year will consist of a 52- or 53-week period ending on the Friday nearest to January 31 of each year. The change in our fiscal year will be effective January 1, 2017 with the period ending on February 3, 2017, which will be reported as a transition period. Accordingly, our first full fiscal year under our revised fiscal calendar will begin on February 4, 2017 and end on February 2, 2018.

Results of Operations

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

Revenue

Our revenue during the three and nine months ended September 30, 2016 and 2015 were as follows (dollars in millions):

	Three Months Ended					Nine Months Ended				
	September 30,		\$ Change	% Change		September 30,		\$ Change	% Change	
	2016	2015	Actual	Actual	Constant Currency	2016	2015	Actual	Actual	Constant Currency
Revenue:										
License	\$ 691	\$ 681	\$ 10	1%	1%	\$ 1,907	\$ 1,896	\$ 12	1%	1%
Services:										
Software maintenance	947	863	84	10		2,753	2,505	249	10	
Professional services	140	128	14	11		400	378	21	6	
Total services	1,087	991	97	10		3,153	2,883	270	9	
GSA settlement	—	—	—	n/a		—	(76)	76	(100)	
Total revenue	\$ 1,778	\$ 1,672	\$ 107	6	7	\$ 5,060	\$ 4,703	\$ 357	8	8
Revenue:										
United States	\$ 916	\$ 861	\$ 56	6%		\$ 2,587	\$ 2,364	\$ 223	9%	
International	862	811	51	6		2,473	2,339	135	6	
Total revenue	\$ 1,778	\$ 1,672	\$ 107	6	7	\$ 5,060	\$ 4,703	\$ 357	8	8

In order to provide a comparable framework for assessing how our business performed, adjusted for the impact of foreign currency fluctuations, management analyzed year-over-year license and total revenue growth on a constant currency basis. License and total revenue growth in constant currency are non-GAAP financial measures that are calculated by converting license and total revenue recognized during the current period derived from non-U.S. dollar based transactions into U.S. dollars using the exchange rates that were effective in the comparable prior year period. The calculated current period license and total revenue, adjusted for foreign currency fluctuations, is compared to the license and total revenue of the comparable prior year period, as reported, in calculating license and total revenue growth in constant currency. We believe this information is useful to investors to facilitate comparisons of operating results and better identify trends in our business. These constant currency performance measures should be viewed in addition to, and not in lieu of or superior to, our operating performance measures calculated in accordance with GAAP.

Hybrid cloud, including vCAN and vCloud Air, and our SaaS offerings, including our AirWatch mobile solutions, increased to approximately 8% of our total revenue during the three and nine months ended September 30, 2016. vCAN revenue is generally included in license revenue and our SaaS revenue, including vCloud Air and our AirWatch mobile solutions, is included in both license and services revenue.

While we are seeing strong growth across our portfolio of emerging products, our compute products are reaching maturity and the sales of these products are expected to represent a decreasing percentage of our total business going forward. Our total revenue growth has slowed in 2016 as sales continue to transition to our emerging products.

License Revenue

License revenue increased slightly during the three months ended September 30, 2016 when compared with the same period in 2015. While we experienced stronger than expected sales of our compute products during the three months ended September 30, 2016, we continue to expect a decline in compute license sales over the longer-term as the market is reaching maturity. Strong sales of our compute and management offerings as well as our install base continue to enable sales of our newer offerings, including NSX and vSAN. Additionally, we continue to experience growth in our vCAN offering while sales of our end-user computing desktop products declined.

While license revenue increased slightly during the nine months ended September 30, 2016, we experienced a decline both in sales of our compute products and end-user computing desktop products as compared to the same period in 2015. Offsetting this decline was increased sales in our emerging products and increased growth derived from our hybrid cloud and SaaS offerings.

Services Revenue

During the three and nine months ended September 30, 2016, software maintenance revenue benefited from renewals of our software enterprise agreements, maintenance contracts sold in previous periods and additional maintenance contracts sold in conjunction with new software license sales. In each period presented, customers purchased, on a weighted-average basis, more than 24 months of support and maintenance with each new license purchased.

Professional services revenue increased during the three and nine months ended September 30, 2016 when compared to the same period in 2015. As we continue to invest in our partners and expand our ecosystem of third-party professionals with expertise in our offerings to independently provide professional services to our customers, our professional services revenue will vary based on the delivery channels used in any given period as well as the timing of service engagements.

GSA Settlement

During June 2015, we reached an agreement with the Department of Justice (“DOJ”) and the General Services Administration (“GSA”) to pay \$76 million to resolve allegations that our government sales practices between 2006 and 2013 had violated the federal False Claims Act. The settlement was paid and recorded as a reduction of our total revenue during the nine months ended September 30, 2015.

Unearned Revenue

Our unearned revenue as of September 30, 2016 and December 31, 2015 were as follows (table in millions):

	September 30, 2016	December 31, 2015
Unearned license revenue	\$ 425	\$ 428
Unearned software maintenance revenue	4,201	4,174
Unearned professional services revenue	468	474
Total unearned revenue	<u>\$ 5,094</u>	<u>\$ 5,076</u>

Unearned license revenue is generally recognized upon delivery of existing or future products or services, or is otherwise recognized ratably over the term of the arrangement. 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 the future product at no additional charge. To the extent the future product has not been delivered and vendor-specific objective evidence (“VSOE”) of fair value cannot be established, the revenue for the entire order is deferred until such time as all product delivery obligations have been fulfilled. In the event the arrangement does not include professional services, unearned license revenue may also be recognized ratably, if the customer is granted the right to receive unspecified future products or VSOE of fair value on the software maintenance element of the arrangement does not exist.

Unearned software maintenance revenue is attributable to our maintenance contracts and is generally recognized ratably over the contract period. The weighted-average remaining term at September 30, 2016 was approximately two years. Unearned professional services revenue results primarily from prepaid professional services, including training, and is generally recognized as the services are delivered.

Unearned license and software maintenance revenue will fluctuate based upon a variety of factors including sales volume, the timing of both product promotion offers and delivery of the future products offered, and the amount of arrangements sold

with ratable revenue recognition. Additionally, the amount of unearned revenue derived from transactions denominated in a foreign currency is impacted by fluctuations in the foreign currencies in which we invoice.

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

Our cost of services revenue and operating expenses were primarily impacted by increasing employee-related expenses including salaries, bonuses, commissions and stock-based compensation across most of our income statement expense categories, net of realignment activities, when compared to the same period in 2015. We expect this trend to continue. As part of the realignment plan approved in January 2016, we have been reinvesting the associated savings primarily in research and development as well as sales and marketing.

In calculating the impact of foreign currency fluctuations on cost of license revenue, cost of services revenue and operating expenses, we converted expenses recognized during the current period derived from non-U.S. dollar based transactions into U.S. dollars using the exchange rates that were effective in the comparable prior year period and compared the calculated amount to the amount, as reported, in the comparable prior year period.

Cost of License Revenue

Our cost of license revenue principally consists of the cost of fulfillment of our software, royalty costs in connection with technology licensed from third-party providers and amortization of intangible assets. The cost of fulfillment of our software includes personnel costs and related overhead associated with the physical and electronic delivery of our software products.

Our cost of license revenue during the three and nine months ended September 30, 2016 and 2015 was as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30,		\$ Change	% Change	September 30,		\$ Change	% Change
	2016	2015			2016	2015		
Cost of license revenue	\$ 40	\$ 46	\$ (6)	(13)%	\$ 119	\$ 141	\$ (22)	(15)%
Stock-based compensation	—	—	—	4	2	1	—	5
Total expenses	\$ 40	\$ 46	\$ (6)	(13)	\$ 121	\$ 142	\$ (22)	(15)
<i>% of License revenue</i>	6%	7%			6%	8%		

Cost of license revenue decreased during the three and nine months ended September 30, 2016 compared to the same periods in 2015 primarily due to a decrease in royalty costs of \$4 million and \$13 million, respectively. In addition, amortization of intangible assets decreased by \$6 million during the nine months ended September 30, 2016 due to certain intangible assets becoming fully amortized.

Cost of Services Revenue

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

Our cost of services revenue during the three and nine months ended September 30, 2016 and 2015 was as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30,		\$ Change	% Change	September 30,		\$ Change	% Change
	2016	2015			2016	2015		
Cost of services revenue	\$ 213	\$ 201	\$ 11	6%	\$ 620	\$ 577	\$ 43	7%
Stock-based compensation	13	11	3	25	38	32	6	18
Total expenses	\$ 226	\$ 212	\$ 14	7	\$ 658	\$ 609	\$ 48	8
<i>% of Services revenue</i>	21%	21%			21%	21%		

Cost of services revenue increased during the three and nine months ended September 30, 2016 compared to the same periods in 2015. The increase was primarily due to growth in cash-based employee-related expenses of \$17 million and \$45 million during the three and nine months ended September 30, 2016, respectively.

Research and Development Expenses

Our research and development expenses include the personnel and related overhead associated with the development of our product software and service offerings.

Our research and development expenses during the three and nine months ended September 30, 2016 and 2015 were as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30,		\$ Change	% Change	September 30,		\$ Change	% Change
	2016	2015			2016	2015		
Research and development	\$ 309	\$ 275	\$ 34	13%	\$ 885	\$ 794	\$ 90	11%
Stock-based compensation	80	56	24	42	224	164	61	37
Total expenses	\$ 389	\$ 331	\$ 58	18	\$ 1,109	\$ 958	\$ 151	16
<i>% of Total revenue</i>	22%	20%			22%	20%		

Research and development expenses increased during the three and nine months ended September 30, 2016 compared to the same periods in 2015. These increases were primarily driven by growth in cash-based employee-related expenses of \$32 million and \$80 million during the three and nine months ended September 30, 2016, respectively. In addition, stock-based compensation increased by \$24 million and \$61 million during the three and nine months ended September 30, 2016, respectively, primarily driven by an increase in restricted stock awards granted. Equipment and depreciation costs also increased by \$10 million during the nine months ended September 30, 2016.

Sales and Marketing Expenses

Our 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 for our license offerings are generally earned and expensed when a firm order is received from the customer.

Our sales and marketing expenses during the three and nine months ended September 30, 2016 and 2015 were as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30,		\$ Change	% Change	September 30,		\$ Change	% Change
	2016	2015			2016	2015		
Sales and marketing	\$ 513	\$ 513	\$ —	—%	\$ 1,562	\$ 1,532	\$ 30	2%
Stock-based compensation	51	43	8	20	146	124	22	18
Total expenses	\$ 564	\$ 556	\$ 8	1	\$ 1,708	\$ 1,656	\$ 52	3
<i>% of Total revenue</i>	32%	33%			34%	35%		

Sales and marketing expense increased during the three and nine months ended September 30, 2016 compared to the same periods in 2015. These increases were primarily driven by growth in cash-based employee-related expenses of \$23 million and \$80 million during the three and nine months ended September 30, 2016, respectively, partially due to higher sales commission expense resulting from increased sales volume. In addition, stock-based compensation increased by \$8 million and \$22 million during the three and nine months ended September 30, 2016 primarily driven by an increase in restricted stock awards granted. These increases were partially offset by decreases in costs incurred for marketing programs and related initiatives of \$18 million and \$30 million during the three and nine months ended September 30, 2016, respectively. In addition, sales and marketing expenses decreased by \$3 million and \$20 million during the three and nine months ended September 30, 2016, respectively, due to fluctuations in the exchange rates for foreign currencies in which we incur expenses.

General and Administrative Expenses

Our 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.

Our general and administrative expenses during the three and nine months ended September 30, 2016 and 2015 were as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30,				September 30,			
	2016	2015	\$ Change	% Change	2016	2015	\$ Change	% Change
General and administrative	\$ 152	\$ 185	\$ (33)	(18)%	\$ 454	\$ 521	\$ (66)	(13)%
Stock-based compensation	26	16	10	59	62	47	14	31
Total expenses	\$ 178	\$ 201	\$ (23)	(12)	\$ 516	\$ 568	\$ (51)	(9)
<i>% of Total revenue</i>	10%	12%			10%	12%		

General and administrative expenses decreased during the three and nine months ended September 30, 2016 compared to the same periods in 2015. These decreases were primarily driven by a decrease in installment payments to certain key employees of AirWatch that were subject to the achievement of specified employment conditions. Compensation expense relating to these installment payments decreased by \$36 million and \$103 million during the three and nine months ended September 30, 2016, respectively. The final installment payment to key employees of AirWatch occurred during the first quarter of 2016.

These decreases in general and administrative expenses were partially offset by an increase in cash-based employee-related expenses of \$10 million and \$17 million and stock-based compensation of \$10 million and \$14 million during the three and nine months ended September 30, 2016, respectively. Equipment, depreciation and facilities-related costs also increased by \$14 million during the nine months ended September 30, 2016. Charitable contributions decreased by \$7 million and increased by \$7 million during the three and nine months ended September 30, 2016, respectively.

Realignment

Our realignment expenses during the nine months ended September 30, 2016 and 2015 were as follows (dollars in millions):

	Nine Months Ended			
	September 30,			
	2016	2015	\$ Change	% Change
Realignment	\$ 52	\$ 20	\$ 32	159%
<i>% of Total revenue</i>	1%	—%		

On January 22, 2016, we approved a plan to streamline our operations, with plans to reinvest the associated savings in field, technical and support resources associated with growth products. As a result of these actions, approximately 800 positions were eliminated during the nine months ended September 30, 2016. We recognized \$49 million of severance-related realignment expenses during the nine months ended September 30, 2016 on the condensed consolidated statements of income. Additionally, we consolidated certain facilities as part of this plan, which resulted in the recognition of \$3 million of related expenses during the nine months ended September 30, 2016 on the condensed consolidated statements of income. Actions associated with this plan were substantially completed by June 30, 2016.

During fiscal 2015, we eliminated approximately 350 positions across all major functional groups and geographies to streamline our operations. As a result of these actions, \$20 million of realignment expenses were recognized during the nine months ended September 30, 2015, which consisted of severance-related costs.

Realignment expenses during the three months ended September 30, 2016 and 2015 were not significant.

Income Tax Provision

Our quarterly effective income tax rate is based on our estimated annual income tax rate forecast and discrete items. Our quarterly effective income tax rate was 17.6% and 19.4% during the three and nine months ended September 30, 2016,

respectively. For the three and nine months ended September 30, 2015, our effective income tax rate was 21.4% and 18.0%, respectively. Our estimated annual effective income tax rate forecast increased during 2016 primarily as a result of a shift in the mix of our earnings from our lower tax non-U.S. jurisdictions to the U.S. Our quarterly effective income tax rate decreased for the three months ended September 30, 2016, compared to the same period in 2015, primarily due to discrete items which included a \$12 million tax benefit recognized in connection with a lapse of the statute of limitations.

Our rate of taxation in non-U.S. jurisdictions is lower than our U.S. tax rate. Our non-U.S. earnings are primarily earned by our subsidiaries organized in Ireland, and as such, our annual effective tax rate can be significantly impacted by the composition of our earnings in the U.S. and non-U.S. jurisdictions.

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

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

The Dell-owned EMC consolidated group is routinely under audit by the Internal Revenue Service ("IRS"). All U.S. federal income tax matters have been concluded for years through 2010, except for any matters under appeal. The IRS is currently auditing the Dell-owned EMC consolidated group's federal tax returns for tax year 2011. In addition, we are under corporate income tax audits in various states and non-U.S. jurisdictions.

Our future effective tax rate may be affected by such factors as changes in tax laws, changes in our business, 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 and shifts in the amount of earnings in the U.S. compared with other regions in the world as well as the expiration of statute of limitations and settlements of audits.

Our Relationship with Dell

As of September 30, 2016, Dell controlled 43 million shares of Class A common stock and all 300 million shares of Class B common stock, representing 82.9% of our total outstanding shares of common stock and 97.7% of the combined voting power of our outstanding common stock. For a description of related risks, refer to "Risks Related to Our Relationship with Dell and the Dell Acquisition" in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The information provided below includes a summary of the transactions entered into with Dell and Dell's consolidated subsidiaries including EMC (collectively "Dell") from the effective date of the Dell Acquisition through September 30, 2016. References to transactions with Dell include transactions with EMC prior to September 7, 2016.

Transactions with Dell

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

- Pursuant to ongoing reseller arrangements with Dell, Dell bundles our products and services with Dell's products and sells them to end users.
- Dell purchases products and services from us for internal use.
- We provide professional services to end users based upon contractual agreements with Dell.
- Pursuant to an ongoing distribution agreement, we act as the selling agent for certain products and services of Pivotal Software, Inc. ("Pivotal"), a subsidiary of Dell, in exchange for an agency fee. Under this agreement, cash is collected from the end user by us and remitted to Pivotal, net of the contractual agency fee.
- We provide various services to Pivotal. Support costs incurred by us are reimbursed to us and are recorded as a reduction to the costs incurred by us.

Information about our revenue and receipts from such arrangements during the three and nine months ended September 30, 2016 and 2015 and unearned revenue from such arrangements as of September 30, 2016 and December 31, 2015 consisted of the following (table in millions):

	Revenue and Receipts				Unearned Revenue	
	Three Months Ended		Nine Months Ended		As of	As of
	September 30,		September 30,		September 30,	December 31,
	2016	2015	2016	2015	2016	2015
Reseller revenue	\$ 98	\$ 68	\$ 261	\$ 199	\$ 553	\$ 292
Internal-use revenue	5	4	24	13	17	11
Professional services revenue	28	20	79	68	—	3
Agency fee revenue	1	1	3	4	—	—
Reimbursement for services to Pivotal	—	2	1	3	n/a	n/a

We and Dell engaged in the following ongoing intercompany transactions, which resulted in costs to us:

- We purchase and lease products and purchase services from Dell.
- From time to time, we and Dell enter into agreements to collaborate on technology projects, and we pay Dell for services provided to us by Dell related to such projects.
- In certain geographic regions where we do not have an established legal entity, we contract with Dell subsidiaries for support services and Dell personnel who are managed by us. The costs incurred by Dell on our behalf related to these employees are charged to us with a mark-up intended to approximate costs that would have been incurred had we contracted for such services with an unrelated third party. These costs are included as expenses on our condensed consolidated statements of income and primarily include salaries, benefits, travel and rent expenses. Dell also incurs certain administrative costs on our behalf in the U.S. that are recorded as expenses on our condensed consolidated statements of income.
- From time to time, we invoice end users on behalf of Dell for certain services rendered by Dell. Cash related to these services is collected from the end user by us and remitted to Dell.

Information about our costs from such arrangements for the three and nine months ended September 30, 2016 and 2015 consisted of the following (table in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Purchases and leases of products and purchases of services	\$ 24	\$ 14	\$ 58	\$ 45
Collaborative technology project costs	—	1	—	4
Dell subsidiary support and administrative costs	30	24	74	79

We also purchase Dell products through Dell's channel partners. Purchases of Dell products through Dell's channel partners were not significant during the three and nine months ended September 30, 2016. Purchases of Dell products through Dell's channel partners were \$7 million and \$33 million during the three and nine months ended September 30, 2015, respectively.

Dell Financial Services ("DFS")

DFS provides financing to certain of our end customers based on the customer's discretion. Upon acceptance of the financing arrangement by both our end customer and DFS, amounts classified as trade accounts receivable are reclassified to due from related parties on the condensed consolidated balance sheets. Amounts due from DFS as of September 30, 2016 were not significant.

Tax Sharing Agreement with Dell

On September 6, 2016, we entered into an amended tax sharing agreement with Dell, in connection with, and effective as of, the Dell Acquisition. The amended tax sharing agreement amends and restates the tax sharing agreement dated August 13, 2007 between us and EMC. Key contractual terms of the amended tax sharing agreement are substantially unchanged from the original agreement with EMC.

We have made payments to Dell pursuant to the tax sharing agreement. The following table summarizes the payments made during the three and nine months ended September 30, 2016 and 2015 (table in millions):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Payments from us to Dell	\$ 54	\$ —	\$ 148	\$ 92

Payments from us to Dell under the tax sharing agreement relate to our portion of federal income taxes on Dell's consolidated tax return as well as the state payments for combined states. The timing of the tax payments due to and from related parties is governed by the tax sharing agreement. The amounts that we pay to Dell for our portion of federal income taxes on Dell's consolidated tax return differ from the amounts we would owe on a separate return basis and the difference is presented as a component of stockholders' equity. The difference between the amount of tax calculated on a separate return basis and the amount of tax calculated per the tax sharing agreement was not significant during the three months ended September 30, 2016 and was \$13 million during the nine months ended September 30, 2016. During the three and nine months ended September 30, 2015, the difference was not significant.

EMC Equity Awards Held by Our Employees

In connection with the Dell Acquisition, vesting was accelerated for all outstanding EMC stock options and restricted stock units and stock options were automatically exercised on the last trading day prior to the effective date of the merger. Our portion of the expense associated with accelerated EMC awards held by our employees was \$7 million and was included within stock-based compensation expense on the condensed consolidated statement of income during the three and nine months ended September 30, 2016.

Due To/From Related Parties, Net

As a result of the related party transactions with Dell described above, amounts due to and from related parties, net as of September 30, 2016 and December 31, 2015 consisted of the following (table in millions):

	September 30, 2016	December 31, 2015
Due (to) related parties	\$ (54)	\$ (68)
Due from related parties	77	142
Due (to) from related parties, net	\$ 23	\$ 74
Income tax due (to) from related parties	\$ —	\$ (18)

Balances due to and from related parties, which are unrelated to DFS and tax obligations, are generally settled in cash within 60 days of each quarter-end.

Notes Payable to Dell

We and Dell entered into a note exchange agreement on January 21, 2014 providing for the issuance of three promissory notes in the aggregate principal amount of \$1,500 million. The total debt of \$1,500 million includes \$450 million that was exchanged for the \$450 million promissory note issued to Dell in April 2007, as amended and restated in June 2011.

The three notes issued may be prepaid without penalty or premium, and outstanding principal is due on the following dates: \$680 million due May 1, 2018, \$550 million due May 1, 2020 and \$270 million due December 1, 2022. The notes bear interest, payable quarterly in arrears, at the annual rate of 1.75%. During the three and nine months ended September 30, 2016, \$7 million and \$20 million, respectively, of interest expense was recognized. During the three and nine months ended September 30, 2015, \$7 million and \$20 million, respectively, of interest expense was recognized.

Pivotal

During 2013, we transferred certain assets and liabilities to Pivotal in exchange for preferred equity interests in Pivotal's outstanding shares. As of December 31, 2015, our ownership interest in Pivotal was 28%.

In April 2016, we contributed \$20 million in cash to Pivotal in exchange for additional preferred equity interests in Pivotal. After our contribution, our ownership interest in Pivotal was 17% and the cost method is being applied to this strategic investment. The decrease in our ownership interest was a result of investments made by other investors.

Liquidity and Capital Resources

At September 30, 2016 and 2015, we held cash, cash equivalents and short-term investments as follows (table in millions):

	September 30,	
	2016	2015
Cash and cash equivalents	\$ 2,654	\$ 2,083
Short-term investments	5,600	5,139
Total cash, cash equivalents and short-term investments	<u>\$ 8,254</u>	<u>\$ 7,222</u>

As of September 30, 2016, we held a diversified portfolio of money market funds, time deposits and fixed income securities totaling \$7,689 million. Our fixed income securities are denominated in U.S. dollars and primarily consist of highly liquid debt instruments of the U.S. Government and its agencies, municipal obligations, mortgage-backed securities and U.S. and foreign corporate debt securities. We limit the amount of our domestic and international investments with any single issuer and monitor the diversity of the portfolio and the amount of investments held at any single financial institution, thereby diversifying our credit risk. As of September 30, 2016, our total cash, cash equivalents and short-term investments were \$8,254 million, of which \$6,659 million 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 substantially all of the 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 that cash generated by operations will be our primary source of liquidity. We also 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, investments and stock repurchases. Should we require additional liquidity, we may seek to arrange debt financing or enter into credit facilities.

Our cash flows summarized for the nine months ended September 30, 2016 and 2015 were as follows (table in millions):

	Nine Months Ended	
	September 30,	
	2016	2015
Net cash provided by (used in):		
Operating activities	\$ 1,917	\$ 1,411
Investing activities	(752)	(362)
Financing activities	(1,004)	(1,037)
Net increase (decrease) in cash and cash equivalents	<u>\$ 161</u>	<u>\$ 12</u>

Operating Activities

Cash provided by operating activities increased \$506 million during the nine months ended September 30, 2016 as compared to the same period in 2015, driven by increased cash collections during the nine months ended September 30, 2016. Additionally, cash provided by operating activities during the nine months ended September 30, 2015 reflects payments for legal settlements, including \$76 million for the GSA settlement. These increases were partially offset by an increase in cash payments for employee-related expenses including salaries, bonuses and commissions, resulting primarily from growth in headcount, and increased severance payments as part of our realignment plan.

During the first quarter of 2016, we made our final installment payment of \$29 million to certain key employees of AirWatch.

Investing Activities

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

Cash used in investing activities increased \$390 million during the nine months ended September 30, 2016 as compared to the same period in 2015 primarily as a result of the increase in net cash used for net purchases of our available-for-sale securities and an increase in cash used in business acquisitions of \$38 million. These increases were partially offset by a decrease in property and equipment additions.

The decrease in restricted cash during the nine months ended September 30, 2015 includes \$75 million released from escrow and paid to certain employees of AirWatch. The release from escrow was reflected as an inflow within investing activities while the payment to the employees was reflected as an outflow within operating activities.

Financing Activities

Cash used in financing activities decreased \$32 million during the nine months ended September 30, 2016 as compared to the same period in 2015, primarily as a result of a decrease in our repurchase of common stock.

Notes Payable to Dell

As of September 30, 2016, \$1,500 million remained outstanding on notes payable to Dell, with interest payable quarterly in arrears.

In connection with our acquisition of AirWatch, we entered into a note exchange agreement with Dell on January 21, 2014 providing for the issuance of three promissory notes in the aggregate principal amount of \$1,500 million. The total debt of \$1,500 million included \$450 million that was exchanged for the \$450 million promissory note issued to Dell in April 2007, as amended and restated in June 2011.

The three notes issued have the following principal amounts and maturity dates: \$680 million due May 1, 2018, \$550 million due May 1, 2020 and \$270 million due December 1, 2022.

The notes bear interest at the annual rate of 1.75%. Interest is payable quarterly in arrears. The notes may be prepaid without penalty or premium. We drew down on all three notes in late January 2014.

Stock Repurchase Program

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

During April 2016, our board of directors authorized the repurchase of up to an aggregate of \$1,200 million of our Class A common stock through the end of 2016. The aggregate authorized stock repurchase amount of \$1,200 million included the \$835 million remaining from our previous stock repurchase authorization announced on January 27, 2015. During the three months ended September 30, 2016, we repurchased 14.0 million shares for an aggregate purchase price of \$1,016 million. Domestic cash was used to fund repurchases of our Class A common stock. The cumulative authorized amount remaining for stock repurchases as of September 30, 2016 was utilized during the fourth quarter of 2016. Refer to Note J of the "Notes to Condensed Consolidated Financial Statements" for further discussion.

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), we are required to make estimates, assumptions and judgments that affect the amounts reported on our financial statements and the accompanying disclosures. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. We base our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to our financial statements. We believe that the critical accounting policies and estimates set forth within Item 7 of our 2015 Annual Report on Form 10-K involve a higher degree of judgment and complexity in their application than our other significant accounting policies. Our senior management has reviewed our critical accounting policies and related disclosures with the Audit Committee of the Board of Directors. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements, including, without limitation, statements regarding expectations of, or our plans for: the IT industry transformation and our related strategic positioning; expected benefits to customers of our product and service offerings; sales growth in our newer products and services solutions; slowing of total revenue growth in 2016 as sales transition to emerging products; the level of overall license revenue growth in 2016; impact on professional services revenue of expanding our ecosystem of third-party professionals with expertise in our offerings; impact of fluctuations in unearned license and software maintenance revenues and in the foreign currencies in which

we invoice; impacts of employee-related expenses; continuing to be included in the consolidated tax group of Dell; indefinitely reinvesting our overseas earnings outside of the U.S. and not repatriating them to the U.S.; the sufficiency of our liquidity and capital reserves to fund our normal operating requirements; our ability to generate positive cash flows from operations; our ability to obtain liquidity, arrange debt financing or enter into credit facilities, should additional liquidity be required; and the effect on us of the resolutions of pending claims, legal proceedings and investigations and other matters described in Note I of the “Notes to Condensed Consolidated Financial Statements.”

These forward-looking statements involve risks and uncertainties and the cautionary statements set forth above and those contained in the section of this report entitled “Risk Factors” identify important factors that could cause actual results to differ materially from those predicted in any such forward-looking statements. All forward-looking statements in this document are made as of the date hereof, based on information available to us as of the date hereof. We assume no obligation to, and do not currently intend to, update these forward-looking statements.

Available Information

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

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

The information found on our website is not part of, and is not incorporated by reference into, this or any other report we file with, or furnish to, the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes to our market risk exposures during the nine months ended September 30, 2016. See Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our 2015 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 Securities Exchange Act of 1934, amended (the “Exchange Act”), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended September 30, 2016 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

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

ITEM 1A. RISK FACTORS

The risk factors that appear below could materially affect our business, financial condition and operating results. The risks and uncertainties described below are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies. Specific risk factors related to our status as a controlled subsidiary of Dell Technologies Inc. (“Dell”) (formerly Denali Holding Inc.) following Dell’s acquisition of our majority stockholder EMC Corporation (“EMC”) on September 7, 2016 (the “Dell Acquisition”), including, among other things, overlapping business opportunities, Dell’s ability to control certain transactions and resource allocations and related persons transactions with Dell and its other affiliated companies, are set forth below under the heading “Risks Related to Our Relationship with Dell and the Dell Acquisition.”

Risks Related to Our Business

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

Our products and services are primarily based on server virtualization and related compute technologies used for virtualizing on-premise data center servers, which form the foundation for private cloud computing. As the market for server virtualization continues to mature, sales of our vSphere hypervisor product have begun to decline. We are increasingly directing our product development and marketing efforts toward products and services that enable businesses to utilize virtualization as the foundation for private, public and hybrid cloud-based computing and mobile computing, including our vSphere-based software-defined data center (“SDDC”) products such as our management and automation and network virtualization (“NSX”) offerings, our Horizon client virtualization offerings, our AirWatch mobile device management offerings and VMware vSAN (“vSAN”) storage virtualization offerings. We have also been introducing software-as-a-service (“SaaS”) versions of our on-premises products, including VMware Horizon Suite and certain AirWatch offerings, and are working to extend our SDDC and NSX offerings into the public cloud and to introduce cross-cloud products and services. These initiatives present new and difficult technological and compliance challenges, and significant investments will be required to develop or acquire solutions to address those challenges. Our success depends on our current and future customers perceiving technological and operational benefits and cost savings associated with adopting our private and hybrid cloud solutions and our client virtualization and mobile device management solutions. As the market for our server virtualization products continues to mature, and the scale of our business has increased, our rate of revenue growth increasingly depends upon the success of our newer product and service offerings. To the extent that our emerging products and services are adopted more slowly than revenue growth in our established server virtualization offerings declines, our revenue growth rates may slow materially or our revenue may decline substantially and our operating results could be materially adversely affected.

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

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

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

The virtualization, cloud computing, end-user computing and software-defined data center industries are inter-related and rapidly evolving, and we face intense competition across all the markets for our products and services. Many of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater

financial, technical, sales, marketing and other resources than we do. Additionally, the adoption of public cloud, micro-services, containers, and open source technologies has the potential to erode our profitability.

We face competition from, among others:

Providers of public cloud infrastructure and SaaS-based offerings. As businesses increasingly utilize public cloud and SaaS-based offerings, they are building more of their new compute workloads off-premises and may also shift some of their existing workloads. As a result, the demand for on-premises IT resources is expected to slow, and our products and services will need to increasingly compete for customers' IT workloads with off-premises public cloud and SaaS-based offerings. If we fail to develop products and services that address evolving customer requirements and that complement and or compete with off-premises compute resources offered by competitors, the demand for VMware's virtualization products and services may decline, and we could experience lower growth. Additionally, vCloud Air Network offerings from our partners and certain vCloud Air offerings may compete directly with infrastructure-as-a service ("IaaS") offerings from various public cloud providers such as Amazon and Microsoft. In October 2016, we and Amazon announced a strategic alliance to deliver a vSphere-based cloud service running on Amazon Web Services. Although we expect our strategic alliance to provide significant advantages to customers when it is generally available, our strategic alliance with Amazon and our vCloud Air Network offerings from our other partners may not prevent or completely offset a decline in demand for our virtualization products and services. Our strategic alliance with Amazon may also be seen as competitive with other vCloud Air Network offerings and adversely affect our relationship with other vCloud Air Network partners.

Large, diversified enterprise software and hardware companies. These competitors supply a wide variety of products and services to, and have well-established relationships with, our current and prospective end users. For example, small- to medium-sized businesses and companies in emerging markets that are evaluating the adoption of virtualization-based technologies and solutions may be inclined to consider Microsoft solutions because of their existing use of Windows and Office products. Some of these competitors have in the past and may in the future take advantage of their existing relationships to engage in business practices that make our products and services less attractive to our end users. Other competitors have limited or denied support for their applications running in VMware virtualization environments. In addition, these competitors could integrate competitive capabilities into their existing products and services and make them available without additional charge. For example, Oracle provides free server virtualization software intended to support Oracle and non-Oracle applications, 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 and prospective VMware customers may elect to use products that are perceived to be "free" or "very low cost" instead of purchasing VMware products and services for certain applications where they do not believe that more advanced and robust capabilities are required.

Companies offering competing platforms based on open source technologies. Open source technologies for virtualization, containerization and cloud platforms such as Xen, KVM, Docker, Rocket and OpenStack provide significant pricing competition and enable competing vendors to leverage these open source technologies to compete directly with our SDDC initiative. Enterprises and service providers have shown significant interest in building their own clouds based on open source projects such as OpenStack, and other companies have indicated their intention to expand offerings of virtual management and cloud computing solutions as well. Additionally, a number of enterprise IT hardware vendors have released solutions based on OpenStack including HP, IBM and Cisco.

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

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

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

The loss of key management personnel could harm our business.

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

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

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

Adverse economic conditions may harm our business.

Our business depends on the overall demand for information technology (“IT”) and on the economic health of our current and prospective customers. The purchase of our products and services is often discretionary and may involve a significant commitment of capital and other resources. Weak economic conditions or significant uncertainty regarding the stability of financial markets could adversely impact our business, financial condition and operating results in a number of ways, including by lengthening sales cycles, affecting the size of enterprise agreements (“EAs”) that customers will commit to, reducing the level of our non-EA transactional sales, lowering prices for our products and services, reducing unit sales and reducing the rate of adoption of our products and services by new customers and the willingness of current customers to purchase upgrades to our existing products and services. For example, a recurrence of the sovereign debt crisis in Europe, repercussions from the vote by the United Kingdom to exit the European Union or that region’s failure to recover from recession would threaten to suppress demand and our customers’ access to credit in that region, which is an important market for our products and services. In addition, recent economic instability in Brazil, China and Russia has adversely affected our operating results in these countries, and our operating results may be further adversely affected if this economic instability continues or spreads to neighboring markets. In response to sustained economic uncertainty, many national and local governments that are current or prospective customers for our products and services, including the U.S. federal government, have made, or threatened to make, significant spending cutbacks which could reduce the amount of government spending on IT and the potential demand for our products and services from the government sector.

Regional economic uncertainty can also result in general and ongoing tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy and significant volatility in the credit, equity and fixed income markets. 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 revenue from these customers until we receive payment, which could adversely affect the amount of revenue we are able to recognize and our cash flows in a particular period.

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

The virtualization, cloud computing, end-user computing and SDDC industries are characterized by rapid technological change, changing customer needs, frequent new software product introductions and evolving industry standards. The introduction of third-party solutions embodying new technologies and the emergence of new industry standards could make our existing and future software solutions obsolete and unmarketable. Cloud computing has proven to be a disruptive technology that is altering the way that businesses consume, manage and provide physical IT resources, applications, data and IT services. We may not be able to establish or sustain our thought leadership in the cloud computing and enterprise software fields, and our customers may not view our products and services as innovative and best-of-breed, which could result in a reduction in market share and our inability to command a pricing premium over competitor products and services. We may not be able to develop updated products and services that keep pace with technological developments and emerging industry standards, that address the increasingly sophisticated needs of our customers or that interoperate with new or updated operating systems and hardware devices.

Our ability to react quickly to new technology trends and customer requirements is negatively impacted by the length of our development cycle for new products and services and product and service enhancements, which has frequently been longer than we originally anticipated. This is due in part to the increasing complexity of our product offerings as we increase their interoperability, introduce them into product suites and maintain their compatibility with multiple IT resources utilized by our customers, which can significantly increase the development time and effort necessary to achieve the interoperability of product suite components while maintaining product quality. If we are unable to evolve our solutions and offerings in time to respond to and remain ahead of new technological developments, our ability to retain or increase market share and revenue in the virtualization, cloud computing, end-user computing and SDDC industries could be materially adversely affected. With respect to our SDDC products, if we fail to introduce compelling new features in future upgrades to our VMware vSphere product line, manage the transition to hybrid cloud platforms, develop new or tightly integrate existing applications for our virtualization technology that address customer requirements for integration, automation and management of their IT systems with public cloud resources, overall demand for products and services based on VMware vSphere may decline.

We are exposed to foreign exchange risks.

Because we conduct business in currencies other than the U.S. dollar but report our operating results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. During the nine months ended September 30, 2016, approximately 30% of our sales were invoiced and collected in non-U.S. dollar denominated currencies. The realized gain or loss on foreign currency transactions is dependent upon the types of foreign currency transactions that we enter into, the exchange rates associated these transactions and changes in those rates, the net realized gain or loss on our foreign currency forward contracts, and other factors. Although we hedge a portion of our foreign currency exposure, a significant fluctuation in exchange rates between the U.S. dollar and foreign currencies may adversely affect our operating results. For example, we experienced a measurable negative impact to our revenue in 2015 and early 2016 due to exchange rate fluctuations. Any further weakening of foreign currency exchange rates against the U.S. dollar would likely result in additional adverse impact on our revenue.

Our operating results may fluctuate significantly.

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

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

- fluctuations in demand, adoption rates, sales cycles (which have been increasing in length) and pricing levels for our products and services;
- changes in customers' budgets for information technology purchases and in the timing of their purchasing decisions;
- the timing of recognizing revenue in any given quarter, which 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 timing of announcements or releases of new or upgraded products and services by us or by our competitors;
- the timing and size of business realignment plans and restructuring charges;
- our ability to maintain scalable internal systems for reporting, order processing, license fulfillment, product delivery, purchasing, billing and general accounting, among other functions;
- our ability to control costs, including our operating expenses;
- credit risks of our distributors, who account for a significant portion of product revenue and accounts receivable;
- our ability to process sales at the end of quarter;
- seasonal factors such as the end of fiscal period budget expenditures by our customers and the timing of holiday and vacation periods;
- renewal rates and the amounts of the renewals for EAs as original EA terms expire;
- the timing and amount of internally developed software development costs that may be capitalized;

- unplanned events that could affect market perception of the quality or cost-effectiveness of our products and solutions; and
- our ability to accurately predict the degree to which customers will elect to purchase our subscription-based offerings in place of licenses to our on-premises offerings.

Breaches of our cybersecurity systems could seriously harm our business.

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 penetrated our network security and our website in the past and may do so in the future. These cyberattacks threaten to misappropriate our proprietary information, cause interruptions of our IT services and commit fraud. Because the techniques used by unauthorized persons to access or sabotage networks change frequently and may not be recognized until launched against a target, we may be unable to anticipate these tactics. Further, if unauthorized access or sabotage remains undetected for an extended period of time, the effects of such breach could be exacerbated. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including “bugs” and other problems that could unexpectedly interfere with the operation of our systems and processes. Our exposure to cybersecurity threats and negative consequences of cybersecurity breaches will likely increase as our customers conduct more purchase and service transactions online, and we store increasing amounts of customer data and host or manage parts of customers’ businesses in cloud-based IT environments.

We have also outsourced a number of our business functions to third parties, and we rely upon distributors, resellers, system vendors and systems integrators to sell our products and services. Accordingly, if our cybersecurity systems and those of our contractors, partners and vendors fail to protect against breaches, our ability to conduct our business could be damaged in a number of ways, including:

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

Should any of the above events occur, we could be subject to significant claims for liability from our customers, we could face regulatory actions from governmental agencies, our ability to protect our intellectual property rights could be compromised, our reputation and competitive position could be significantly harmed and we could incur significant costs in order to upgrade our cybersecurity systems and remediate damages. Consequently, our business, financial condition and operating results could be adversely affected.

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

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

- difficulties in enforcing contracts and collecting accounts receivable and longer payment cycles, especially in emerging markets;
- difficulties in delivering support, training and documentation in certain foreign markets;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products and services in certain foreign markets;
- economic or political instability and security concerns in countries that are important to our international sales and operations;
- difficulties in transferring funds from certain countries;
- increased compliance risks, particularly in emerging markets; and

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

For example, recent economic instability in Brazil, China and Russia has adversely affected our operating results in these countries, and our operating results may be further adversely affected if this economic instability continues or spreads to neighboring markets. Additionally, the Chinese government is working to implement new network security standards that will require IT systems being sold into certain key sectors to be certified as “secure and controllable.” As part of that effort, in December 2014, standards were implemented in the banking sector requiring IT companies selling to Chinese banks to submit their software and other technology to intrusive security testing, include indigenous Chinese intellectual property and encryption technology in their software and disclose source code and other proprietary information to the Chinese government. Implementation of these standards was subsequently suspended in light of concerns communicated by banks and other parties. However, in 2015 and 2016, the government has continued to enact or propose additional laws and regulations to address information and network security. For example, in July 2015, China enacted a State Security Law authorizing the government to implement a system for maintaining the security of networks and information, and it also published a draft cyber security law that proposed various specific information security and network security measures to enhance “cyber sovereignty.” In November 2015, the insurance regulator in China issued draft insurance cyber rules that would require insurance companies to have compliant encryption tools, secure and compliant hardware and software products, and data storage. In December 2015, China enacted an Anti-Terrorism Law that gives local public security and state security authorities the broad discretionary authority to require companies to provide access to their equipment and decryption support in particular cases. Failure to comply with such requests can result in fines and imprisonment. In addition, a broad range of businesses will be required to verify the identities of customers and prohibit the provision of services to customers whose identities are unclear or who refuse to cooperate in the verification process. In June 2016, China’s legislature tabled a second draft of a Network Security Law that contemplates data localization measures and other network security measures relevant to a vaguely defined scope of “key information infrastructure.” If we are not able to, or choose not to, comply with these and other information and network security standards that the Chinese government might implement in the future, our business in China may suffer.

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

In addition, potential fallout from past disclosures related to the U.S. Internet and communications surveillance and possible efforts to enable increased surveillance could make foreign customers reluctant to purchase products and services from U.S.-based technology companies and impair our growth rate in foreign markets.

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

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

Developing our products and services is expensive. In particular, developing and launching disruptive technologies in new areas, as we are continuing to do with our VMware NSX virtual networking and vSAN virtual storage initiatives, requires significant investments of resources and often entails greater risk than incremental investments in existing products and services. Our investment in research and development may not result in marketable products or services or may result in products and services that generate less revenue than we anticipate. Our research and development expenses were approximately 22% of our total revenue during the nine months ended September 30, 2016. Our future plans include significant investments in software research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we may not receive significant revenue from these investments for several years, if at all.

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

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

Detecting and protecting against the unauthorized use of our products, technology proprietary rights and intellectual property rights is expensive, difficult and, in some cases, impossible. Litigation is necessary from time to time to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary

rights of others. Despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property, which could result in a substantial loss of our market share.

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

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

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

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

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

In March 2015, a software developer who alleges that software code he wrote is used in a component of our vSphere product filed a lawsuit against us in Germany alleging copyright infringement for failing to comply with the terms of an open source license General Public License v.2 (“GPL v.2”) and seeking an order requiring us to comply with the GPL v.2 or cease distribution of any affected code within Germany. On July 8, 2016, the German court issued a written decision dismissing the lawsuit. On August 9, 2016, a Notice of Appeal was filed. An adverse outcome to this claim on appeal or to other claims could have a material adverse impact on our intellectual property rights, our operating results and financial condition.

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

Our increasing focus on developing and marketing IT management and automation and IaaS (including software-defined networking, vCloud Air, vCloud Air Network and integrated virtual desktop and mobile device) offerings that enable customers to transform their IT systems requires a greater focus on marketing and selling product suites and more holistic solutions, rather than selling on a product-by-product basis. Consequently, we have developed, and must continue to develop, new strategies for marketing and selling our offerings. Additionally, the duration of sales cycles for our offerings has increased as our customers’ purchasing decisions become more complex and require additional levels of approval. In addition, marketing and selling new technologies to enterprises requires significant investment of time and resources in order to educate customers on the benefits of our new product offerings. These investments can be costly and the additional effort required to educate both customers and our own sales force can distract from their efforts to sell existing products and services.

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

If we cannot adapt our business models to keep pace with industry trends, including the industry-wide transition to cloud-based computing, our revenue could be negatively impacted. Certain of our new product initiatives, such as our vCloud Air and SaaS offerings, have a subscription model. As we increase our adoption of subscription-based pricing models for our products, we may fail to set pricing at levels appropriate to maintain our revenue streams or our customers may choose to deploy products from our competitors that they believe are priced more favorably. In addition, we may fail to accurately predict subscription renewal rates or their impact on operating results, and because revenue from subscriptions is recognized for our services over the term of the subscription, downturns or upturns in sales may not be immediately reflected in our results. Additionally, as customers transition to our hybrid cloud and SaaS products and services, our revenue growth rate may be adversely impacted during the period of transition as we will recognize less revenue up front than we would otherwise recognize as part of the multi-year license arrangements through which we typically sell our established offerings. Finally, as we offer more services that depend on converting users of free services to users of premium services and converting purchasers

of our on-premises products to our SaaS offerings, and as such services grow in size, our ability to maintain or improve and to predict conversion rates will become more important.

Our products and services are highly technical and may contain errors, defects or security vulnerabilities.

Our products and services are highly technical and complex and, when deployed, have contained and may contain errors, defects or security vulnerabilities. Some errors in our products or services may only be discovered after a product or service has been installed and used by customers. Undiscovered vulnerabilities in our products or services could expose our customers to hackers or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attack our products or services. In the past, VMware has been made aware of public postings by hackers of portions of our source code. It is possible that the released source code could expose unknown security vulnerabilities in our products and services that could be exploited by hackers or others. We may also inherit unknown security vulnerabilities when we integrate the products or services of other companies into VMware products or services. Actual or perceived errors, defects or security vulnerabilities in our products or services could harm our reputation and lead some customers to return products or services, reduce or delay future purchases or use competitive products or services.

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

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

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

The success of our products depends upon the cooperation of hardware and software vendors to ensure interoperability with our products and offer compatible products and services to end users. In addition, we intend to extend the functionality of various products to work with native public cloud applications, which may require the cooperation of public cloud vendors. To the extent that hardware, software and public cloud vendors perceive that their products and services compete with ours or those of our controlling stockholder, Dell, which completed its acquisition of EMC in September 2016, they may have an incentive to withhold their cooperation, decline to share access or sell to us their proprietary APIs, protocols or formats, or engage in practices to actively limit the functionality, compatibility and certification of our products. In addition, vendors may fail to certify or support or continue to certify or support our products for their systems. If any of the foregoing occurs, our product development efforts may be delayed or foreclosed and it may be difficult and more costly for us to achieve functionality and service levels that would make our services attractive to end users, any of which could negatively impact our business and operating results.

Disruptions to our distribution channels could harm our business.

Our future success is highly dependent on our relationships with distributors, resellers, system vendors and systems integrators, which account for a significant portion of our revenue. Recruiting and retaining qualified channel partners and training them in the use of our technology and product offerings requires significant time and resources. Our failure to maintain good relationships with channel partners would likely lead to a loss of end users of our products and services, which would adversely affect our revenue. We generally do not have long-term contracts or minimum purchase commitments with our distributors, resellers, system vendors and systems integrators, and our contracts with these channel partners do not prohibit them from offering products or services that compete with ours.

Three of our distributors each accounted for 10% or more of our consolidated revenue during the nine months ended September 30, 2016. Although we believe that we have in place, or would have in place by the date of any such termination, agreements with replacement distributors sufficient to maintain our revenue from distribution, if we were to lose the distribution services of a significant distributor, such loss could have a negative impact on our operating results until such time as we arrange to replace these distribution services with the services of existing or new distributors.

Our vCloud Air and SaaS offerings rely on third-party providers for data center space and colocation services.

Our vCloud Air and SaaS offerings rely upon third-party providers to supply data center space, equipment maintenance and other colocation services. Although we have entered into various agreements for the lease of data center space, equipment maintenance and other services, third parties could fail to live up to the contractual obligations under those agreements. The failure of a third-party provider to prevent service disruptions, data losses or security breaches may require us to issue credits or refunds or indemnify or otherwise be liable to customers or third parties for damages that may occur. Additionally, if these third-party providers fail to deliver on their obligations, our reputation could be damaged, our customers could lose confidence in us and our ability to maintain and expand our vCloud Air and SaaS offerings would be impaired.

Joint ventures may not yield expected benefits and outcomes.

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

SaaS offerings, which involve various risks, constitute an important part of our business.

As we continue to develop and offer SaaS versions of our products, we will need to continue to evolve our processes to meet a number of regulatory, intellectual property, contractual and service compliance challenges. These challenges include compliance with licenses for open source and third party software embedded in our SaaS offerings, maintaining compliance with export control and privacy regulations, including HIPAA, protecting our services from external threats, maintaining the continuous service levels and data security expected by our customers, preventing the inappropriate use of our services and adapting our go-to-market efforts.

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

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

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

Refer to Note I of the "Notes to Condensed Consolidated Financial Statements" for a description of certain claims and litigation.

Improper disclosure and use of personal data could result in liability and impact our business.

Our business is subject to a wide variety of laws and regulations regarding privacy and protection of personal data. Federal, state and foreign governments and agencies have adopted or are considering adopting laws and regulations regarding the collection, storage, use and disclosure of this information. We collect contact and other personal or identifying information from our customers, and our customers increasingly use our services to store and process personal information and other regulated data, including protected health information subject to stringent data privacy laws. In the course of providing employee compensation and benefits, we also maintain personal data of our employees and share that information with third party payroll and benefits providers. Our hybrid cloud computing service offerings, pursuant to which we offer hybrid cloud services and enable third-party service providers to offer hybrid cloud services built on our technology, expose us to particularly significant risks. We rely on the contractual representations of these third parties that they do not violate any applicable privacy laws and regulations or their own privacy policies.

Any failure or perceived failure by us or our business partners to comply with posted privacy policies, other federal, state or international privacy-related or data protection laws and regulations, or the privacy commitments contained in contracts could result in proceedings against us by governmental entities or others and significant fines, which could have a material adverse effect on our business and operating results and harm our reputation. Further, any systems failure, unauthorized access

or other compromise of our security that results in the release of our customers' or employees' data could (i) subject us to substantial damage claims, (ii) expose us to costly regulatory remediation, (iii) harm our reputation and brand, and (iv) disrupt our business activities. The application of U.S. and international data privacy laws and regulations to cloud computing vendors is evolving and 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 with whom we may partner. Additionally, privacy laws and regulations could negatively affect demand for our services, thereby reducing our revenue.

A new European Union data protection law, the General Data Protection Regulation, which will become effective in May 2018, is wide-ranging in scope. In order to meet the new EU requirements, we will have to invest resources necessary to implement policy changes across our business units and services relating to how we collect and use personal data relating to customers, employees and vendors. Failure to comply may lead to sizeable fines. EU data protection regulators are expected to publish guidance for compliance with the new law which may further impact our information processing activities. In parallel, with the advent of the EU-US Privacy Shield (the new framework agreement between the US Department of Commerce and the European Commission for transferring personal data from the European Union to the US), we expect that the international transfer of personal data will present ongoing compliance challenges and complicate our business transactions as we negotiate and implement suitable arrangements with international customers and international and domestic vendors. In addition, countries outside the EU are considering or have passed legislation that requires local storage and processing of data, which could increase the cost and complexity of delivering our services. Our current arrangements for the transfer of personal data will also need to continue to adapt to future judicial decisions and future rulemaking activity as laws on privacy and the protection of personal data continue to evolve in the countries in which we do business.

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

Contracts with many of our customers include unique and specialized performance requirements. In particular, our contracts with federal, state, local and non-U.S. governmental customers and our arrangements with distributors and resellers who may sell directly to governmental customers are subject to various procurement regulations, contract provisions and other requirements relating to their formation, administration and performance. Any failure by us to comply with provisions in our customer contracts or any violation of government contracting regulations could result in the imposition of various civil and criminal penalties, which may include termination of contracts, forfeiture of profits, suspension of payments and, in the case of our government contracts, fines and suspension from future government contracting. Further, any negative publicity related to our customer contracts or any proceedings surrounding them, regardless of its accuracy, may damage our business and affect our ability to compete for new contracts. In the ordinary course of business, we also receive inquiries from and have ongoing discussions with government entities regarding the compliance of our contracting and sales practices with laws and regulations. In June 2015, we reached an agreement with the Department of Justice ("DOJ") and the General Services Administration ("GSA") to pay \$76 million to resolve allegations that our government sales practices between 2006 and 2013 had violated the federal False Claims Act. As set forth in the settlement agreement, VMware denied the allegations and did not admit liability. A failure in the future to comply with federal and state governmental contracting requirements could result in the termination of customer contracts, our suspension from government work, the imposition of fines or other government sanctions or an inability to compete for new contracts, any of which could adversely affect our business, operating results or financial condition.

Acquisitions and dispositions could harm our business and operating results.

We have acquired in the past, and plan to acquire in the future, other businesses, products or technologies, and from time to time we dispose of businesses, products and technologies. These transactions involve significant risks and uncertainties, which include:

- disrupting our ongoing operations, diverting management from day-to-day responsibilities, increasing our expenses, and adversely impacting our business, financial condition and operating results;
- failure of an acquired business to further our business strategy;
- uncertainties in achieving the expected benefits of an acquisition or disposition, including enhanced revenue, technology, human resources, cost savings, operating efficiencies and other synergies;
- reducing cash available for operations, stock repurchase programs and other uses and resulting in potentially dilutive issuances of equity securities or the incurrence of debt;
- incurring amortization expense related to identifiable intangible assets acquired that could impact our operating results;
- difficulty integrating the operations, systems, technologies, products and personnel of acquired businesses effectively;

- the need to provide transition services in connection with a disposition, which may result in the diversion of resources and focus;
- difficulty achieving expected business results due to a lack of experience in new markets, products or technologies or the initial dependence on unfamiliar distribution partners or vendors;
- retaining and motivating key personnel from acquired companies;
- declining employee morale and retention issues affecting employees of businesses that we acquire or dispose of, which may result from changes in compensation, or changes in management, reporting relationships, future prospects or the direction of the acquired or disposed business;
- assuming the liabilities of an acquired business, including acquired litigation-related liabilities and regulatory compliance issues, and potential litigation or regulatory action arising from a proposed or completed acquisition;
- lawsuits resulting from an acquisition or disposition;
- maintaining good relationships with customers or business partners of an acquired business or our own customers as a result of any integration of operations;
- unidentified issues not discovered during the diligence process, including issues with the acquired business's intellectual property, product quality, security, privacy practices, accounting practices, regulatory compliance or legal contingencies;
- maintaining or establishing acceptable standards, controls, procedures or policies with respect to an acquired business;
- risks relating to the challenges and costs of closing a transaction; and
- the need to later divest acquired assets at a loss if an acquisition does not meet our expectations.

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. As of September 30, 2016, goodwill and amortizable intangible assets were \$4,032 million and \$538 million, respectively. We review our goodwill and amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We test goodwill for impairment at least annually. Factors that may lead to impairment include a substantial decline in stock price and market capitalization or cash flows, reduced future cash flow estimates related to the assets and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined, which would negatively impact our operating results.

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

We rely on our information systems and those of third parties for processing customer orders, delivering products, providing services and support to our customers, billing and tracking our customers, fulfilling contractual obligations and otherwise running our business. If our systems fail, our disaster and data recovery planning and capacity may prove insufficient to enable timely recovery of important functions and business records. Any disruption in our information systems and those of the third parties upon whom we rely could have a significant impact on our business. In addition, we continuously work to enhance our information systems. For example, we are in the midst of a multi-year project to replace our enterprise resource planning software. The implementation of these types of enhancements is frequently disruptive to the underlying business of an enterprise, which may especially be the case for us due to the size and complexity of our business. Implementation may disrupt internal controls and business processes and could introduce unintended vulnerability to error. Additionally, our information systems may not support new business models and initiatives and significant investments could be required in order to upgrade them. 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. Additionally, delays in adapting our information systems to address new business models could limit the success or result in the failure of such initiatives and impair the effectiveness of our internal controls. 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 operating results could be negatively impacted.

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

As a multinational corporation, we are subject to income taxes as well as non-income based taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in both the United States and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenue and expenses in different jurisdictions and

the timing of recognizing revenue and expenses. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. We are subject to income and indirect tax examinations. The Dell-owned EMC consolidated group is routinely under audit by the Internal Revenue Service (the “IRS”). All U.S. federal income tax matters have been concluded for years through 2010, except for any matters under appeal. The IRS is currently auditing the Dell-owned EMC consolidated group’s federal tax returns for tax year 2011. In addition, we are under corporate income tax audits in various states and non-U.S. jurisdictions. While we believe we have complied with all applicable income tax laws, a governing tax authority could have a different interpretation of the law and assess us with additional taxes. Any assessment of additional taxes could materially affect our financial condition and operating results.

Our future effective tax rate may be affected by such factors as changes in tax laws, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation, the impact of accounting for business combinations, changes in the composition of global earnings, the expiration of statute of limitations, settlements of audits, changes in our international organization and changes in overall levels of income before tax.

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

Our rate of taxation in foreign jurisdictions is lower than our U.S. tax rate. Our international income is primarily earned by our subsidiaries organized in Ireland, and, as such, our effective tax rate can be impacted by the composition of our earnings in the U.S. and foreign jurisdictions. During October 2014, Ireland announced revisions to its tax regulations that will require foreign earnings of our subsidiaries organized in Ireland to be taxed at higher rates. We will be impacted by the changes in tax laws in Ireland beginning in 2021. Prior to this date, we may proactively make structural changes in Ireland that may reduce the impact to our future tax rates. Currently, there are certain structural changes in Ireland that may be available to multi-national companies. However, due to the Dell Acquisition, we could be subject to higher tax obligations in the event we executed similar structural changes.

Numerous other countries have recently enacted or are considering enacting changes to tax laws, administrative interpretations, decisions, policies and positions. The Organisation for Economic Cooperation and Development issued guidelines and proposals during October 2015 that may change how our tax obligations are determined in many of the countries in which we do business. These changes could adversely affect our effective tax rate or result in higher cash tax liabilities.

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

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

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

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States. These principles are subject to interpretation by the SEC and various bodies formed to create and interpret appropriate accounting principles and guidance. A change in these principles or guidance, or in their interpretations, may have a significant effect on our reported results, as well as our processes and related controls, and may retroactively affect previously reported results. For example, during May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The updated standard is effective for us in the first quarter of 2018 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted, but not earlier than the first quarter of 2017. We have not selected a transition method and are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

Risks Related to Our Relationship with Dell and the Dell Acquisition

Our stock price has fluctuated significantly since the announcement of the Dell Acquisition, and the Dell Acquisition may adversely impact our business and stock price in the future.

In October 2015, EMC and Dell announced the Dell Acquisition, pursuant to which Dell acquired EMC in a transaction that closed on September 7, 2016. In connection with the Dell Acquisition, Dell issued a tracking stock to EMC shareholders, Class V common stock, that is intended to reflect our economic performance as partial consideration to the EMC shareholders. The Class V common stock tracks the performance of an approximately 53% economic interest in our business.

Our stock price has fluctuated significantly since the announcement of the Dell Acquisition. A number of factors relating to the Dell Acquisition could adversely affect our business or our stock price during the pendency or following the closing of the Dell Acquisition, including:

- Dell is able to control matters requiring our stockholders' approval, including the election of a majority of our directors and the other matters over which EMC formerly had control, as described in the risk factors below.
- Dell could implement changes to our business, including changing our commercial relationship with Dell and EMC or taking other corporate actions that our other stockholders may not view as beneficial.
- We have arrangements with a number of companies that compete with Dell, and the completion of the Dell Acquisition could adversely affect our relationship with these companies or other customers, suppliers and partners.
- Dell has a right of consent to matters formerly requiring EMC's approval under our certificate of incorporation, including acquisitions or investments in excess of \$100 million, and Dell may choose not to consent to matters that our board of directors believes are in the best interests of VMware.
- We anticipate certain synergies and benefits from the Dell Acquisition that may not be realized.
- The Class V common stock issued by Dell on September 7, 2016, while not a VMware issued security, increases the supply of publicly traded securities that track VMware's economic performance and may create the perception that the Class V common stock dilutes the holdings of our public stockholders, both of which may put downward pressure on our stock price. While the price of Class V common stock was initially relatively stable, it may be volatile from time-to-time as a consistent trading market in Class V common stock is established. Any volatility in the market for Class V common stock could contribute to volatility in the price of VMware Class A common stock.
- With the closing of the Dell Acquisition, Dell has become more highly leveraged and may be required to commit a substantial portion of its cash flows to servicing its indebtedness. While Dell has publicly stated that it plans to leave VMware free to use its cash to invest in the VMware business, Dell's significant debt could create the perception that Dell may exercise its control over us to limit our growth in favor of its other businesses or cause us to transfer cash to Dell. In addition, if Dell defaults, or appears in danger of defaulting, on its indebtedness, the trading price of the Class V common stock issued by Dell would be adversely affected, which could negatively impact the price of our Class A common stock, and uncertainty as to the impact of such a default on VMware could disrupt our business.
- Some of our products compete directly with products sold or distributed by Dell, which could result in reduced sales.
- The consummation of the Dell Acquisition creates uncertainty for our employees, which could make it difficult to attract and retain employees.
- The consummation of the Dell Acquisition could distract management's focus from executing on other strategic initiatives.
- The Dell Acquisition creates potential litigation risk. Various lawsuits have been filed against EMC and others in connection with the Dell Acquisition, including two in which the Company and our directors are named as defendants. It is possible that we or our directors may be named in other lawsuits.

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

As of September 30, 2016, Dell controlled 43,025,000 shares of our Class A common stock and all 300,000,000 shares of our Class B common stock, representing 82.9% of the total outstanding shares of common stock or 97.7% of the voting power of outstanding common stock held by EMC. Through its control of the Class B common stock, which is generally entitled to 10 votes per share, Dell controls the vote to elect all of our directors and to approve or disapprove all other matters submitted to a stockholder vote.

Prior to a distribution by Dell to its stockholders under Section 355 of the Internal Revenue Code of 1986, as amended (a "355 Distribution"), shares of Class B common stock transferred to any party other than a successor-in-interest or a subsidiary of EMC automatically convert into Class A common stock. Dell's voting control over VMware will continue so long as the shares of Class B common stock it controls continue to represent at least 20% of our outstanding stock. If its ownership falls below 20% of the outstanding shares of our common stock, all outstanding shares of Class B common stock will automatically convert to Class A common stock. If Dell effects a 355 Distribution at a time when it holds shares of Class B common stock, its stockholders will receive Class B common stock. These shares will remain entitled to 10 votes per share, holders of these shares

will remain entitled to elect 80% of the total number of directors on our board of directors and the holders of our Class A common stock will continue to have limited ability to influence matters requiring stockholder approval and have limited ability to elect members of our board of directors. Following a 355 Distribution, shares of Class B common stock may convert to Class A common stock if such conversion is approved by VMware stockholders after the 355 Distribution and we have obtained a private letter ruling from the Internal Revenue Service. In January 2014, the IRS announced in Revenue Procedure 2014-3 that, generally, it would no longer issue private letter rulings on 355 Distributions.

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

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

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

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

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

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

As of September 30, 2016, Dell controlled 82.9% of VMware's outstanding common stock, and Dell's percentage ownership of VMware common stock could increase as a result of repurchases by VMware of our Class A common stock or purchases by Dell. Section 253 of the Delaware General Corporation Law permits a parent company, when it owns 90% or more of each class of a subsidiary's stock that generally would be entitled to vote on a merger of that subsidiary with the parent, to unilaterally effect a merger of the subsidiary into the parent without a vote of the subsidiary's board or stockholders. Accordingly, if Dell becomes the holder of at least 90% of VMware's outstanding stock, neither VMware's board of directors nor VMware's stockholders would be entitled to vote on a merger of VMware into Dell (the "short-form merger"). Moreover, a short-form merger is not subject to the stringent "entire fairness" standard and the parent company is not required to negotiate with a special committee of disinterested directors that would serve to approximate arm's length negotiations designed to ensure that a fair price is paid. Rather, a minority stockholder's sole remedy in the context of a short-form merger is to exercise appraisal rights under Delaware law. In such a proceeding, petitioning stockholders may be awarded more or less than the merger price or the amount they would have received in a merger negotiated between the parent and a disinterested special committee advised by independent financial and legal advisors. Dell has publicly stated that from the completion of the Dell Acquisition through the two-year anniversary of its completion, it will not acquire any shares of common stock of VMware if such acquisition would cause the common stock of VMware to no longer be publicly traded on a U.S. securities exchange or VMware to no longer be required to file reports under Sections 13 and 15(d) of the Exchange Act, in each case, unless such acquisition of VMware common stock is required in order for VMware to continue to be a member of the affiliated group of corporations filing a consolidated tax return with Dell.

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

We currently engage in a number of related persons transactions with Dell that include joint product development, go-to-market, branding, sales, customer service activities, real estate and various support services, and we expect to engage in additional related persons transactions with Dell to leverage the benefits of our strategic alignment. Additionally, we contributed technology and transferred employees to Pivotal Software, Inc. (“Pivotal”) in 2013 and continue to hold a significant ownership interest in Pivotal. For more information, refer to Note K of the “Notes to Condensed Consolidated Financial Statements” and “Our Relationship with Dell” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this periodic report and “Transactions with Related Persons” in the proxy statement for our 2016 annual meeting of stockholders.

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

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

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

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

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

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

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

The realignment of our fiscal calendar to coincide with Dell’s and Dell’s reporting on our financial results may result in fluctuations in our stock price, and errors in our implementation of the realignment could adversely impact our business operations and financial results.

EMC previously provided segment reporting on VMware in EMC’s public reports of its financial results, and it is expected that Dell will do the same. However, the fiscal calendars for Dell and VMware do not currently align. VMware reports on a calendar year basis whereas Dell reports on a 52- or 53-week fiscal year basis ending on the Friday nearest to January 31 of each year. On October 25, 2016, our Board of Directors approved a change to VMware’s fiscal calendar effective January 1, 2017 so that our fiscal calendar will align with Dell’s.

The change in VMware's fiscal year will be effective January 1, 2017, and the period beginning on January 1, 2017 and ending on February 3, 2017 will be reported as a transition period (the "Transition Period"). Accordingly, VMware's first full fiscal year under its revised fiscal calendar will begin on February 4, 2017 and end on February 2, 2018. As a result of the change, the Company's fiscal periods will correspond with Dell's.

VMware will include results for the Transition Period in the first Form 10-Q that it will file in fiscal year 2018 for the fiscal quarter ending May 5, 2017. VMware will not file a separate transition report. Following the change in its fiscal calendar, VMware will compare results from each fiscal period under its new fiscal calendar to the corresponding period under its prior fiscal calendar.

Additionally, VMware's third fiscal quarter for the current fiscal year ended September 30, 2016 and its current fiscal year will end on December 31, 2016. Dell's third fiscal quarter for the current fiscal year ended on October 28, 2016 and its current fiscal year will end on February 3, 2017. Accordingly, until VMware's and Dell's fiscal periods align, public reports filed by Dell will include results for its VMware business segment that will not coincide with the periods included in VMware's public reports. The financial results for Dell's VMware business segment may also differ from the financial results reported by VMware due to the impact of intercompany transactions, purchase accounting, and accounting practices. These differences in the timing and reporting of VMware's financial results by VMware and Dell could result in volatility and fluctuations in the price of VMware's Class A common stock until the fiscal calendars become aligned in fiscal 2018.

Further, the process of implementing the fiscal calendar transition requires us to make adjustments to many of the critical business processes and data systems that our management and personnel rely upon to conduct our business operations and coordinate our worldwide activities. Although we are undertaking a thorough programmatic approach to transition our processes and systems to the new fiscal calendar, there can be no assurance that errors and failures will not occur that could temporarily impair our ability to conduct our operations efficiently and effectively. Any such failures to our critical business processes and data systems could adversely impair our results of operations and financial results until such failures can be successfully remediated.

We could be held liable for the tax liabilities of other members of Dell's consolidated tax group.

We have historically been included in EMC's consolidated group for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups that include EMC Corporation or certain of its subsidiaries for state and local income tax purposes, and with the closing of the Dell Acquisition, we are now included in Dell's consolidated tax group. Effective as of the close of the Dell Acquisition, we amended our tax sharing agreement with EMC to include Dell. Pursuant to our agreement, we and Dell generally will make payments to each other such that, with respect to tax returns for any taxable period in which we or any of our subsidiaries are included in Dell's consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Dell or its subsidiaries, the amount of taxes to be paid by us will be determined, subject to certain consolidated return adjustments, as if we and each of our subsidiaries included in such consolidated, combined or unitary group filed our own consolidated, combined or unitary tax return. When we become subject to federal income tax audits as a member of Dell's consolidated group, the tax sharing agreement provides that Dell has authority to control the audit and represent Dell and VMware's interests to the IRS. Accordingly, if we and Dell or its successor-in-interest differ on appropriate responses and positions to take with respect to tax questions that may arise in the course of an audit, our ability to affect the outcome of such audits may be impaired. In addition, if Dell effects a 355 Distribution or other transaction that is subsequently determined to be taxable, VMware could be liable for all or a portion of the tax liability, which could have a material adverse effect on our operating results and financial condition.

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

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

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

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

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

Our CEO, our CFO and some of our directors have potential conflicts of interest with Dell.

Our CEO, our CFO and some of our directors received shares of Dell Class V common stock in partial consideration for their EMC common stock when the Dell Acquisition closed. In addition, some of our directors are executive officers or directors of Dell, and Dell, through its control of EMC, which is the sole holder of our Class B common stock, is entitled to elect 8 of our 9 directors. Ownership of Dell Class V common stock by our directors and the presence of executive officers or directors of Dell on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and Dell that could have different implications for Dell than they do for us. Our Board has approved resolutions that address corporate opportunities that are presented to our directors or officers that are also directors or officers of Dell. These provisions may not adequately address potential conflicts of interest or ensure that potential conflicts of interest will be resolved in our favor. As a result, we may not be able to take advantage of corporate opportunities presented to individuals who are officers or directors of both us and Dell and we may be precluded from pursuing certain growth initiatives.

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

So long as Dell beneficially owns shares of our common stock representing at least a majority of the votes entitled to be cast by the holders of outstanding voting stock, Dell can effectively control and direct our board of directors. Further, the interests of Dell and our other stockholders may diverge. Under these circumstances, persons who might otherwise accept our invitation to join our board of directors may decline.

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

The financial information covering the periods included in this report does not necessarily reflect what our financial condition, operating results or cash flows would have been had we been a completely independent entity during those periods. In certain geographic regions where we do not have an established legal entity, we contract with Dell subsidiaries for support services and Dell personnel who are managed by us. The costs incurred by Dell on our behalf related to these employees are passed on to us and we are charged a mark-up intended to approximate costs that would have been charged had we contracted for such services with an unrelated third party. These costs are included as expenses on our condensed consolidated statements of income. Additionally, we engage with Dell in intercompany transactions, including agreements regarding the use of Dell's and our intellectual property and real estate, agreements regarding the sale of goods and services to one another and to Pivotal, and agreements for Dell to resell our products and services to third party customers. If Dell were to distribute its shares of our common stock to its stockholders or otherwise divest itself of all or a significant portion of its VMware shares, there would be numerous implications to us, including the fact that we could lose the benefit of these arrangements with Dell. There can be no assurance that we would be able to renegotiate these arrangements with Dell or replace them on the same or similar terms. Additionally, our business could face significant disruption and uncertainty as we transition from these arrangements with Dell. Moreover, our historical financial information is not necessarily indicative of what our financial condition, operating results or cash flows would be in the future if and when we contract at arm's length with independent third parties for the services we have received and currently receive from Dell. During the three and nine months ended September 30, 2016, we recognized revenue of \$132 million and \$368 million, respectively, and as of September 30, 2016, \$570 million of sales were included in unearned revenue from such transactions with Dell. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed 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 significantly in recent years and may fluctuate significantly in the future.

The trading price of our Class A common stock has fluctuated significantly in the past and could fluctuate substantially in the future due to the factors discussed in this Risk Factors section and elsewhere in this report. In particular, our stock price has fluctuated significantly following the announcement of the Dell Acquisition. The trading market for Dell Class V common stock that was issued upon the closing of the Dell Acquisition that is expected to track the performance of VMware, as well as continuing volatility in technology company share prices, could also lead to volatility in our stock price.

Dell, which beneficially owned 82.9% of our outstanding stock as of September 30, 2016, is not restricted from selling its shares and is entitled to certain registration rights. If a significant number of shares enters the public trading markets in a short period of time, the market price of our Class A common stock may decline. In addition, if our Class B common stock is distributed to Dell stockholders and remains outstanding, it would trade separately from and potentially at a premium to our Class A common stock, and could thereby contribute additional volatility to the price of our Class A common stock.

Broad market and industry factors may also decrease the market price of our Class A common stock, regardless of our actual operating performance. The stock market in general and technology companies in particular have often experienced extreme price and volume fluctuations. Our public float is also relatively small due to Dell's holdings, which can result in greater volatility in our stock compared to that of other companies with a market capitalization similar to ours. It is also uncertain what impact the trading of Dell Class V common stock, which represents approximately 53% of the economic interest in us, will have on the volatility and the liquidity of our Class A common stock and how the Dell Class V common stock will trade in relation to our Class A common stock over time. 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 or who cover the Dell Class V common stock change their recommendation regarding our stock adversely, or provide more favorable relative recommendations about our competitors, our stock price would likely decline.

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

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

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

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

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

(a) Sales of Unregistered Securities

None.

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

None.

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

Purchases of equity securities during the three months ended September 30, 2016 :

	Total Number of Shares Purchased (1)	Average Price Paid Per Share (1)(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs (1)(3)
July 1 – July 31, 2016	2,255,341	\$ 71.48	2,255,341	\$ 1,039,204,591
August 1 – August 31, 2016	5,260,322	71.87	5,260,322	661,142,285
September 1 – September 30, 2016	6,483,541	73.47	6,483,541	184,771,879
	13,999,204	\$ 72.55	13,999,204	184,771,879

- (1) In April 2016, VMware's board of directors authorized the repurchase of up to an aggregate of \$1,200 million of VMware's Class A common stock through the end of 2016. The April 2016 stock repurchase authorization includes the \$835 million remaining from VMware's previous stock repurchase authorization announced in January 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.
- (2) The average price paid per share excludes commissions.
- (3) Represents the amounts remaining in the VMware stock repurchase authorizations.

ITEM 6. EXHIBITS

See the Exhibit Index following the signature page of this Quarterly Report on Form 10-Q for a list of exhibits.

EXHIBIT INDEX

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
10.10+	Form of Restricted Stock Unit Agreement, as amended August 12, 2016	X		
10.31+	Form of Restricted Stock Unit Agreement for U.K. Participants, as amended September 1, 2016	X		
10.32	Amended and Restated Tax Sharing Agreement between VMware, Inc. and Dell Technologies Inc. effective as of September 6, 2016	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.
AMENDED AND RESTATED 2007 EQUITY AND INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
FOR U.S. PARTICIPANTS

I. NOTICE OF GRANT

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

Name: (“Participant”)

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

Grant Number: ___

Date of Grant: ___

Vesting Commencement Date: ___

Number of RSUs: ___

Vesting Schedule :

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

II. AGREEMENT

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

2. Vesting of RSUs.

(a) Subject to Sections 2(b) and 4 below, the Participant will vest in the RSUs in accordance with the vesting schedule set forth in the Notice of Grant; provided, that, in the event the Participant incurs a termination of employment for any reason other than due to the Participant's death or termination by the Company or Subsidiary due to "disability" (as defined under the applicable long-term disability plan of the Company or Subsidiary or, if there is no such plan, as determined by the Board or the Committee (each, the "Administrator")), such that the Participant is no longer employed by the Company or any Subsidiary, the Participant's right to vest in the RSUs and to receive the Stock related thereto will terminate effective as of the date that Participant ceases to be so employed and thereafter, the Participant will have no further rights to such unvested RSUs or the related Stock. In such case, any unvested RSUs held by the Participant immediately following such termination of employment will be deemed reconveyed to the Company and the Company will thereafter be the legal and beneficial owner of the unvested RSUs 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 disability, then any unvested portion of the RSUs will automatically accelerate and the Participant will become fully vested in the RSUs upon termination of employment by reason of death or disability. In all cases, the date of termination of employment will be determined in the sole discretion of the Administrator.

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

3. Issuance of Stock. No Stock will be issued to the Participant prior to the date on which the RSUs vest. After any RSUs vest and subject to the terms of this Agreement, including without limitation Section 6 hereof, the Company will cause to be issued (either in book-entry form or otherwise) to the Participant or the Participant's beneficiaries, as the case may be, that number of shares of Stock corresponding to the number of such vested RSUs as soon as administratively practicable following vesting, but in no event will the issuance of such shares be made subsequent to March 15th of the year following the year in which the shares vested. No fractional shares of Stock will be issued under this Agreement. Notwithstanding any provision in the Plan to the contrary, the RSUs will be settled only in shares of Stock.

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

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

6. Taxes.

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

(b) Payment of Withholding Taxes. Notwithstanding any contrary provision of this Agreement, no Stock will be issued to the Participant, unless and until satisfactory arrangements (as determined by the Administrator) will have been made by the Participant with respect to the payment of any taxes which the Company determines must be withheld with respect to the RSUs. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may satisfy such tax withholding obligations, in whole or in part, by withholding otherwise deliverable Stock having an aggregate Fair Market Value sufficient to (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.

7. Changes in Stock. In the event that any extraordinary dividend or other extraordinary distribution (whether in the form of cash, Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of Stock or other securities of the Company, or other similar corporate transaction or event affecting the Stock occurs such that an adjustment or change is determined by the Administrator (in its sole discretion) to be necessary or appropriate, the Administrator will proportionately adjust this Award in accordance with the terms of the Plan, including adjustments

in the number and kind of shares of Stock or other property the Participant would have received upon vesting of the RSUs; provided, however, that the number of shares of Stock into which the RSUs may be converted will always be a whole number.

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

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

10. Nature of Grant. In accepting the RSUs, the Participant acknowledges that: (a) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of RSUs, or benefits in lieu of RSUs even if RSUs have been granted repeatedly in the past; (b) all decisions with respect to future Awards of RSUs, if any, will be at the sole discretion of the Company; (c) the future value of the underlying Stock is unknown and cannot be predicted with certainty; (d) in consideration of the Award of RSUs, no claim or entitlement to compensation or damages will arise from termination of the RSUs or any diminution in value of the RSUs or Stock received when the RSUs vest resulting from the Participant's termination of employment by the Employer (for any reason whatsoever and whether or not in breach of local employment laws), and the Participant irrevocably releases the Company, the Parent, the Subsidiary and Affiliate from any such claim that may arise; (e) in the event of involuntary termination of the Participant's employment (whether or not in breach of local employment laws), the Participant's right to receive RSUs and vest under the Plan, if any, will terminate effective as of the date that the Participant is no longer actively employed and will not be extended by any notice period mandated under local law or contract, and the Company will have the exclusive discretion to determine when the Participant is no longer actively employed for purposes of the RSUs; (f) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying Stock; and (g) the Participant is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding the Participant's participation in the Plan before taking any action related to the Plan.

11. Black Out Periods. The Participant acknowledges that, to the extent the vesting of any RSUs occurs during a "blackout" period wherein certain employees, including the Participant, are precluded from selling Stock, the Administrator retains the right, in its sole discretion, to defer

the delivery of the Stock pursuant to the RSUs; provided, however, that the Administrator will not exercise its right to defer the Participant's receipt of such Stock if such shares of Stock are specifically covered by a 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 such shares vest. In the event the receipt of any shares of Stock is deferred hereunder due to the existence of a special blackout period, such shares will be issued to the Participant on the first day following the termination of such special blackout period as determined by the Company's General Counsel or his or her delegatee; provided, however, that in no event will the issuance of such shares be deferred subsequent to March 15th of the year following the year in which such shares vest. Notwithstanding the foregoing, any deferred shares of Stock will be issued promptly to the Participant prior to the termination of the blackout period in the event the Participant ceases to be subject to the blackout period. The Participant hereby represents that he or she accepts the effect of any such deferral under relevant federal, state and local tax laws or otherwise.

12. Award is Not Transferable. Except to the limited extent provided in Section 5 above, this Award of RSUs and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way by the Participant (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Participant has been issued the Stock. Upon any attempt by the Participant to transfer, assign, pledge, hypothecate or otherwise dispose of this Award, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this Award and the rights and privileges conferred hereby immediately will become null and void. The terms of this Agreement will be binding upon the Participant's executors, administrators, heirs, successors and any permitted transferees.

13. Data Privacy. The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other RSU grant materials ("Data") by and among, as applicable, the Employer, the Company, the Parent and any Subsidiary or Affiliate 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 security number or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all RSUs or any entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the purpose of implementing, administering and managing the Plan. 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 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 RSUs or other equity awards or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan.

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

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

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

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

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Participant, the Company, the Employer and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

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

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

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

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

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

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

Unless the Participant notifies the Company within ten (10) days following receipt of this Agreement that he or she declines this Award, the Participant will be deemed to have accepted and agreed to the terms and conditions of this Agreement and the Plan. The Participant acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, which are incorporated herein by reference

VMWARE, INC.
AMENDED AND RESTATED 2007 EQUITY AND INCENTIVE PLAN
RESTRICTED STOCK UNIT AGREEMENT
FOR U.K. PARTICIPANTS

I. NOTICE OF GRANT

Unless otherwise defined herein, the terms defined in the VMware, Inc. Amended and Restated 2007 Equity and Incentive Plan (the “Plan”) will have the same defined meanings in this notice of grant (“Notice of Grant”) and Restricted Stock Unit Agreement for Non-U.S. Participants. Capitalized terms not defined in the Notice of Grant or the Agreement (as defined below) will have the same meaning as ascribed to them in the Plan.

Name: (“Participant”)

The Participant has been granted an Award of Restricted Stock Units (“RSUs”). Each RSU represents the right to receive one share of Stock, subject to the terms and conditions of this Notice of Grant, the Plan, and the Restricted Stock Unit Agreement for Non-U.S. Participants, including any country-specific provisions as set out in Appendix A thereto (collectively, the “Agreement”), as follows:

Grant Number:

Date of Grant:

Vesting Commencement Date:

Number of RSUs:

Vesting Schedule:

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

v. 03.16.15

II. AGREEMENT

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

2. Vesting of RSUs.

(a) Subject to Sections 2(b) and 4 below, the Participant will vest in the RSUs in accordance with the vesting schedule set forth in the Notice of Grant; provided, that, in the event the Participant incurs a termination of employment for any reason other than due to the Participant's death or termination by the Company or Subsidiary due to "disability" (as defined under the applicable long-term disability plan of the Company, or Subsidiary or, if there is no such plan, as determined by the Board or the Committee (each, the "Administrator")), such that the Participant is no longer employed by the Company or any Subsidiary the Participant's right to vest in the RSUs and to receive the Stock related thereto will terminate effective as of the date that Participant ceases to be so employed and thereafter, the Participant will have no further rights to such unvested RSUs or the related Stock. In such case, any unvested RSUs held by the Participant immediately following such termination of employment will be forfeited. In the event that the Participant's employment is terminated by reason of death or disability, then any unvested portion of the RSUs will automatically accelerate and the Participant will become fully vested in the RSUs upon termination of employment by reason of death or disability. In all cases, the date of termination of employment for purposes of the RSUs will be determined in the sole discretion of the Administrator and will not be extended by any notice period or "garden leave" that may be required contractually or under applicable laws and during which time the Participant is not actively rendering services, unless otherwise determined by the Company in its sole discretion.

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

3. Issuance of Stock. No Stock will be issued to the Participant prior to the date on which the RSUs vest. After any RSUs vest and subject to the terms of this Agreement, including without limitation Section 6 hereof, the Company will cause to be issued (either in book-entry form or otherwise) to the Participant or the Participant's beneficiaries, as the case may be, that number of shares of Stock corresponding to the number of such vested RSUs as soon as administratively practicable following vesting, but in no event will the issuance of such shares be made subsequent to March 15th of the year following the year in which the shares vested. No fractional shares of Stock will be issued under this Agreement. Notwithstanding any provision in the Plan to the contrary, the RSUs will be settled only in shares of Stock.

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

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

6. Taxes.

(a) The Participant acknowledges that, regardless of any action taken by the Company or any entity employing the Participant (the "Employer") the ultimate liability for all income tax (including U.S. federal, state and local tax and non-U.S. tax), social insurance, payroll tax, fringe benefits tax, payment on account, and any other required deductions or payments related to Participant's participation in the Plan and legally applicable to the Participant ("Tax-Related Items") is and remains the Participant's responsibility and may exceed any amount actually withheld by the Company or the Employer. The Participant further acknowledges that the Company and the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the RSUs, including but not limited to, the award of the RSUs, the vesting or settlement of the RSUs, the subsequent sale of Stock acquired pursuant to such settlement, and the receipt of any dividends and or dividend equivalents; and (ii) do not commit to and are under no obligation to structure the terms of the Award or any aspect of the RSUs to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result. Further, if the Participant is subject to Tax-Related Items in more than one jurisdiction, the Participant acknowledges that the Company or the Employer (or former employer, as applicable), or both, may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

(b) As a condition to the grant, vesting and settlement of the RSUs and prior to the relevant taxable or tax withholding event, as applicable, the Participant agrees to make adequate arrangements satisfactory to the Company and the Employer to satisfy all withholding obligations of the Company and the Employer with respect to Tax-Related Items. In this regard, the Participant hereby authorizes the Company and the Employer, in their sole discretion and without any further notice to or authorization by the Participant, to withhold from the Stock being distributed under the RSUs upon vesting that number of whole shares necessary to meet the withholding obligation as determined by the Company and the Employer with respect to such RSUs, provided that the Company only withholds the amount of Stock necessary to satisfy the minimum withholding amount, rounded down to the nearest whole share and that the Company withholds the balance of the minimum withholding amount by withholding such balance from Participant's wages or other cash compensation paid to Participant by the Company and the Employer. If the Company satisfies the withholding obligation for Tax-Related Items by withholding Stock being distributed under the RSUs as described above, the Participant hereby acknowledges that the Participant is deemed to have been issued the full amount of Stock subject to the RSUs, notwithstanding that Stock is held back solely for the purpose of paying the Tax-Related Items due as a result of the RSUs, vesting or settlement of the RSUs. Alternatively, or in addition, the Company may, (a) only to the extent and in the manner permitted by all applicable laws, including making any necessary securities registration or taking any other necessary actions, sell (or instruct the broker whom it has selected for this purpose to sell) the Stock to be issued upon the vesting or settlement, as applicable, of the Participant's RSUs to meet the withholding obligation for Tax-Related Items, or (b) withhold all applicable Tax-Related Items legally payable by Participant from Participant's wages or other cash compensation paid to Participant by the Company or the Employer or both. Finally, the Participant hereby acknowledges that the Participant is required to pay to the Company or the Employer any amount of Tax-Related Items that the Employer may be required to withhold as a result of the Participant's Award of RSUs, vesting of the RSUs, or the issuance of Stock in settlement of vested RSUs that cannot be satisfied by the means previously described. The Participant hereby acknowledges that the Company may refuse to

deliver the Stock in settlement of the vested RSUs to the Participant if the Participant fails to comply with the Participant's obligations in connection with the Tax-Related Items as described in this Section 6.

(c) The Participant has reviewed and understands the tax obligations as set forth in this Agreement and understands that the Company is not providing any tax, legal or financial advice. In addition, the Company is not making any recommendations regarding the Participant's participation in the Plan, or the Participant's acquisition or sale of the underlying shares of Stock. The Participant should consult with the Participant's own tax, legal and financial regarding the Participant's participation in the Plan before taking any action related to the Plan. The Participant further acknowledges and agrees that the Participant is solely responsible for filing all relevant documentation that may be required of the Participant in relation to this Award or any Tax-Related Items, such as but not limited to personal income tax returns or reporting statements in relation to the grant or vesting of the RSUs, the holding of Stock or any bank or brokerage account (including foreign accounts), the subsequent sale of Stock, and the receipt of any dividends or other payments.

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

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

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

10. Nature of Grant. In accepting the RSUs, the Participant acknowledges understands and agrees that: (a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan; (b) the grant of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of RSUs, or benefits in lieu of RSUs even if RSUs have been granted in the past; (c) all decisions with respect to future Awards of RSUs or other grants, if any, will be at the sole discretion of the Company; (d) the Participant is voluntarily participating in the Plan; (e) the RSUs and Stock subject to the RSUs are not intended to replace any pension rights or compensation; (f) the RSUs and the Stock subject to the RSUs and the income and value of the same are not part of normal or expected salary or compensation for purposes of calculating any severance, resignation, termination, redundancy, dismissal, end-of-service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments; (g)

the future value of the underlying Stock is unknown, indeterminable and cannot be predicted with certainty; (h) no claim or entitlement to compensation or damages will arise from termination of the RSUs or any diminution in value of the RSUs or Stock received when the RSUs vest resulting from the termination of the Participant's employment or other service relationship for any reason whatsoever, and in consideration of the grant of RSUs to which the Participant is otherwise not entitled, the Participant irrevocably agrees never to institute any claim against the Company, the Employer, the Parent, and any Subsidiary or Affiliates, waive his or her ability, if any, to bring any such claim; and releases the Company, the Employer, the Parent, and any Subsidiary or Affiliate from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the Participant will be deemed irrevocably to have agreed not to pursue such claim and agrees to execute any and all documents necessary to request dismissal or withdrawal of such claim; (i) unless otherwise provided in the Plan or by the Company in its discretion, the RSUs and the benefits evidenced by this Agreement do not create any entitlement to have the RSUs or any such benefits transferred to, or assumed by, another company nor to be exchanged, cashed out or substituted for, in connection with any corporate transaction affecting the shares of the Company; and (k) neither the Company, the Employer, the Parent, nor any Subsidiary or Affiliate will be liable for any foreign exchange rate fluctuation between the Participant's local currency and the United States Dollar or the selection by the Company or any Subsidiary or Affiliate in its sole discretion of an applicable foreign exchange rate that may affect the value of the RSUs or of any amounts due to the Participant pursuant to the settlement of the RSUs or the subsequent sale of any Stocks acquired upon settlement or the calculation of income or any Tax-Related Items thereunder.

11. Black Out Periods. The Participant acknowledges that, to the extent the vesting of any RSUs occurs during a "blackout" period wherein certain employees, including the Participant, are precluded from selling Stock, the Administrator retains the right, in its sole discretion, to defer the delivery of the Stock pursuant to the RSUs; *provided, however*, that the Administrator will not exercise its right to defer the Participant's receipt of such Stock if such shares of Stock are specifically covered by a 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 such shares vest. In the event the receipt of any shares of Stock is deferred hereunder due to the existence of a special blackout period, such shares will be issued to the Participant on the first day following the termination of such special blackout period as determined by the Company's General Counsel or his or her delegatee; *provided, however*, that in no event will the issuance of such shares be deferred subsequent to March 15th of the year following the year in which such shares vest. Notwithstanding the foregoing, any deferred shares of Stock will be issued promptly to the Participant prior to the termination of the blackout period in the event the Participant ceases to be subject to the blackout period. The Participant hereby represents that he or she accepts the effect of any such deferral under relevant federal, state and local tax laws or otherwise. Regardless of any blackout period, any cross-border cash remittance made to transfer proceeds received upon the sale of Stock must be made through a locally authorized financial institution or registered foreign exchange agency and may require Participant to provide to such entity certain information regarding the transaction.

12. Award is Not Transferable. Except to the limited extent provided in Section 5 above, this Award of RSUs and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way by the Participant (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Participant has been issued the Stock. Upon any attempt by the Participant to transfer, assign, pledge, hypothecate or otherwise dispose of this Award, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or

similar process, this Award and the rights and privileges conferred hereby immediately will become null and void. The terms of this Agreement will be binding upon the Participant's executors, administrators, heirs, successors and any permitted transferees.

13. **Data Privacy**. *The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other RSU grant materials ("Data") by and among, as applicable, the Employer, the Company, the Parent, and any Subsidiary or Affiliate 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 RSUs or any entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the purpose of implementing, administering and managing the Plan. 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 United States) 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 RSUs or other equity awards or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan. For more information on the consequences of the Participant's refusal to consent or withdrawal of consent, the Participant understands that he or she may contact his or her local human resources representative.

14. **Entire Agreement**. This Agreement, subject to the terms and conditions of the Plan and the Notice of Grant and any country-specific terms contained in Appendix A, represents the entire agreement between the parties with respect to the RSUs.

15. **Binding Agreement**. Subject to the limitation on the transferability of this Award contained herein, this Agreement and the country-specific terms contained in Appendix A hereto will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

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

the lapse of such reasonable period of time following the date of vesting of the RSUs as the Administrator may establish from time to time for reasons of administrative convenience. The Administrator may refuse the issuance of any Stock hereunder pursuant to Section 7(j) of the Plan. In this regard, the Participant acknowledges and agrees that the Company is under no obligation to register or qualify the shares of Stock with any U.S. federal or state or foreign securities commission or to seek approval or clearance from any governmental authority for the issuance or sale of the shares. Further, the Participant agrees that the Company will have unilateral authority to amend the Plan and the Agreement without the Participant's consent to the extent necessary or advisable to comply with securities or other laws applicable to issuance of shares of Stock.

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

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Participant, the Company, the Employer and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Language. If the Participant has received the Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control.

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. 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.

22. Notice of Governing Law/Venue. This Agreement will be governed by the internal substantive laws, but not the choice of law rules of the State of Delaware. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or the Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California, U.S.A., and agree that such litigation will be conducted only in the courts of Santa Clara County, California, U.S.A. or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made or to be performed.

23. Insider Trading Restrictions/Market Abuse Laws. The Participant acknowledges that, depending on his or her country of residence, the Participant may be subject to insider trading restrictions or market abuse laws, or both, which may affect the Participant's ability to acquire or sell Stock or rights to shares of Stock (e.g., RSUs) under the Plan during such times as the Participant is considered to have "inside information" regarding the Company (as defined by any applicable law). Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider trading policy and applicable laws and regulations in the United States. The Participant acknowledges that it is his or her responsibility to comply with any applicable restrictions, and the Participant is advised to speak with his or her personal advisor on this matter.

24. 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.

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

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

26. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide (a) to deliver by electronic means any documents related to the RSUs granted under the Plan, the Participant's participation in the Plan, or future Awards that may be granted under the Plan or (b) to request by electronic means the Participant's consent to participate in the Plan. By accepting this grant, the Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or any third party designated by the Company, including but not limited to the use of electronic signatures or click-through electronic acceptance of terms and conditions.

27. Appendix A. Notwithstanding any provision of this document, the RSUs will be subject to the attached additional terms and conditions set forth in Appendix A for the Participant's country of work or residence, if any, which are incorporated by reference to this Agreement. In addition, Participant understands that the laws of the country in which he or she is working or residing at the time of grant, holding, or vesting of the RSUs or at ownership or the subsequent sale of shares of Stock (including any rules or regulations governing securities, foreign exchange, tax, labor or other matters) may subject Participant to additional terms and conditions or procedural or regulatory requirements he or she is solely responsible for and must independently fulfill in relation to ownership or sale of Stock; such requirements may be described in but are not limited to Appendix A. Moreover, if Participant relocates to one of the countries included in Appendix A or to another country, then special terms and conditions for such country will apply to the RSUs, as from the date of grant or to the extent the Company determines that the application of such terms and conditions is necessary or advisable for legal or administrative reasons. The Appendix constitutes a part of this Agreement.

28. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Participant's participation in the Plan, on the RSUs and on any shares of Stock acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal or administrative reasons, and to require the Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

* * *

By accepting this grant, the Participant will be deemed to have accepted and agreed to the terms and conditions of this Agreement and the Plan unless the Participant notifies the Company within ten days following receipt of this Agreement that he or she declines this Award. 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.

**APPENDIX A
TO THE VMWARE, INC.
RESTRICTED STOCK UNIT AGREEMENT FOR U.K. PARTICIPANTS**

This Appendix A includes additional terms and conditions that govern the Award of Restricted Stock Units (“RSUs”) granted to the Participant under the VMware, Inc. (the “Company”) 2007 Equity and Incentive Plan (the “Plan”) if Participant works or resides in one of the countries listed below. Capitalized terms used but not defined in this Appendix A are defined in the Plan, the Notice of Grant, or the Restricted Stock Unit Agreement for Non-U.S. Participants (the “Agreement”), and have the meanings set forth therein.

This Appendix A also includes information regarding exchange controls and certain other issues of which the Participant should be aware with respect to the Participant’s participation in the Plan. The information is based on the securities, exchange control and other laws in effect in the respective countries as of May 2016. Such laws are often complex and change frequently. As a result, the Company strongly recommends that the Participant not rely on the information noted in this Appendix A as the only source of information relating to the consequences of the Participant’s participation in the Plan because the information may be out of date by the time the Participant vests in the RSUs or sells shares of Stock acquired under the Plan.

In addition, the information contained herein is general in nature and may not apply to the Participant’s particular situation, and the Company is not in a position to assure Participant of a particular result. Accordingly, the Participant is advised to seek appropriate professional advice as to how the relevant laws in the Participant’s country may apply to Participant’s situation.

Finally, the Participant understands that if he or she a citizen or resident of a country other than the one in which the Participant is currently working or residing, or if the Participant relocates to another country or transfers employment or is considered a resident of another country for local law purposes, the information contained herein may not apply to the Participant, and the Company will, in its discretion, determine to what extent the terms and conditions contained herein, or other terms and conditions, will apply.

Securities Law Notice: Unless otherwise noted, neither the Company nor the Stock are registered with any local stock exchange or under the control of any local securities regulator outside the United States. The Agreement and any other communications or materials that Participant may receive regarding participation in the Plan do not constitute advertising or an offering of securities outside the United States, and the issuance of securities described in any Plan-related documents is not intended for public offering or circulation in Participant’s jurisdiction.

Data Privacy: For residents of the European Union and elsewhere as may be applicable, the following language supplements Section 13 of the Agreement: The Participant understands that Data will be held only as long as is necessary to implement, administer, and manage Participant’s participation in the Plan. Participant understands that he or she may, at any time, view his or her Data, request additional information about the transfer, storage and processing of the Data, require any necessary amendments to Data or refuse or withdraw the consents herein, without cost, by contact in writing Participant’s local human resources representative.

If Your Country Is Not Listed Below: Even if no country-specific disclosure is provided below for your country, this Agreement and the general provisions of this Appendix A still apply to you. Moreover, the notices, disclaimers and terms and conditions for a given country in this Appendix A may apply, as from the date of grant, if you move to or otherwise become subject to the applicable laws or Company policies of such country, unless otherwise determined by the Company in its sole discretion.

UNITED KINGDOM

Tax Acknowledgment

As a condition of participating in the Plan and the vesting and settlement of the RSUs, the Participant agrees to accept any liability for secondary Class 1 NICs (“Employer NICs” or “Secondary Liability”) which may be payable by the Company or the Employer with respect to the issuance of shares of Stock or otherwise payable in connection with the vesting of the RSUs under the Plan. By accepting the RSU grant (whether in writing, electronically or otherwise), Participant explicitly accepts the terms of and enters into the Form of Election to Transfer the Employer’s Secondary Class 1 National Insurance Liability to the Employee, the form of such joint election being formally approved by HM Revenue and Customs (“HMRC”), as provided below (the “NIC Election”). If requested by the Company or the Employer, the Participant also agrees to execute a separate joint election with the Company or the Employer (also an “NIC Election”), the form of such Election being formally approved by HMRC, and any other consent or elections required to accomplish the transfer of the Employer NICs to the Participant. The Participant further agrees to execute such other joint elections as may be required between the Participant and any successor to the Company or the Employer. The Participant agrees to enter into a NIC Election prior to the vesting of the RSUs. If the Participant does not enter into such election prior to vesting, or if the NIC Election is revoked at any time by HMRC, then unless the Company determines otherwise as provided below, the Participant will not be entitled to vest in the RSUs or receive shares of Stock, without liability to the Company, the Employer, the Parent, or any Subsidiary or Affiliate.

Participant shall indemnify the Company and/or the Employer against any Employer NICs and, if the Company so determines, the Company shall allow vesting of the RSUs notwithstanding the absence of a valid NIC Election, and Participant agrees that, in such circumstances, the Company and/or the Employer may recover the amount of any Employer NICs by way of withholding in accordance with Section 6 of the Agreement.

The Participant agrees that if the Employer or the Company does not withhold the full amount of Tax-Related Items (including the Employer NICs) that the Participant owes due to the vesting of the RSUs or release, assignment or cancellation of the RSUs (the “Taxable Event”) from the Participant within 90 days after the end of the UK tax year in which the Taxable Event occurred or such other period specified in Section 222(1)(c) of the U.K. Income Tax (Earnings and Pensions) Act 2003 (the “Due Date”), then the amount that should have been withheld may constitute a loan owed by the Participant to the Employer, effective on the Due Date. The Participant agrees that the loan will bear interest at the UK statutory rate and it will be immediately due and repayable by the Participant and the Company or the Employer may recover it at any time thereafter by withholding the funds from salary, bonus or any other funds due to the Participant by the Employer, by withholding in shares of Stock at vesting of the RSUs or by demanding cash or a check from the Participant or any other means referred to in Section 6 of the Agreement.

Notwithstanding the foregoing, if the Participant is an executive officer or director (as within the meaning of Section 13(k) of the U.S. Securities and Exchange Act of 1934, as amended), the terms of the above paragraph will not apply. In the event that the Participant is an executive officer or director and Tax-Related Items are not collected from or paid by the Participant within the Due Date, the amount of any uncollected Tax-Related Items may constitute a benefit to the Participant on which additional income tax and national insurance contributions may be payable. The Participant will be responsible for reporting and paying any income tax due on this additional benefit directly to the HMRC under the self-assessment regime and for

reimbursing the Company or the Employer (as appropriate) for the value of any employee national insurance contributions due on this additional benefit which the Company or the Employer may recover from the Participant by any means set forth in Section 6 of the Agreement.

FORM OF ELECTION TO TRANSFER THE EMPLOYER'S SECONDARY

CLASS 1 NATIONAL INSURANCE LIABILITY TO THE EMPLOYEE

Elections and Withholding Obligations

Your RSUs will only be vested and settled if you have first entered into or completed the following to the satisfaction of the Company or these obligations (or any of them) have been waived by the Company:

- an election under Section 431(1) of the Income Tax (Earnings and Pensions) Act 2003 (in a form approved by the Company) for the full disapplication of Chapter 2 of Part 7 of that Act in relation to all the shares of Common Stock subject to this RSU;
- a joint election with the Company and/or any Subsidiary in accordance with Paragraph 3B(1) of Schedule 1 of the Social Security Contributions and Benefits Act 1992 (the "SSCBA") (either by executing this Agreement so as to be bound by the terms of this NIC Election or in such other form the Company may require from time to time) for the whole of any liability for Employer national insurance contributions to be transferred to you;
- a deed of adherence (in such form as determined by the Company from time to time) pursuant to which you become a party to and bound by any applicable shareholder agreement (or similar agreement) as amended or replaced from time to time.

National Insurance Contributions Joint Election ("NIC Election")

(a) For the purposes of this NIC Election, "Relevant Employment Income" means:

- (i) an amount that counts as employment income of the Participant under section 426 of the Income Tax (Earnings and Pensions) Act 2003 (restricted securities: charge on certain post-acquisition events);
- (ii) an amount that counts as employment income of the Participant under section 438 of the Income Tax (Earnings and Pensions) Act 2003 (convertible securities: charge on certain post-acquisition events); or
- (iii) any gain that is treated as remuneration derived from the Participant's employment by virtue of section 4(4)(a) SSCBA,

which is derived from or otherwise in connection with 1) this RSU or its assignment or release or otherwise or the Shares issued or transferred pursuant to the vesting and settlement of this RSU or 2) any other Award granted to Participant under the Plan, including as such Plan may be amended in the future, and any subsequent equity plans to be implemented by VMware, Inc., or such Award's assignment or release or otherwise or the Shares issued or transferred pursuant to the vesting, exercise, and/or settlement of such Award.

- (b) The Employer may be liable to pay secondary Class 1 National Insurance Contributions in respect of any Relevant Employment Income (the “Secondary Liability”).
 - (c) The Participant and the Company (on behalf of the Employer) hereby jointly elect that the whole of the Secondary Liability is hereby transferred to the Participant on the terms set out in this NIC Election.
 - (d) The Participant hereby authorizes the Company and the Employer to recover an amount from the Participant sufficient to cover the Secondary Liability to the extent transferred to the Participant under this NIC Election. Such recovery may be made by the Company and the Employer in accordance with any of the following:
 - (i) deduction from any sums owing to the Participant (including in particular but not by way of any limitation any installment of salary, bonus, commission or otherwise);
 - (ii) delivery by the Participant to the Company of cash, banker’s draft or cheque; or
 - (iii) such other arrangements as the Company considers appropriate from time to time.
 - (e) The Company agrees to pay, or procure the payment of, the Secondary Liability to HMRC within 14 days after the end of the tax month during which the vesting, settlement, assignment or release (as the case may be) of the RSUs (or part thereof) occurred.
 - (f) HM Revenue & Customs has approved the form of this NIC Election and the arrangements for securing that the liability transferred by this NIC Election will be met.
 - (g) This NIC Election shall continue in effect until the earlier of:
 - (i) the fulfillment of all of the obligations contained in this NIC Election;
 - (ii) it is revoked jointly by the Company (on behalf of the Employer) and the Participant;
 - (iii) notice is given to the Participant by the Company (on behalf of the Employer) terminating the effect of this NIC Election;
 - (iv) HMRC notifies the Company or the Employer that the approval of this NIC Election has been withdrawn.
 - (h) The terms of this NIC Election will continue in force regardless of whether the Participant ceases to be an employee of the Employer.
 - (i) The Participant hereby confirms that in entering into the Agreement he will be personally liable for the Secondary Liability covered by this NIC Election, including in relation to any other Award.
 - (j) This NIC Election will not apply to the extent that it relates to Relevant Employment Income which is employment income of the Participant by virtue of Chapter 3A of Part 7 of the Income Tax (Earnings and Pensions) Act 2003 (employment income: securities with artificially depressed market value).
-

- (k) This NIC Election does not apply to any liability, or any part of any liability, arising as a result of regulations given retrospective effect by virtue of section 4B(2) of either the SSCBA or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
- (l) By accepting this Agreement in writing, electronically, or otherwise, the Company and the Participant hereby agree (inter alia) to be bound by the terms of this NIC Election as set out herein.

**AMENDED AND RESTATED
TAX SHARING AGREEMENT**

by and among

**DELL TECHNOLOGIES INC.
AND ITS AFFILIATES,
EMC CORPORATION
AND ITS AFFILIATES
and
VMWARE, INC.
AND ITS AFFILIATES,**

Dated

September 6, 2016

AMENDED AND RESTATED TAX SHARING AGREEMENT

THIS AMENDED AND RESTATED TAX SHARING AGREEMENT (this “**Agreement**”) dated as of September 6, 2016 is entered into by and among Dell Technologies Inc. (f/k/a Denali Holding Inc.), a Delaware corporation (“**Dell Technologies**”), each Dell Technologies Affiliate (as defined below), EMC Corporation, a Massachusetts corporation (“**EMC**”), each EMC Affiliate (as defined below), VMware, Inc., a Delaware corporation and an indirect subsidiary of EMC (“**VMware**”), and each VMware Affiliate (as defined below).

RECITALS

WHEREAS, Dell Technologies and EMC are parties to the Agreement and Plan of Merger dated as of October 12, 2015, as amended by the First Amendment to Agreement and Plan of Merger, dated as of May 16, 2016, by and among Dell Technologies, Dell Inc., a Delaware corporation, Universal Acquisition Co., a Delaware corporation and wholly owned subsidiary of Dell Technologies, and EMC (collectively, the “**Merger Agreement**”);

WHEREAS, at the Effective Time of the Merger (as defined in the Merger Agreement), EMC and its direct and indirect domestic subsidiaries, including VMware and each VMware Affiliate, will become members of an Affiliated Group of which Dell Technologies is the common parent corporation;

WHEREAS, EMC and VMware are parties to that certain Tax Sharing Agreement dated August 13, 2007, as amended on January 1, 2011 (the “**Prior TSA**”); and

WHEREAS, the parties have determined that it is appropriate to amend and restate the Prior TSA as of, and with respect to taxable years of EMC and VMware beginning after, the Effective Time as set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the parties hereto hereby agree as follows:

Section 1. Definitions.

As used in this Agreement, capitalized terms shall have the following meanings (such meanings to be equally applicable to both the singular and the plural forms of the terms defined):

“**Affiliated Group**” means an affiliated group of corporations within the meaning of section 1504(a) of the Code that files a consolidated return for United States federal Income Tax purposes.

“**After Tax Amount**” means any additional amount necessary to reflect the hypothetical Tax consequences of the receipt or accrual of any payment required to be made under this

Agreement (including payment of an additional amount or amounts hereunder and the effect of the deductions available for interest paid or accrued and for Taxes such as state and local Income Taxes), determined by using the highest applicable statutory corporate Income Tax rate (or rates, in the case of an item that affects more than one Tax) for the relevant taxable period (or portion thereof).

“ **Agreement** ” has the meaning set forth in the preamble hereto.

“ **Audit** ” means any audit, assessment of Taxes, other examination by any Taxing Authority, proceeding, or appeal of such a proceeding relating to Taxes, whether administrative or judicial, including proceedings relating to competent authority determinations.

“ **Code** ” means the Internal Revenue Code of 1986, as amended.

“ **Combined Return** ” means any Tax Return, other than with respect to United States federal Income Taxes, filed on a consolidated, combined (including nexus combination, worldwide combination, domestic combination, line of business combination or any other form of combination) or unitary basis wherein VMware or one or more VMware Affiliates join in the filing of such Tax Return (for any taxable period or portion thereof) with Dell Technologies or one or more Dell Technologies Affiliates.

“ **Consolidated Return** ” means any Tax Return with respect to United States federal Income Taxes filed on a consolidated basis wherein VMware or one or more VMware Affiliates join in the filing of such Tax Return (for any taxable period or portion thereof) with Dell Technologies or one or more Dell Technologies Affiliates.

“ **Controlling Party** ” has the meaning set forth in Section 8.01 of this Agreement.

“ **Deconsolidation Event** ” means, with respect to VMware and each VMware Affiliate, any event or transaction that causes VMware and/or one or more VMware Affiliates to no longer be eligible to join with Dell Technologies or one or more Dell Technologies Affiliates in the filing of a Consolidated Return or a Combined Return.

“ **Dell Technologies Affiliate** ” means any corporation or other entity directly or indirectly “controlled” by Dell Technologies where “control” means the ownership of fifty percent (50%) or more of the ownership interests of such corporation or other entity (by vote or value) or the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such corporation or other entity, but at all times excluding VMware or any VMware Affiliate.

“**Dell Technologies Business**” means all of the businesses and operations conducted by Dell Technologies and Dell Technologies Affiliates, excluding the VMware Business, at any time.

“**Dell Technologies Group**” means the Affiliated Group, or similar group of entities as defined under corresponding provisions of the laws of other jurisdictions, of which Dell

Technologies is the common parent corporation, and any corporation or other entity which may be, may have been or may become a member of such group from time to time, but excluding any member of the VMware Group.

“ **Distribution** ” means any distribution by Dell Technologies or any Dell Technologies Affiliate of its issued and outstanding shares of VMware stock (and securities, if any) that Dell Technologies holds at such time to Dell Technologies shareholders and/or securityholders or the shareholders and/or securityholders of a Dell Technologies Affiliate in a transaction intended to qualify as a distribution under section 355 of the Code.

“ **Distribution Taxes** ” means any Taxes imposed on, or increase in Taxes incurred by, Dell Technologies or any Dell Technologies Affiliate, and any Taxes of a Dell Technologies shareholder (or former Dell Technologies shareholder) that are required to be paid or reimbursed by Dell Technologies or any Dell Technologies Affiliate pursuant to a legal determination, provided that Dell Technologies shall have vigorously defended itself in any legal proceeding involving Taxes of a Dell Technologies shareholder, (without regard to whether such Taxes are offset or reduced by any Tax Asset, Tax Item, or otherwise) resulting from, or arising in connection with, the failure of a Distribution to qualify as a tax-free transaction under section 355 of the Code (including any Tax resulting from the application of section 355(d) or section 355(e) of the Code to a Distribution) or corresponding provisions of the laws of any other jurisdictions. Any Income Tax referred to in the immediately preceding sentence shall be determined using the highest applicable statutory corporate Income Tax rate for the relevant taxable period (or portion thereof).

“ **EMC** ” has the meaning set forth in the preamble hereto.

“ **EMC Affiliate** ” means any corporation or other entity directly or indirectly “controlled” by EMC where “control” means the ownership of fifty percent (50%) or more of the ownership interests of such corporation or other entity (by vote or value) or the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such corporation or other entity, but at all times excluding VMware or any VMware Affiliate.

“ **Estimated Tax Installment Date** ” means, with respect to United States federal Income Taxes, the estimated Tax installment due dates prescribed in section 6655(c) of the Code and, in the case of any other Tax, means any other date on which an installment payment of an estimated amount of such Tax is required to be made.

“ **Final Determination** ” shall mean the final resolution of liability for any Tax for any taxable period, by or as a result of: (i) a final and unappealable decision, judgment, decree or other order by any court of competent jurisdiction; (ii) a final settlement with the IRS, a closing agreement or accepted offer in compromise under sections 7121 or 7122 of the Code, or a comparable agreement under the laws of other jurisdictions, which resolves the entire Tax liability for any taxable period; (iii) any allowance of a refund or credit in respect of an overpayment of Tax, but only after the expiration of all periods during which such refund may be recovered by the jurisdiction imposing the Tax; or (iv) any other final disposition, including by reason of the expiration of the applicable statute of limitations.

“ **Income Tax** ” shall mean any federal, state, local or non-U.S. Tax determined (in whole or in part) by reference to net income, net worth, gross receipts or capital, or any Taxes imposed in lieu of such a tax. For the avoidance of doubt, the term “Income Tax” includes any franchise tax or any Taxes imposed in lieu of such a tax.

“ **Income Tax Return** ” means any Tax Return relating to any Income Tax.

“ **Independent Accountant** ” has the meaning set forth in Section 2.04(b) of this Agreement.

“ **Independent Firm** ” has the meaning set forth in Section 10.03 of this Agreement.

“ **IRS** ” means the United States Internal Revenue Service or any successor thereto, including its agents, representatives, and attorneys.

“ **Joint Responsibility Item** ” means any Tax Item for which the non-Controlling Party’s responsibility under this Agreement could exceed one hundred fifty thousand dollars (\$150,000), but not a Sole Responsibility Item.

“ **Non-Income Tax Return** ” means any Tax Return relating to any Tax other than an Income Tax.

“ **Officer’s Certificate** ” means a letter executed by an officer of Dell Technologies or VMware and provided to Tax Counsel as a condition for the completion of a Tax Opinion or Supplemental Tax Opinion.

“ **Option** ” means an option to acquire common stock, or other equity-based incentives the economic value of which is designed to mirror that of an option, including non-qualified stock options, discounted non-qualified stock options, cliff options to the extent stock is issued or issuable (as opposed to cash compensation), and tandem stock options to the extent stock is issued or issuable (as opposed to cash compensation).

“ **Owed Party** ” has the meaning set forth in Section 7.05 of this Agreement.

“ **Payment Period** ” has the meaning set forth in Section 7.05(e) of this Agreement.

“ **Post-Deconsolidation Period** ” means any taxable period beginning after the date of a Deconsolidation Event.

“ **Pre-Deconsolidation Period** ” means any taxable period beginning on or before the date of a Deconsolidation Event.

“ **Ruling** ” means (i) any private letter ruling issued by the IRS in connection with a Distribution in response to a request for such a private letter ruling filed by Dell Technologies (or any Dell Technologies Affiliate) prior to the date of a Distribution, and (ii) any similar ruling issued by any other Taxing Authority addressing the application of a provision of the laws of another jurisdiction to a Distribution.

“ **Ruling Documents** ” means (i) the request for a Ruling filed with the IRS, together with any supplemental filings or other materials subsequently submitted on behalf of Dell Technologies, its subsidiaries and shareholders to the IRS, the appendices and exhibits thereto, and any Ruling issued by the IRS to Dell Technologies (or any Dell Technologies Affiliate) in connection with a Distribution and (ii) any similar filings submitted to, or rulings issued by, any other Taxing Authority in connection with a Distribution.

“ **Sole Responsibility Item** ” means any Tax Item for which the non-Controlling Party has the entire economic liability under this Agreement.

“ **Supplemental Ruling** ” means (i) any ruling (other than the Ruling) issued by the IRS in connection with a Distribution, and (ii) any similar ruling issued by any other Taxing Authority addressing the application of a provision of the laws of another jurisdiction to a Distribution.

“ **Supplemental Ruling Documents** ” means (i) the request for a Supplemental Ruling, together with any supplemental filings or other materials subsequently submitted, the appendices and exhibits thereto, and any Supplemental Rulings issued by the IRS in connection with a Distribution and (ii) any similar filings submitted to, or rulings issued by, any other Taxing Authority in connection with a Distribution.

“ **Supplemental Tax Opinion** ” has the meaning set forth in Section 5.02(c) of this Agreement.

“ **Tax Asset** ” means any Tax Item that has accrued for Tax purposes, but has not been realized during the taxable period in which it has accrued, and that could reduce a Tax in another taxable period, including a net operating loss, net capital loss, investment tax credit, foreign tax credit, charitable deduction or credit related to alternative minimum tax or any other Tax credit.

“ **Tax Benefit** ” means a reduction in the Tax liability (or increase in refund or credit or any item of deduction or expense) of a Taxpayer for any taxable period. Except as otherwise provided in this Agreement, a Tax Benefit shall be deemed to have been realized or received from a Tax Item in a taxable period only if and to the extent that the Tax liability of the Taxpayer for such period, after taking into account the effect of the Tax Item on the Tax liability of such Taxpayer in the current period and all prior periods, is less than it would have been had such Tax liability been determined without regard to such Tax Item.

“ **Tax Counsel** ” means a nationally recognized law firm selected by Dell Technologies to provide a Tax Opinion.

“ **Tax Detriment** ” means an increase in the Tax liability (or reduction in refund or credit or any item of deduction or expense) of a Taxpayer for any taxable period. Except as otherwise provided in this Agreement, a Tax Detriment shall be deemed to have been realized or incurred from a Tax Item in a taxable period only if and to the extent that the Tax liability of the Taxpayer for such period, after taking into account the effect of the Tax Item on the Tax liability of such

Taxpayer in the current period and all prior periods, is more than it would have been had such Tax liability been determined without regard to such Tax Item.

“ **Tax Item** ” means any item of income, gain, loss, deduction, expense or credit, or other attribute that may have the effect of increasing or decreasing any Tax.

“ **Tax Opinion** ” means an opinion issued by Tax Counsel as one of the conditions to completing a Distribution addressing certain United States federal Income Tax consequences of a Distribution under section 355 of the Code.

“ **Tax Return** ” means any return, report, certificate, form or similar statement or document (including any related or supporting information or schedule attached thereto and any information return, amended tax return, claim for refund or declaration of estimated Tax) required to be supplied to, or filed with, a Taxing Authority in connection with the determination, assessment or collection of any Tax or the administration of any laws, regulations or administrative requirements relating to any Tax.

“ **Taxes** ” means all federal, state, local or non-U.S. taxes, charges, fees, duties, levies, imposts, rates or other assessments, including income, gross receipts, net worth, excise, property, sales, use, license, capital stock, transfer, franchise, payroll, withholding, social security, value added or other taxes, (including any interest, penalties or additions attributable thereto) and a “Tax” shall mean any one of such Taxes.

“ **Taxing Authority** ” means any governmental authority or any subdivision, agency, commission or authority thereof or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the IRS).

“ **Taxpayer** ” means any taxpayer and its Affiliated Group or similar group of entities as defined under corresponding provisions of the laws of any other jurisdiction of which a taxpayer is a member.

“ **VMware** ” has the meaning set forth in the preamble hereto.

“ **VMware Affiliate** ” means any corporation or other entity directly or indirectly “controlled” by VMware at the time in question, where “control” means the ownership of fifty percent (50%) or more of the ownership interests of such corporation or other entity (by vote or value) or the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such corporation or other entity.

“ **VMware Business** ” means the business and operations conducted by VMware and VMware Affiliates.

“ **VMware Business Records** ” has the meaning set forth in Section 10.02(b) of this Agreement.

“ **VMware Group** ” means the Affiliated Group, or similar group of entities as defined under corresponding provisions of the laws of other jurisdictions, of which VMware will be the

common parent corporation immediately after a Deconsolidation Event and including any corporation or other entity which may become a member of such group from time to time.

“ **VMware Separate Tax Liability** ” means an amount equal to the Tax liability that VMware and each VMware Affiliate would have incurred if they had filed a consolidated return, combined return (including nexus combination, worldwide combination, domestic combination, line of business combination or any other form of combination), unitary return or a separate return, as the case may be, separate from the members of the Dell Technologies Group, for the relevant Tax period, and such amount shall be computed by Dell Technologies (A) in a manner consistent with (i) general Tax accounting principles, (ii) the Code and the Treasury regulations promulgated thereunder, and (iii) past practice, if any, and (B) taking into account any Tax Asset of VMware and any VMware Affiliate attributable to any Tax period beginning on or after January 1, 2007; provided, however, that, although the VMware Separate Tax Liability is to be computed on a hypothetical basis as if VMware and each VMware Affiliate were separate from the members of the Dell Technologies Group, the fact that VMware or any VMware Affiliate is included in a Consolidated Return or a Combined Return and the effect that such inclusion has on the calculation of any Tax Item, shall nevertheless be taken into account for purposes of computing the VMware Separate Tax Liability (for example, for purposes of calculating its R&D credit, VMware shall be entitled to its allocable share of the consolidated R&D credit of the Dell Technologies Group). For the avoidance of doubt, the VMware Separate Tax Liability shall be computed for the relevant Tax period without regard to whether or not VMware or any VMware Affiliate would be able, on a hypothetical basis separate from the members of the Dell Technologies Group, to utilize in an earlier or later Tax period a Tax Asset resulting from such computation.

Section 2. Preparation and Filing of Tax Returns.

2.01. Dell Technologies’ Responsibility. Subject to the other applicable provisions of this Agreement, Dell Technologies shall have sole and exclusive responsibility for the preparation and filing of:

(a) all Consolidated Returns and all Combined Returns for any taxable period;

(b) all Income Tax Returns (other than Consolidated Returns and Combined Returns) with respect to Dell Technologies and/or any Dell Technologies Affiliate for any taxable period; and

(c) all Non-Income Tax Returns with respect to Dell Technologies, any Dell Technologies Affiliate, or the Dell Technologies Business or any part thereof for any taxable period.

2.02. VMware’s Responsibility. Subject to the other applicable provisions of this Agreement, VMware shall have sole and exclusive responsibility for the preparation and filing of:

(a) all Income Tax Returns (other than Consolidated Returns and Combined Returns) with respect to VMware and/or any VMware Affiliate that are required to be filed (taking into account any extension of time which has been requested or received); and

(b) all Non-Income Tax Returns with respect to VMware, any VMware Affiliate, or the VMware Business or any part thereof for any taxable period.

2.03. Agent. Subject to the other applicable provisions of this Agreement, VMware hereby irrevocably designates, and agrees to cause each VMware Affiliate to so designate, Dell Technologies as its sole and exclusive agent and attorney-in-fact to take such action (including execution of documents) as Dell Technologies, in its sole discretion, may deem appropriate in any and all matters (including Audits) relating to any Tax Return described in Section 2.01 of this Agreement.

2.04. Manner of Tax Return Preparation.

(a) Unless otherwise required by a Taxing Authority, the parties hereby agree to prepare and file all Tax Returns, and to take all other actions, in a manner consistent with (1) this Agreement, (2) any Tax Opinion, (3) any Supplemental Tax Opinion, (4) any Ruling, and (5) any Supplemental Ruling. All Tax Returns shall be filed on a timely basis (taking into account applicable extensions) by the party responsible for filing such returns under this Agreement.

(b) Dell Technologies shall have the exclusive right, in its sole discretion, with respect to any Tax Return described in Section 2.01 of this Agreement, to determine (1) the manner in which such Tax Return shall be prepared and filed, including the elections, method of accounting, positions, conventions and principles of taxation to be used and the manner in which any Tax Item shall be reported, (2) whether any extensions shall be requested, (3) the elections that will be made by Dell Technologies, any Dell Technologies Affiliate, VMware, and/or any VMware Affiliate on such Tax Return, (4) whether any amended Tax Returns shall be filed, (5) whether any claims for refund shall be made, (6) whether any refunds shall be paid by way of refund or credited against any liability for the related Tax, and (7) whether to retain outside firms to prepare and/or review such Tax Returns; provided, however, that Dell Technologies shall consult with VMware prior to changing any method of accounting if such action would solely impact VMware or VMware Affiliates. In the case of any Consolidated Return or Combined Return that reports a VMware Separate Tax Liability in excess of five million dollars (\$5,000,000), Dell Technologies shall provide to VMware a pro forma draft of the portion of such Tax Return that reflects the VMware Separate Tax Liability and a statement showing in reasonable detail Dell Technologies' calculation of the VMware Separate Tax Liability (including copies of all worksheets and other materials used in preparation thereof) at least twenty-one (21) days prior to the due date (with applicable extensions) for the filing of such Tax Return for VMware's review and comment. VMware shall provide its comments to Dell Technologies at least ten (10) days prior to the due date (with applicable extensions) for the filing of such Tax Return. In the case of a dispute regarding the reporting of any Tax Item on such Tax Return or the requesting of a change of method of accounting which would solely impact VMware or VMware Affiliates, which the parties cannot resolve, Dell Technologies and VMware shall jointly retain a nationally recognized accounting firm that is mutually agreed upon by Dell

Technologies and VMware (the “ **Independent Accountant** ”) to determine whether the proposed reporting of Dell Technologies or VMware is more appropriate. If Dell Technologies and VMware are unable to agree, the Independent Accountant shall be Deloitte Tax LLP. The relevant Tax Item shall be reported in the manner that the Independent Accountant determines is more appropriate, and such determination shall be final and binding on Dell Technologies and VMware. If VMware has not provided its comments on the pro forma draft of the portion of the Tax Return, or in the case of a dispute regarding the reporting of any Tax Item, such dispute has not been resolved by the due date (with applicable extension) for the filing of any Tax Return, Dell Technologies shall file such Tax Return reporting all Tax Items in the manner as originally set forth on the pro forma draft of the portion of the Tax Return provided to VMware; provided, however, that Dell Technologies agrees that it will thereafter file an amended Tax Return, if necessary, reporting any disputed Tax Item in the manner determined by the Independent Accountant, and any other Tax Item as agreed upon by Dell Technologies and VMware. The fees and expenses incurred in retaining the Independent Accountant shall be borne equally by Dell Technologies and VMware, except that if the Independent Accountant determines that the proposed reporting of the disputed Tax Item(s) submitted to the Independent Accountant for its determination by a party is frivolous, has not been asserted in good faith or for which there is not substantial authority, one hundred percent (100%) of the fees and expenses of the Independent Accountant shall be borne by such party.

(c) Information. VMware shall timely provide, in accordance with Dell Technologies’ internal tax return calendar, which will be provided to VMware on a rolling one-year schedule, all information necessary for Dell Technologies to prepare all Tax Returns and compute all estimated Tax payments (for purposes of Section 7.01 of this Agreement). If VMware does not meet these deadlines, the Section 2.04(b) notice period to VMware shall be waived.

Section 3. Liability for Taxes.

3.01. VMware’s Liability for Taxes. VMware and each VMware Affiliate shall be jointly and severally liable for the following Taxes, and shall be entitled to receive and retain all refunds of Taxes previously incurred by VMware, any VMware Affiliate, or the VMware Business with respect to such Taxes:

- (a) all Taxes with respect to Tax Returns described in Section 2.01(a) of this Agreement to the extent that such Taxes are related to (i) the VMware Separate Tax Liability, or (ii) the VMware Business, for any taxable period;
- (b) all Taxes with respect to Tax Returns described in Section 2.02 of this Agreement; and
- (c) all Taxes imposed by any Taxing Authority with respect to the VMware Business, VMware or any VMware Affiliate (other than in connection with the required filing of a Tax Return described in Sections 2.01(a) or 2.02 of this Agreement) for any taxable period.

3.02. Dell Technologies' Liability for Taxes. Dell Technologies shall be liable for the following Taxes, and shall be entitled to receive and retain all refunds of Taxes previously incurred by Dell Technologies, any Dell Technologies Affiliate, or the Dell Technologies Business with respect to such Taxes:

- (a) except as provided in Section 3.01(a) of this Agreement, all Taxes with respect to Tax Returns described in Section 2.01(a) of this Agreement;
- (b) all Taxes with respect to Tax Returns described in Sections 2.01(b) or 2.01(c) of this Agreement; and
- (c) all Taxes imposed by any Taxing Authority with respect to Dell Technologies, any Dell Technologies Affiliate, or the Dell Technologies Business (other than in connection with the required filing of a Tax Return described in Section 2.01 of this Agreement) for any taxable period.

3.03. Taxes, Refunds and Credits. Notwithstanding Sections 3.01 and 3.02 of this Agreement, (i) Dell Technologies shall be liable for all Taxes incurred by any person with respect to the Dell Technologies Business for all periods and shall be entitled to all refunds and credits of Taxes previously incurred by any person with respect to such Taxes, and (ii) VMware and each VMware Affiliate shall be jointly and severally liable for all Taxes incurred by any person with respect to the VMware Business for all periods and shall be entitled to all refunds and credits of Taxes previously incurred by any person with respect to such Taxes. Nothing in this Agreement shall be construed to require compensation, by payment, credit, offset or otherwise, by Dell Technologies (or any Dell Technologies Affiliate) to VMware (or any VMware Affiliate) for any loss, deduction, credit or other Tax attribute arising in connection with, or related to, VMware, any VMware Affiliate, or the VMware Business, that is shown on, or otherwise reflected with respect to, any Tax Return described in Section 2.01 of this Agreement; provided, however, that in the event that the VMware Separate Tax Liability with respect to a particular taxable period is less than zero, Dell Technologies shall pay to VMware an amount equal to the Tax Benefit that the Dell Technologies Group recognizes as a result of the VMware Separate Tax Liability being less than zero for such taxable period.

3.04. Payment of Tax Liability. If one party is liable or responsible for Taxes, under Sections 3.01 through 3.03 of this Agreement, with respect to Tax Returns for which another party is responsible for filing, or with respect to Taxes that are paid by another party, then the liable or responsible party shall pay the Taxes (or a reimbursement of such Taxes) to the other party pursuant to Section 7.05 of this Agreement.

3.05. Computation. Dell Technologies shall provide VMware with a written calculation in reasonable detail (including, upon reasonable request, copies of all work sheets and other materials used in preparation thereof) setting forth the amount of any VMware Separate Tax Liability or estimated VMware Separate Tax Liability (for purposes of Section 7.01 of this Agreement) and any Taxes related to the VMware Business. VMware shall have the right to review and comment on such calculation. Any dispute with respect to such calculation shall be resolved pursuant to Section 10.03 of this Agreement; provided, however, that, notwithstanding

any dispute with respect to any such calculation, in no event shall any payment attributable to the amount of any VMware Separate Tax Liability or estimated VMware Separate Tax Liability be paid later than the date provided in Section 7 of this Agreement.

Section 4. Deconsolidation Events.

4.01. Tax Allocations. Although neither party has any plan or intent to effectuate any transaction that would constitute a Deconsolidation Event, the parties have set forth how certain Tax matters with respect to a Deconsolidation Event would be handled in the event that, as a result of changed circumstances, a transaction that constitutes a Deconsolidation Event is pursued at some future time.

(a) Allocation of Tax Items. In the case of a Deconsolidation Event, all Tax computations for (1) any Pre-Deconsolidation Periods ending on the date of the Deconsolidation Event and (2) the immediately following taxable period of VMware or any VMware Affiliate, shall be made pursuant to the principles of section 1.1502-76(b) of the Treasury Regulations or of a corresponding provision under the laws of other jurisdictions, as reasonably determined by Dell Technologies, taking into account all reasonable suggestions made by VMware with respect thereto.

(b) Allocation of Tax Assets. In the case of a Deconsolidation Event, Dell Technologies and VMware shall cooperate in determining the allocation of any Tax Assets among Dell Technologies, each Dell Technologies Affiliate, VMware, and each VMware Affiliate. The parties hereby agree that in the absence of controlling legal authority or unless otherwise provided under this Agreement, Tax Assets shall be allocated to the legal entity that is required under Section 3 of this Agreement to bear the liability for the Tax associated with such Tax Asset, or in the case where no party is required hereunder to bear such liability, the party that incurred the cost or burden associated with the creation of such Tax Asset.

4.02. Carrybacks.

(a) In General. In the case of a Deconsolidation Event, Dell Technologies agrees to pay to VMware the Tax Benefit from the use in any Pre-Deconsolidation Period of a carryback of any Tax Asset of the VMware Group from a Post-Deconsolidation Period (other than a carryback of any Tax Asset attributable to Distribution Taxes for which the liability is borne by Dell Technologies or any Dell Technologies Affiliate). If subsequent to the payment by Dell Technologies to VMware of the Tax Benefit of a carryback of a Tax Asset of the VMware Group, there shall be a Final Determination which results in a decrease (1) to the amount of the Tax Asset so carried back or (2) to the amount of such Tax Benefit, VMware shall repay to Dell Technologies any amount which would not have been payable to VMware pursuant to this Section 4.02(a) had the amount of the benefit been determined in light of these events. Nothing in this Section 4.02(a) shall require Dell Technologies to file an amended Tax Return or claim for refund of Income Taxes; provided, however, that Dell Technologies shall use its reasonable efforts to use any carryback of a Tax Asset of the VMware Group that is carried back under this Section 4.02(a).

(b) Net Operating Losses. In the case of a Deconsolidation Event, notwithstanding any other provision of this Agreement, VMware hereby expressly agrees to elect (under section 172(b)(3) of the Code and, to the extent feasible, any similar provision of any state, local or non-U.S. Tax law, including section 1.1502-21T(b)(3) of the Treasury Regulations) to relinquish any right to carryback net operating losses to any Pre-Deconsolidation Periods of Dell Technologies (in which event no payment shall be due from Dell Technologies to VMware in respect of such net operating losses).

4.03. Continuing Covenants.

Each of Dell Technologies (for itself and each Dell Technologies Affiliate) and VMware (for itself and each VMware Affiliate) agrees (1) not to take any action reasonably expected to result in an increased Tax liability to the other, a reduction in a Tax Asset of the other or an increased liability to the other under this Agreement, and (2) to take any action reasonably requested by the other that would reasonably be expected to result in a Tax Benefit or avoid a Tax Detriment to the other, provided, in either such case, that the taking or refraining to take such action does not result in any additional cost not fully compensated for by the other party or any other adverse effect to such party. The parties hereby acknowledge that the preceding sentence is not intended to limit, and therefore shall not apply to, the rights of the parties with respect to matters otherwise covered by this Agreement.

Section 5. Distribution Taxes.

5.01. Liability for Distribution Taxes. Although neither party has any plan or intent to effectuate a Distribution, the parties have set forth how certain Tax matters with respect to a Distribution would be handled in the event that, as a result of changed circumstances, a Distribution is pursued at some future time.

(a) Dell Technologies' Liability for Distribution Taxes. In the event of a Distribution, notwithstanding Sections 3.01 through 3.03 of this Agreement, Dell Technologies and each Dell Technologies Affiliate shall be jointly and severally liable for any Distribution Taxes, to the extent that such Distribution Taxes are attributable to, caused by, or result from, one or more of the following:

(i) any action or omission by Dell Technologies (or any Dell Technologies Affiliate) inconsistent with any information, covenant, representation, or material related to Dell Technologies, any Dell Technologies Affiliate, or the Dell Technologies Business in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling (for the avoidance of doubt, disclosure of any action or fact that is inconsistent with any information, covenant, representation, or material submitted to Tax Counsel, the IRS, or other Taxing Authority, as applicable, in connection with an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling shall not relieve Dell Technologies (or any Dell Technologies Affiliate) of liability under this Agreement);

(ii) any action or omission by Dell Technologies (or any Dell Technologies Affiliate), including a cessation, transfer to affiliates, or disposition of its active trades or businesses, or an issuance of stock, stock buyback or payment of an extraordinary dividend by Dell Technologies (or any Dell Technologies Affiliate) following a Distribution;

(iii) any acquisition of any stock or assets of Dell Technologies (or any Dell Technologies Affiliate) by one or more other persons (other than VMware or a VMware Affiliate) prior to or following a Distribution; or

(iv) any issuance of stock by Dell Technologies (or any Dell Technologies Affiliate), or change in ownership of stock in Dell Technologies (or any Dell Technologies Affiliate).

(b) VMware's Liability for Distribution Taxes. In the event of a Distribution, notwithstanding Sections 3.01 through 3.03 of this Agreement, VMware and each VMware Affiliate shall be jointly and severally liable for any Distribution Taxes, to the extent that such Distribution Taxes are attributable to, caused by, or result from, one or more of the following:

(i) any action or omission by VMware (or any VMware Affiliate) after a Distribution at any time, that is inconsistent with any information, covenant, representation, or material related to VMware, any VMware Affiliate, or the VMware Business in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling (for the avoidance of doubt, disclosure by VMware (or any VMware Affiliate) to Dell Technologies (or any Dell Technologies Affiliate) of any action or fact that is inconsistent with any information, covenant, representation, or material submitted to Tax Counsel, the IRS, or other Taxing Authority, as applicable, in connection with an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling shall not relieve VMware (or any VMware Affiliate) of liability under this Agreement);

(ii) any action or omission by VMware (or any VMware Affiliate) after the date of a Distribution (including any act or omission that is in furtherance of, connected to, or part of a plan or series of related transactions (within the meaning of section 355(e) of the Code) occurring on or prior to the date of a Distribution) including a cessation, transfer to affiliates or disposition of the active trades or businesses of VMware (or any VMware Affiliate), stock buyback or payment of an extraordinary dividend;

(iii) any acquisition of any stock or assets of VMware (or any VMware Affiliate) by one or more other persons (other than Dell Technologies or any Dell Technologies Affiliate) prior to or following a Distribution; or

(iv) any issuance of stock by VMware (or any VMware Affiliate) after a Distribution, including any issuance pursuant to the exercise of employee stock options or other employment related arrangements or the exercise of warrants, or change in ownership of stock in VMware (or any VMware Affiliate) after a Distribution.

(c) Joint Liability for Remaining Distribution Taxes. Dell Technologies shall be liable for fifty percent (50%) and VMware and each VMware Affiliate shall be jointly and severally liable for fifty percent (50%), of any Distribution Taxes not otherwise allocated by Sections 5.01(a) or (b) of this Agreement.

5.02. Continuing Covenants.

(a) VMware Restrictions. VMware agrees that, so long as a Distribution could, in the reasonable discretion of Dell Technologies, be effectuated, VMware will not knowingly take or fail to take, or permit any VMware Affiliate to knowingly take or fail to take, any action that could reasonably be expected to preclude Dell Technologies' ability to effectuate a Distribution. In the event of a Distribution, VMware agrees that (1) it will take, or cause any VMware Affiliate to take, any action reasonably requested by Dell Technologies in order to enable Dell Technologies to effectuate a Distribution and (2) it will not take or fail to take, or permit any VMware Affiliate to take or fail to take, any action where such action or failure to act would be inconsistent with any information, covenant, representation, or material that relates to facts or matters related to VMware (or any VMware Affiliate) or within the control of VMware and is contained in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling (except where such information, covenant, representation, or material was not previously disclosed to VMware) other than as permitted by Section 5.02(c) of this Agreement. For this purpose an action is considered inconsistent with a representation if the representation states that there is no plan or intention to take such action. In the event of a Distribution, VMware agrees that it will not take (and it will cause the VMware Affiliates to refrain from taking) any position on a Tax Return that is inconsistent with such Distribution qualifying under section 355 of the Code.

(b) Dell Technologies Restrictions. In the event of a Distribution, Dell Technologies agrees that it will not take or fail to take, or permit any Dell Technologies Affiliate to take or fail to take, any action where such action or failure to act would be inconsistent with any material, information, covenant or representation that relates to facts or matters related to Dell Technologies (or any Dell Technologies Affiliate) or within the control of Dell Technologies and is contained in an Officer's Certificate, Tax Opinion, Supplemental Tax Opinion, Ruling Documents, Supplemental Ruling Documents, Ruling, or Supplemental Ruling. For this purpose an action is considered inconsistent with a representation if the representation states that there is no plan or intention to take such action. In the event of a Distribution, Dell Technologies agrees that it will not take (and it will cause the Dell Technologies Affiliates to refrain from taking) any position on a Tax Return that is inconsistent with such Distribution qualifying under section 355 of the Code.

(c) Certain VMware Actions Following a Distribution. In the event of a Distribution, VMware agrees that, during the two (2) year period following a Distribution, without first obtaining, at VMware's own expense, either a supplemental opinion from Tax Counsel that such action will not result in Distribution Taxes (a "**Supplemental Tax Opinion**") or a Supplemental Ruling that such action will not result in Distribution Taxes, unless in any such case Dell Technologies and VMware agree otherwise, VMware shall not (1) sell all or

substantially all of the assets of VMware or any VMware Affiliate, (2) merge VMware or any VMware Affiliate with another entity, without regard to which party is the surviving entity, (3) transfer any assets of VMware in a transaction described in section 351 (other than a transfer to a corporation which files a Consolidated Return with VMware and which is wholly-owned, directly or indirectly, by VMware) or subparagraph (C) or (D) of section 368(a)(1) of the Code, (4) issue stock of VMware or any VMware Affiliate (or any instrument that is convertible or exchangeable into any such stock) in an acquisition or public or private offering, or (5) facilitate or otherwise participate in any acquisition of stock in VMware that would result in any shareholder owning five percent (5%) or more of the outstanding stock of VMware. VMware (or any VMware Affiliate) shall only undertake any of such actions after Dell Technologies' receipt of such Supplemental Tax Opinion or Supplemental Ruling and pursuant to the terms and conditions of any such Supplemental Tax Opinion or Supplemental Ruling or as otherwise consented to in writing in advance by Dell Technologies. The parties hereby agree that they will act in good faith to take all reasonable steps necessary to amend this Section 5.02(c), from time to time, by mutual agreement, to (i) add certain actions to the list contained herein, or (ii) remove certain actions from the list contained herein, in either case, in order to reflect any relevant change in law, regulation or administrative interpretation occurring after the date of this Agreement.

(d) Notice of Specified Transactions. Not later than twenty (20) days prior to entering into any oral or written contract or agreement, and not later than five (5) days after it first becomes aware of any negotiations, plan or intention (regardless of whether it is a party to such negotiations, plan or intention), regarding any of the transactions described in paragraph (c), VMware shall provide written notice of its intent to consummate such transaction or the negotiations, plan or intention of which it becomes aware, as the case may be, to Dell Technologies.

(e) VMware Cooperation. VMware agrees that, at the request of Dell Technologies, VMware shall cooperate fully with Dell Technologies to take any action necessary or reasonably helpful to effectuate a Distribution, including seeking to obtain, as expeditiously as possible, a Tax Opinion, Supplemental Tax Opinion, Ruling, and/or Supplemental Ruling. Such cooperation shall include the execution of any documents that may be necessary or reasonably helpful in connection with obtaining any Tax Opinion, Supplemental Tax Opinion, Ruling, and/or Supplemental Ruling (including any (i) power of attorney, (ii) Officer's Certificate, (iii) Ruling Documents, (iv) Supplemental Ruling Documents, and/or (v) reasonably requested written representations confirming that (a) VMware has read the Officer's Certificate, Ruling Documents, and/or Supplemental Ruling Documents and (b) all information and representations, if any, relating to VMware, any VMware Affiliate or the VMware Business contained therein are true, correct and complete in all material respects).

(f) Earnings and Profits. Dell Technologies will advise VMware in writing of the decrease in Dell Technologies earnings and profits or the earnings and profits of a Dell Technologies Affiliate attributable to a Distribution under section 312(h) of the Code on or before the first anniversary of a Distribution; provided, however, that Dell Technologies shall

provide VMware with estimates of such amounts (determined in accordance with past practice) prior to such anniversary as reasonably requested by VMware.

Section 6. Indemnification.

6.01. In General. Dell Technologies and each member of the Dell Technologies Group shall jointly and severally indemnify VMware, each VMware Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which Dell Technologies or any Dell Technologies Affiliate is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from, the failure of Dell Technologies, any Dell Technologies Affiliate or any director, officer or employee to make any payment required to be made under this Agreement. VMware and each member of the VMware Group shall jointly and severally indemnify Dell Technologies, each Dell Technologies Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which VMware or any VMware Affiliate is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from, the failure of VMware, any VMware Affiliate or any director, officer or employee to make any payment required to be made under this Agreement.

6.02. Inaccurate or Incomplete Information. Dell Technologies and each member of the Dell Technologies Group shall jointly and severally indemnify VMware, each VMware Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any cost, fine, penalty, or other expense of any kind attributable to the failure of Dell Technologies or any Dell Technologies Affiliate in supplying VMware or any VMware Affiliate with inaccurate or incomplete information, in connection with the preparation of any Tax Return. VMware and each member of the VMware Group shall jointly and severally indemnify Dell Technologies, each Dell Technologies Affiliate, and their respective directors, officers and employees, and hold them harmless from and against any cost, fine, penalty, or other expenses of any kind attributable to the failure of VMware or any VMware Affiliate in supplying Dell Technologies or any Dell Technologies Affiliate with inaccurate or incomplete information, in connection with the preparation of any Tax Return.

6.03. No Indemnification for Tax Items. Nothing in this Agreement shall be construed as a guarantee of the existence or amount of any loss, credit, carryforward, basis or other Tax Item, whether past, present or future, of Dell Technologies, any Dell Technologies Affiliate, VMware or any VMware Affiliate. In addition, for the avoidance of doubt, for purposes of determining any amount owed between the parties hereto, all such determinations shall be made without regard to any financial accounting tax asset or liability or other financial accounting items.

Section 7. Payments.

7.01. Estimated Tax Payments. Not later than three (3) days prior to each Estimated Tax Installment Date with respect to a taxable period for which a Consolidated Return or a Combined Return will be filed, VMware shall pay to Dell Technologies on behalf of the VMware

Group an amount equal to the amount of any estimated VMware Separate Tax Liability that VMware otherwise would have been required to pay to a Taxing Authority on such Estimated Tax Installment Date. If the VMware Separate Tax Liability for such taxable period is less than zero, then Dell Technologies shall pay to VMware an amount equal to the Tax Benefit that the Dell Technologies Group anticipates it will recognize for the entire year as a result of the VMware Separate Tax Liability being less than zero for such taxable period. Not later than seven (7) days prior to each such Estimated Tax Installment Date, Dell Technologies shall provide VMware with a written notice setting forth the amount payable by VMware in respect of such estimated VMware Separate Tax Liability and a calculation of such amount.

7.02. True-Up Payments. Not later than ten (10) business days after receipt of any VMware Separate Tax Liability computation pursuant to Section 3.05 of this Agreement, VMware shall pay to Dell Technologies, or Dell Technologies shall pay to VMware, as appropriate, an amount equal to the difference, if any, between the (i) VMware Separate Tax Liability and (ii) the amount equal to (A) the aggregate amount paid by VMware to Dell Technologies with respect to such period under Section 7.01 of this Agreement minus (B) the aggregate amounts paid by Dell Technologies to VMware with respect to such period under Section 7.01 of this Agreement.

7.03. Redetermination Amounts. In the event of a redetermination of any Tax Item reflected on any Consolidated Return or Combined Return (other than Tax Items relating to Distribution Taxes), as a result of a refund of Taxes paid, a Final Determination or any settlement or compromise with any Taxing Authority which in any such case would affect the VMware Separate Tax Liability, Dell Technologies shall prepare a revised pro forma Tax Return in accordance with Section 2.04(b) of this Agreement for the relevant taxable period reflecting the redetermination of such Tax Item as a result of such refund, Final Determination, settlement or compromise. VMware shall pay to Dell Technologies, or Dell Technologies shall pay to VMware, as appropriate, an amount equal to the difference, if any, between the VMware Separate Tax Liability reflected on such revised pro forma Tax Return and the VMware Separate Tax liability for such period as originally computed pursuant to this Agreement.

7.04. Payments of Refunds, Credits and Reimbursements. If one party receives a refund or credit of any Tax to which the other party is entitled pursuant to Section 3.03 of this Agreement, the party receiving such refund or credit shall pay to the other party the amount of such refund or credit pursuant to Section 7.05 of this Agreement. If one party pays a Tax with respect to which the other party is liable or responsible pursuant to Sections 3.01 through 3.03 of this Agreement, then the liable or responsible party shall pay to the other party the amount of such Tax pursuant to Section 7.05 of this Agreement.

7.05. Payments Under This Agreement. In the event that one party is required to make a payment to another party (the “**Owed Party**”) pursuant to this Agreement, then such payments shall be made according to this Section 7.05.

(a) In General. All payments shall be made to the Owed Party or to the appropriate Taxing Authority as specified by the Owed Party within the time prescribed for

payment in this Agreement, or if no period is prescribed, within ten (10) days after delivery of written notice of payment owing together with a computation of the amounts due.

(b) Treatment of Payments. Unless otherwise required by any Final Determination, the parties agree that any payments made by one party to another party pursuant to this Agreement (other than (i) payments for the VMware Separate Tax Liability for any Post-Deconsolidation Period, (ii) payments of interest pursuant to Section 7.05(e) of this Agreement, and (iii) payments of After Tax Amounts pursuant to Section 7.05(d) of this Agreement) shall be treated for all Tax and financial accounting purposes as nontaxable payments (dividend distributions or capital contributions, as the case may be) made immediately prior to the Deconsolidation Event and, accordingly, as not includible in the taxable income of the recipient or as deductible by the payor.

(c) Prompt Performance. All actions required to be taken (including payments) by any party under this Agreement shall be performed within the time prescribed for performance in this Agreement, or if no period is prescribed, such actions shall be performed promptly.

(d) After Tax Amounts. If pursuant to a Final Determination it is determined that the receipt or accrual of any payment made under this Agreement (other than payments of interest pursuant to Section 7.05(e) of this Agreement) is subject to any Tax, the party making such payment shall be liable for (a) the After Tax Amount with respect to such payment and (b) interest at the rate described in Section 7.05(e) of this Agreement on the amount of such Tax from the date such Tax accrues through the date of payment of such After Tax Amount. A party making a demand for a payment pursuant to this Agreement and for a payment of an After Tax Amount with respect to such payment shall separately specify and compute such After Tax Amount. However, a party may choose not to specify an After Tax Amount in a demand for payment pursuant to this Agreement without thereby being deemed to have waived its right subsequently to demand an After Tax Amount with respect to such payment. VMware's liability for any and all payments of the VMware Separate Tax Liability for any Post-Deconsolidation Period shall be increased by the After Tax Amount with respect to such payment and decreased by the corresponding Tax Benefit, if any, attributable to such VMware Separate Tax Liability.

(e) Interest. Payments pursuant to this Agreement that are not made within the period prescribed in this Agreement (the "**Payment Period**") shall bear interest for the period from and including the date immediately following the last date of the Payment Period through and including the date of payment at a per annum rate equal to the prime rate as published in *The Wall Street Journal* on the last day of such Payment Period. Such interest will be payable at the same time as the payment to which it relates and shall be calculated on the basis of a year of three hundred sixty-five (365) days and the actual number of days for which due.

Section 8. Tax Proceedings.

8.01. In General. Except as otherwise provided in this Agreement, (i) with respect to Tax Returns described in Section 2.01 of this Agreement, Dell Technologies and (ii) with respect to Tax Returns described in Section 2.02 of this Agreement, VMware (in either case, the

“ **Controlling Party** ”), shall have the exclusive right, in its sole discretion, to control, contest, and represent the interests of Dell Technologies, any Dell Technologies Affiliate, VMware, and/or any VMware Affiliate in any Audit relating to such Tax Return and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Audit. The Controlling Party’s rights shall extend to any matter pertaining to the management and control of an Audit, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item. Any costs incurred in handling, settling, or contesting an Audit shall be borne by the Controlling Party.

8.02. Participation of non-Controlling Party. Except as otherwise provided in Section 8.04 of this Agreement, the non-Controlling Party shall have control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment with respect to any Sole Responsibility Item. Except as otherwise provided in Section 8.04 of this Agreement, the Controlling Party and the non-Controlling Party shall have joint control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment with respect to any Joint Responsibility Item. Except as otherwise provided in Section 8.04 of this Agreement, the Controlling Party shall not settle any Audit it controls concerning a Tax Item on a basis that would reasonably be expected to adversely affect the non-Controlling Party by at least one hundred fifty thousand dollars (\$150,000) without obtaining such non-Controlling Party’s consent, which consent shall not be unreasonably withheld, conditioned or delayed if failure to consent would adversely affect the Controlling Party.

8.03. Notice. Within ten (10) business days after a party becomes aware of the existence of a Tax issue that may give rise to an indemnification obligation under this Agreement, such party shall give prompt notice to the other party of such issue (such notice shall contain factual information, to the extent known, describing any asserted tax liability in reasonable detail), and shall promptly forward to the other party copies of all notices and material communications with any Taxing Authority relating to such issue. Notwithstanding any provision in Section 10.15 of this Agreement to the contrary, if a party to this Agreement fails to provide the other party notice as required by this Section 8.03, and the failure results in a detriment to the other party then any amount which the other party is otherwise required to pay pursuant to this Agreement shall be reduced by the amount of such detriment.

8.04. Control of Distribution Tax Proceedings. In the event of a Distribution, Dell Technologies shall have the exclusive right, in its sole discretion, to control, contest, and represent the interests of Dell Technologies, any Dell Technologies Affiliate, VMware, and/or any VMware Affiliate in any Audits relating to Distribution Taxes and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Audit; provided, however, that Dell Technologies shall not settle any such audit with respect to Distribution Taxes with a Taxing Authority that would reasonably be expected to result in a material Tax cost to VMware or any VMware Affiliate, without the prior consent of VMware, which consent shall not be unreasonably withheld, conditioned or delayed. Dell Technologies’ rights shall extend to any matter pertaining to the management and control of such Audit, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item; provided, however, that to the extent that VMware is obligated to

bear at least fifty percent (50%) of the liability for any Distribution Taxes under Section 5.01 of this Agreement, Dell Technologies and VMware shall have joint control over decisions to resolve, settle or otherwise agree to any deficiency, claim or adjustment. VMware may assume sole control of any Audits relating to Distribution Taxes if it acknowledges in writing that it has sole liability for any Distribution Taxes under Section 5.01 of this Agreement that might arise in such Audit and can demonstrate to the reasonable satisfaction of Dell Technologies that it can satisfy its liability for any such Distribution Taxes. If VMware is unable to demonstrate to the reasonable satisfaction of Dell Technologies that it will be able to satisfy its liability for such Distribution Taxes, but acknowledges in writing that it has sole liability for any Distribution Taxes under Section 5.01 of this Agreement, VMware and Dell Technologies shall have joint control over the Audit.

Section 9. Stock Options and Restricted Stock.

9.01. In General.

(a) The parties hereto agree that, so long as VMware continues to be a member of the Consolidated Group of which Dell Technologies is the common parent, Dell Technologies shall be entitled to any Tax Benefit arising by reason of (i) exercises of Options to purchase shares of Dell Technologies stock and (ii) the lapse of any restrictions with respect to shares of Dell Technologies stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code). The parties hereto agree (i) to report all Tax deductions with respect to exercises of Options to purchase shares of Dell Technologies stock and the lapse of any restrictions with respect to shares of Dell Technologies stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code) consistently with this Section 9.01(a), to the extent permitted by the Tax law, and (ii) that such Tax deductions shall not be considered Tax deductions of VMware or any VMware Affiliate for purposes of computing the VMware Separate Tax Liability.

(b) The parties hereto agree that, once VMware ceases to be a member of the Consolidated Group of which Dell Technologies is the common parent, so long as Dell Technologies and/or any Dell Technologies Affiliate own shares of VMware stock possessing at least twenty percent (20%) of the total voting power of all of the issued and outstanding shares of VMware stock, VMware shall pay the amount of the Tax Benefit arising by reason of (i) exercises of Options to purchase shares of Dell Technologies stock and (ii) the lapse of any restrictions with respect to shares of Dell Technologies stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code) to Dell Technologies.

(c) The parties hereto agree that, once the shares of VMware stock owned by Dell Technologies and any Dell Technologies Affiliates possess less than twenty percent (20%) of the total voting power of all of the issued and outstanding shares of VMware stock, then upon the exercise of any Option to purchase shares of Dell Technologies stock by any VMware Group employee or former employee, VMware shall pay to Dell Technologies an amount equal to the excess of (i) the fair market value of such shares of Dell Technologies stock issued, over (ii) the strike price paid by the VMware Group employee or former employee with respect thereto.

9.02. Notices, Withholding, Reporting. Dell Technologies shall promptly notify VMware of any event giving rise to income to any VMware Group employees or former employees in connection with exercises of Options to purchase shares of Dell Technologies stock or the lapse of any restrictions with respect to shares of Dell Technologies stock subject to a substantial risk of forfeiture (within the meaning of section 83 of the Code). If required by the Tax law, VMware shall withhold applicable Taxes and satisfy applicable Tax reporting obligations in connection therewith.

9.03. Adjustments. If VMware or any VMware Affiliate as a result of a Final Determination or any settlement or compromise with any Taxing Authority receives any Tax Benefit to which Dell Technologies is entitled under Section 9.01 of this Agreement, VMware shall pay the amount of such Tax Benefit to Dell Technologies. If Dell Technologies or any Dell Technologies Affiliate as a result of a Final Determination or any settlement or compromise with any Taxing Authority receives any Tax Benefit to which VMware is entitled under Section 9.01 of this Agreement, Dell Technologies shall pay the amount of such Tax Benefit to VMware.

Section 10. Miscellaneous Provisions.

10.01. Effectiveness. This Agreement shall become effective upon execution by the parties hereto.

10.02. Prior TSA. Notwithstanding anything to the contrary contained herein, the Prior TSA shall continue in full force and effect with respect to taxable periods ending prior to and including the Effective Time.

10.03. Cooperation and Exchange of Information.

(a) Cooperation. VMware and Dell Technologies shall each cooperate fully (and each shall cause its respective affiliates to cooperate fully) with all reasonable requests from another party for information and materials not otherwise available to the requesting party in connection with the preparation and filing of Tax Returns, claims for refund, and Audits concerning issues or other matters covered by this Agreement or in connection with the determination of a liability for Taxes or a right to a refund of Taxes. Such cooperation shall include:

(i) the retention until the expiration of the applicable statute of limitations, and the provision upon request, of copies of all Tax Returns, books, records (including information regarding ownership and Tax basis of property), documentation and other information relating to the Tax Returns, including accompanying schedules, related work papers, and documents relating to rulings or other determinations by Taxing Authorities;

(ii) the execution of any document that may be necessary or reasonably helpful in connection with any tax proceeding, or the filing of a Tax Return or refund claim by a member of the Dell Technologies Group or the VMware Group, including certification, to the best of a party's knowledge, of the accuracy and completeness of the information it has supplied; and

(iii) the use of the party's reasonable best efforts to obtain any documentation that may be necessary or reasonably helpful in connection with any of the foregoing. Each party shall make its employees and facilities available on a reasonable and mutually convenient basis in connection with the foregoing matters.

(b) Retention of Records. Any party that is in possession of documentation of Dell Technologies (or any Dell Technologies Affiliate) or VMware (or any VMware Affiliate) relating to the VMware Business, including books, records, Tax Returns and all supporting schedules and information relating thereto (the "**VMware Business Records**") shall retain such VMware Business Records for a period of seven (7) years following the Effective Time. Thereafter, any party wishing to dispose of VMware Business Records in its possession (after the expiration of the applicable statute of limitations), shall provide written notice to the other party describing the documentation proposed to be destroyed or disposed of sixty (60) business days prior to taking such action. The other party may arrange to take delivery of any or all of the documentation described in the notice at its expense during the succeeding sixty (60) day period.

10.04. Dispute Resolution. In the event that Dell Technologies and VMware disagree as to the amount or calculation of any payment to be made under this Agreement, or the interpretation or application of any provision under this Agreement, the parties shall attempt in good faith to resolve such dispute. If such dispute is not resolved within sixty (60) business days following the commencement of the dispute, Dell Technologies and VMware shall jointly retain a nationally recognized law or accounting firm, which firm is independent of both parties (the "**Independent Firm**"), to resolve the dispute. The Independent Firm shall act as an arbitrator to resolve all points of disagreement and its decision shall be final and binding upon all parties involved. Following the decision of the Independent Firm, Dell Technologies and VMware shall each take or cause to be taken any action necessary to implement the decision of the Independent Firm. The fees and expenses relating to the Independent Firm shall be borne equally by Dell Technologies and VMware, except that if the Independent Firm determines that the position advanced by either party is frivolous, has not been asserted in good faith or for which there is not substantial authority, one hundred percent (100%) of the fees and expenses of the Independent Firm shall be borne by such party. Notwithstanding anything in this Agreement to the contrary, the dispute resolution provisions set forth in this Section 10.03 shall not be applicable to any disagreement between the parties relating to Distribution Taxes and any such dispute shall be settled in a court of law or as otherwise agreed to by the parties.

10.05. Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed given upon (a) a transmitter's confirmation of a receipt of a facsimile transmission (but only if followed by confirmed delivery of a standard overnight courier the following business day or if delivered by hand the following business day), (b) confirmed delivery of a standard overnight courier or when delivered by hand or (c) the expiration of ten (10) business days after the date mailed by certified or registered mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to Dell Technologies or any Dell Technologies Affiliate, to the Vice President of Corporate Tax of Dell Technologies, with a copy to the General Counsel of Dell Technologies, at:

Dell Technologies Inc.
One Dell Way, RR1-33
Round Rock, Texas 78682
Attn: Richard Rothberg, General Counsel

If to VMware or any VMware Affiliate, to Vice President of Corporate Tax of VMware, with a copy to the General Counsel of VMware, at:

VMware, Inc.
3401 Hillview Avenue
Palo Alto, California 94304
Attention: Legal Department

Either party may, by written notice to the other parties, change the address or the party to which any notice, request, instruction or other documents is to be delivered.

10.06. Changes in Law.

(a) Any reference to a provision of the Code or a law of another jurisdiction shall include a reference to any applicable successor provision or law.

(b) If, due to any change in applicable law or regulations or their interpretation by any court of law or other governing body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision.

10.07. Confidentiality. Each party shall hold and cause its directors, officers, employees, advisors and consultants to hold in strict confidence, unless compelled to disclose by judicial or administrative process or, in the opinion of its counsel, by other requirements of law, all information (other than any such information relating solely to the business or affairs of such party) concerning the other parties hereto furnished it by such other party or its representatives pursuant to this Agreement (except to the extent that such information can be shown to have been (1) in the public domain through no fault of such party or (2) later lawfully acquired from other sources not under a duty of confidentiality by the party to which it was furnished), and each party shall not release or disclose such information to any other person, except its directors, officers, employees, auditors, attorneys, financial advisors, bankers and other consultants who shall be advised of and agree to be bound by the provisions of this Section 10.06. Each party shall be deemed to have satisfied its obligation to hold confidential information concerning or supplied

by the other party if it exercises the same care as it takes to preserve confidentiality for its own similar information.

10.08. Successors. This Agreement shall be binding on and inure to the benefit and detriment of any successor, by merger, acquisition of assets or otherwise, to any of the parties hereto, to the same extent as if such successor had been an original party.

10.09. Affiliates. Dell Technologies shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Dell Technologies Affiliate, and VMware shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any VMware Affiliate; provided, however, that, if it is contemplated that a Dell Technologies Affiliate may cease to be a Dell Technologies Affiliate as a result of a transfer of its stock or other ownership interests to a third party in exchange for consideration in an amount approximately equal to the fair market value of the stock or other ownership interests transferred and such consideration is not distributed outside of the Dell Technologies Group to the shareholders of Dell Technologies, then (a) VMware shall execute a release of such Dell Technologies Affiliate from its obligations under this Agreement effective as of such transfer provided that Dell Technologies shall have confirmed in writing its obligations and the obligations of its remaining Dell Technologies Affiliates with respect to their own obligations and the obligations of the departing Dell Technologies Affiliate and that such departing Dell Technologies Affiliate shall have executed a release of any rights it may have against VMware or any VMware Affiliate by reason of this Agreement, or (b) Dell Technologies shall acknowledge in writing no later than thirty (30) days prior to such cessation that it shall bear one hundred percent (100%) of the liability for the obligations of Dell Technologies and each Dell Technologies Affiliate (including the departing Dell Technologies Affiliate) under this Agreement. If at any time VMware shall, directly or indirectly, obtain beneficial ownership of more than fifty percent (50%) of the total combined voting power of any other entity, VMware shall cause such entity to become a party to this Agreement by executing together with Dell Technologies an agreement in substantially the same form as set forth in Schedule 10.09 and such entity shall have all rights and obligations of an VMware Affiliate under this Agreement.

10.10. Authorization, Etc. Each of the parties hereto hereby represents and warrants that it has the power and authority to execute, deliver and perform this Agreement, that this Agreement has been duly authorized by all necessary corporate action on the part of such party, that this Agreement constitutes a legal, valid and binding obligation of each such party and that the execution, delivery and performance of this Agreement by such party does not contravene or conflict with any provision of law or of its charter or bylaws or any agreement, instrument or order binding on such party.

10.11. Entire Agreement. This Agreement contains the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes any prior tax sharing agreements between Dell Technologies (or any Dell Technologies Affiliate) and VMware (or any VMware Affiliate) and such prior tax sharing agreements shall have no further force and effect. If, and to the extent, the provisions of this Agreement conflict with any agreement entered into in

connection with a Distribution or another Deconsolidation Event, the provisions of this Agreement shall control.

10.12. Applicable Law; Jurisdiction. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY AND UNCONDITIONALLY (i) AGREES THAT THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND ALL DISPUTES, CONTROVERSIES OR CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE BREACH, TERMINATION OR VALIDITY HEREOF SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE, EXCLUDING ANY CONFLICTS OF LAW RULES, (ii) TO BE SUBJECT TO, AND HEREBY CONSENTS AND SUBMITS TO, THE JURISDICTION OF THE COURTS OF THE STATE OF DELAWARE AND OF THE FEDERAL COURTS SITTING IN THE STATE OF DELAWARE, (iii) TO THE EXTENT SUCH PARTY IS NOT OTHERWISE SUBJECT TO SERVICE OF PROCESS IN THE STATE OF DELAWARE, HEREBY APPOINTS THE CORPORATION TRUST COMPANY, AS SUCH PARTY'S AGENT IN THE STATE OF DELAWARE FOR ACCEPTANCE OF LEGAL PROCESS AND (iv) AGREES THAT SERVICE MADE ON ANY SUCH AGENT SET FORTH IN (iii) ABOVE SHALL HAVE THE SAME LEGAL FORCE AND EFFECT AS IF SERVED UPON SUCH PARTY PERSONALLY WITHIN THE STATE OF DELAWARE.

10.13. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

10.14. Severability. If any term, provision, covenant, or restriction of this Agreement is held by a court of competent jurisdiction (or an arbitrator or arbitration panel) to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants, and restrictions set forth herein shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated. In the event that any such term, provision, covenant or restriction is held to be invalid, void or unenforceable, the parties hereto shall use their best efforts to find and employ an alternate means to achieve the same or substantially the same result as that contemplated by such terms, provisions, covenant, or restriction.

10.15. No Third Party Beneficiaries. This Agreement is solely for the benefit of Dell Technologies, the Dell Technologies Affiliates, VMware and the VMware Affiliates. This Agreement should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, cause of action or other rights in excess of those existing without this Agreement.

10.16. Waivers, Etc. No failure or delay on the part of a party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement nor consent to any departure by the parties therefrom shall in any event be effective unless the same shall be in writing, and then

such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

10.17. Setoff. All payments to be made by any party under this Agreement may be netted against payments due to such party under this Agreement, but otherwise shall be made without setoff, counterclaim or withholding, all of which are hereby expressly waived.

10.18. Other Remedies. VMware recognizes that any failure by it or any VMware Affiliate to comply with its obligations under Section 5 of this Agreement would, in the event of a Distribution, result in Distribution Taxes that would cause irreparable harm to Dell Technologies, Dell Technologies Affiliates, and their stockholders. Accordingly, Dell Technologies shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement, this being in addition to any other remedy to which Dell Technologies is entitled at law or in equity.

10.19. Amendment and Modification. This Agreement may be amended, modified or supplemented only by a written agreement signed by all of the parties hereto.

10.20. Waiver of Jury Trial. Each of the parties hereto irrevocably and unconditionally waives all right to trial by jury in any litigation, claim, action, suit, arbitration, inquiry, proceeding, investigation or counterclaim (whether based in contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the parties hereto in the negotiation, administration, performance and enforcement thereof.

10.21. Interpretations. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement they shall be deemed to be followed by the words “without limitation.” The words “hereof,” “herein” and “herewith” and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified. The meaning assigned to each term defined herein shall be equally applicable to both the singular and the plural forms of such term, and words denoting any gender shall include all genders. Where a word or phrase is defined herein, each of its other grammatical forms shall have a corresponding meaning. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by a duly authorized officer as of the date first above written.

DELL TECHNOLOGIES INC.
on behalf of itself and each of the Dell Technologies Affiliates

By: /s/ Tom Vallone
Name: Tom Vallone
Title: Vice President Tax

EMC CORPORATION
on behalf of itself and each of the EMC Affiliates

By: /s/ Paul T. Dacier
Name: Paul T. Dacier
Title: Executive Vice President and General Counsel

VMWARE, INC.
on behalf of itself and each of the VMware Affiliates

By: /s/ Zane Rowe
Name: Zane Rowe
Title: Chief Financial Officer

WHEREAS, VMware, a Delaware corporation (“**VMware**”), owns, directly or indirectly, [all/more than fifty percent (50%)] of the outstanding stock or interests in the undersigned;

WHEREAS, the undersigned is not a party to that certain Amended and Restated Tax Sharing Agreement, dated as of [_____], 2016, by and among Dell Technologies, each Dell Technologies Affiliate, VMware and each VMware Affiliate (as defined therein) (the “**Agreement**”); and

WHEREAS, the undersigned, Dell Technologies and VMware desire to have the undersigned become a party to the Agreement and to have all rights and obligations of a party to the Agreement.

NOW, THEREFORE, in consideration of mutual obligations and undertakings contained in the Agreement, the parties agree that the undersigned shall become a party to the Agreement and shall have all rights and obligations of a party to the Agreement.

IN WITNESS WHEREOF, the parties have executed this agreement on the dates accompanying their respective signatures, but effective as of _____.

DELL TECHNOLOGIES INC.

By: _____
Name: _____
Title: _____

VMWARE, INC.

By: _____
Name: _____
Title: _____

[NAME]

By: _____
Name: _____
Title: _____

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

I, Patrick Gelsinger, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VMware, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2016

By: /s/ Patrick Gelsinger

Patrick Gelsinger
Chief Executive Officer
(Principal Executive Officer)

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

I, Zane Rowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VMware, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2016

By: /s/ Zane Rowe

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

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

I, Patrick Gelsinger, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report of VMware, Inc. on Form 10-Q for the fiscal quarter ended September 30, 2016 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, 2016

By: /s/ Patrick Gelsinger

Patrick Gelsinger
Chief Executive Officer
(Principal Executive Officer)

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

I, Zane Rowe, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report of VMware, Inc. on Form 10-Q for the fiscal quarter ended September 30, 2016 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, 2016

By: /s/ Zane Rowe

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