

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 May 5, 2017

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	(Do not check if a smaller reporting company)	
Emerging growth company	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

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

As of June 2, 2017, the number of shares of common stock, par value \$0.01 per share, of the registrant outstanding was 408,423,739, of which 108,423,739 shares were Class A common stock and 300,000,000 were Class B common stock.

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Revenue:			
License	\$ 610	\$ 572	\$ 125
Services	1,126	1,017	371
Total revenue	1,736	1,589	496
Operating expenses ⁽¹⁾ :			
Cost of license revenue	39	40	13
Cost of services revenue	250	211	80
Research and development	421	356	150
Sales and marketing	586	565	231
General and administrative	151	172	63
Realignment and loss on disposition	51	53	—
Operating income (loss)	238	192	(41)
Investment income	23	16	8
Interest expense with Dell	(7)	(7)	(2)
Other income (expense), net	4	(1)	1
Income (loss) before income tax	258	200	(34)
Income tax provision (benefit)	26	39	(26)
Net income (loss)	\$ 232	\$ 161	\$ (8)
Net income (loss) per weighted-average share, basic for Class A and Class B	\$ 0.57	\$ 0.38	\$ (0.02)
Net income (loss) per weighted-average share, diluted for Class A and Class B	\$ 0.56	\$ 0.38	\$ (0.02)
Weighted-average shares, basic for Class A and Class B	408,431	423,230	408,625
Weighted-average shares, diluted for Class A and Class B	414,018	424,180	408,625

⁽¹⁾ Includes stock-based compensation as follows:

Cost of license revenue	\$ 1	\$ 1	\$ —
Cost of services revenue	14	12	5
Research and development	82	70	31
Sales and marketing	48	49	19
General and administrative	18	18	7

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

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

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Net income (loss)	\$ 232	\$ 161	\$ (8)
Other comprehensive income (loss):			
Changes in market value of available-for-sale securities:			
Unrealized gains (losses), net of tax provision (benefit) of \$5, \$11 and \$1	8	18	2
Reclassification of (gains) losses realized during the period, net of tax (provision) benefit of \$— for all periods	1	—	—
Net change in market value of available-for-sale securities	9	18	2
Changes in market value of effective foreign currency forward contracts:			
Unrealized gains (losses), net of tax provision (benefit) of \$— for all periods	5	2	3
Reclassification of (gains) losses realized during the period, net of tax (provision) benefit of \$— for all periods	1	—	—
Net change in market value of effective foreign currency forward contracts	6	2	3
Total other comprehensive income (loss)	15	20	5
Total comprehensive income (loss), net of taxes	\$ 247	\$ 181	\$ (3)

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)

	May 5, 2017	December 31, 2016	Transition Period February 3, 2017
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,864	\$ 2,790	\$ 3,220
Short-term investments	4,748	5,195	5,173
Accounts receivable, net of allowance for doubtful accounts of \$2, \$2 and \$2	867	1,856	1,192
Due from related parties, net	127	132	93
Other current assets	172	362	173
Total current assets	9,778	10,335	9,851
Property and equipment, net	993	1,049	1,042
Other assets	240	248	249
Deferred tax assets	724	462	716
Intangible assets, net	474	517	507
Goodwill	4,032	4,032	4,032
Total assets	\$ 16,241	\$ 16,643	\$ 16,397
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 116	\$ 125	\$ 53
Accrued expenses and other	897	898	887
Note payable to Dell	680	—	—
Unearned revenue	3,317	3,531	3,349
Total current liabilities	5,010	4,554	4,289
Notes payable to Dell	820	1,500	1,500
Unearned revenue	1,918	2,093	1,991
Other liabilities	425	399	401
Total liabilities	8,173	8,546	8,181
Contingencies (refer to Note I)			
Stockholders' equity:			
Class A common stock, par value \$.01; authorized 2,500,000 shares; issued and outstanding 108,409, 108,351 and 110,060 shares	1	1	1
Class B convertible common stock, par value \$.01; authorized 1,000,000 shares; issued and outstanding 300,000 shares	3	3	3
Additional paid-in capital	1,448	1,721	1,843
Accumulated other comprehensive income (loss)	11	(9)	(4)
Retained earnings	6,605	6,381	6,373
Total stockholders' equity	8,068	8,097	8,216
Total liabilities and stockholders' equity	\$ 16,241	\$ 16,643	\$ 16,397

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

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

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Operating activities:			
Net income (loss)	\$ 232	\$ 161	\$ (8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	85	88	29
Stock-based compensation	163	150	62
Excess tax benefits from stock-based compensation	—	—	(5)
Deferred income taxes, net	(8)	(18)	(254)
Loss on disposition	49	—	—
(Gain) loss on Dell stock purchase	2	—	(1)
Impairment of strategic investments	2	5	—
Other	1	1	—
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	325	544	664
Other assets	(12)	(5)	190
Due to/from related parties, net	(34)	63	39
Accounts payable	59	(28)	(68)
Accrued expenses	(34)	(118)	(41)
Income taxes payable	15	(23)	38
Unearned revenue	(70)	(100)	(284)
Net cash provided by operating activities	<u>775</u>	<u>720</u>	<u>361</u>
Investing activities:			
Additions to property and equipment	(49)	(41)	(18)
Purchases of available-for-sale securities	(506)	(1,124)	(38)
Sales of available-for-sale securities	548	420	43
Maturities of available-for-sale securities	418	286	20
Proceeds from disposal of assets	—	3	—
Purchases of strategic investments	(6)	(2)	—
Decrease in restricted cash	2	2	—
Net cash provided by (used in) investing activities	<u>407</u>	<u>(456)</u>	<u>7</u>
Financing activities:			
Proceeds from issuance of common stock	7	52	61
Repurchase of common stock	(425)	—	—
Excess tax benefits from stock-based compensation	—	—	5
Shares repurchased for tax withholdings on vesting of restricted stock	(120)	(24)	(4)
Net cash provided by (used in) financing activities	<u>(538)</u>	<u>28</u>	<u>62</u>
Net increase in cash and cash equivalents	644	292	430
Cash and cash equivalents at beginning of the period	3,220	2,493	2,790
Cash and cash equivalents at end of the period	<u>\$ 3,864</u>	<u>\$ 2,785</u>	<u>\$ 3,220</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 9	\$ 7	\$ —
Cash paid for taxes, net	27	63	3
Non-cash items:			
Changes in capital additions, accrued but not paid	\$ 5	\$ (3)	\$ (6)

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.

Change in Fiscal Year End

On October 25, 2016, the VMware Board of Directors approved a change to VMware’s fiscal year from a fiscal year ending on December 31 of each calendar year to a fiscal year consisting 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 was effective January 1, 2017. The period that began on January 1, 2017 and ended on February 3, 2017 is reflected as a transition period (the “Transition Period”). VMware’s first full fiscal year 2018 under the revised fiscal calendar is a 52-week year that began on February 4, 2017 and will end on February 2, 2018.

The Company has included its unaudited condensed consolidated financial statements for the Transition Period in this report on Form 10-Q. As permitted under SEC rules, prior-period financial statements have not been recast as management believes (i) the three months ended March 31, 2016 are comparable to the three months ended May 5, 2017; and (ii) recasting prior-period results was not practicable or cost justified.

Accounting Principles

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

Unaudited Interim Financial Information

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. In the opinion of management, these unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments and accruals, for a fair statement of VMware’s condensed consolidated results of operations, financial position and cash flows for the periods presented. Results of operations are not necessarily indicative of the results that may be expected for the full fiscal year 2018. 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 2016 Annual Report on Form 10-K.

Effective September 7, 2016, Dell Technologies Inc. (“Dell”) (formerly Denali Holding Inc.) acquired EMC Corporation (“EMC”), including EMC’s majority 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 May 5, 2017, Dell controlled 81.8% of VMware’s outstanding common stock and 97.6% of the combined voting power of VMware’s outstanding common stock, including 34 million shares of VMware’s Class A common stock and all of VMware’s Class B common stock.

As VMware is a majority-owned and controlled subsidiary of Dell, its results of operations and financial position are consolidated with Dell’s financial statements. Transactions prior to the effective date of the Dell Acquisition represent transactions only with EMC and its consolidated subsidiaries (“Parent”).

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 products and services the Company receives from and provides to Dell.

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

Principles of Consolidation

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

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

Topic 606, Revenue from Contracts with Customers

During May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). 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 (collectively, “Topic 606”). The updated revenue standard replaces all existing revenue recognition guidance under GAAP and establishes common principles for recognizing revenue for all industries. It also provides guidance on the accounting for costs to fulfill or obtain a customer contract. The core principle underlying the updated standard is the recognition of revenue based on consideration expected to be entitled from the transfer of goods or services to a customer. The updated standard is effective for interim and annual periods beginning after December 15, 2017 and permits the use of either the full retrospective or cumulative effect transition method.

VMware plans to adopt Topic 606 using the full retrospective transition method when it becomes effective for the Company in the first quarter of fiscal 2019. While the Company is continuing to assess the potential impacts of Topic 606, VMware currently expects unearned license revenue related to the sale of perpetual licenses will decline significantly upon adoption. Currently, VMware defers all license revenue related to the sale of its perpetual licenses in the event certain revenue recognition criteria are not met. However, under Topic 606, the Company would generally expect that substantially all license revenue related to the sale of its perpetual licenses will be recognized upon delivery. Topic 606 is also expected to impact the timing and recognition of costs to obtain contracts with customers, such as commissions. Under the new standard, incremental costs to obtain contracts with customers are deferred and recognized over the expected period of benefit. As a result, VMware expects deferred commission costs to increase. The Company is continuing to evaluate the effect that Topic 606 will have on its consolidated financial statements and related disclosures, and preliminary assessments are subject to change.

ASU No. 2016-02, Leases

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. The updated standard also requires additional disclosure regarding leasing arrangements. It 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 the updated standard 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.

ASU No. 2016-16, Income Taxes

During October 2016, the FASB issued 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 required 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 for annual and interim periods beginning after December 15, 2017 and requires a modified retrospective transition method. The Company is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

ASU No. 2016-09, Compensation

VMware adopted ASU No. 2016-09, Compensation-Stock Compensation (Topic 718), on a prospective basis, effective February 4, 2017. Prior periods have not been reclassified to conform to the fiscal 2018 presentation. Net excess tax benefits

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

recognized in connection with stock-based awards are now included in the income tax provision on the condensed consolidated statements of income. Net excess tax benefits recognized during the three months ended May 5, 2017 were \$31 million. Prior to adopting the updated standard, such amounts were recognized in additional paid-in capital on the Company's condensed consolidated balance sheets.

Additionally, all tax-related cash flows resulting from stock-based awards are reported as operating activities in the statement of cash flows. Prior to adopting the updated standard, excess tax benefits were reported as a cash inflow from financing activities in the statement of cash flows.

B. Related Parties

The information provided below includes a summary of the transactions entered into with Dell and Dell's consolidated subsidiaries including EMC (collectively, "Dell"). Transactions prior to September 7, 2016 reflect transactions only with EMC and its consolidated subsidiaries.

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. Reseller revenue is presented net of related marketing development funds and rebates paid to Dell.
- 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.

Information about VMware's revenue and receipts, and unearned revenue from such arrangements, for the periods presented consisted of the following (table in millions):

	Revenue and Receipts			Unearned Revenue		
	Three Months Ended		Transition Period	As of		
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017	May 5, 2017	December 31, 2016	Transition Period February 3, 2017
Reseller revenue	\$ 223	\$ 79	\$ 44	\$ 652	\$ 637	\$ 616
Internal-use revenue	5	5	7	11	15	18
Professional services revenue	29	25	3	—	—	—
Agency fee revenue	—	1	—	—	—	—
Reimbursement for services to Pivotal	—	1	—	n/a	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.
- 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 occupancy expenses. Dell also incurs certain administrative costs on VMware's behalf in the United States that are recorded as expenses on VMware's condensed consolidated statements of income.

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

- 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 during the periods presented consisted of the following (table in millions):

	Three Months Ended		Transition Period
	May 5,	March 31,	January 1 to
	2017	2016	February 3,
			2017
Purchases and leases of products and purchases of services	\$ 36	\$ 17	\$ 14
Dell subsidiary support and administrative costs	29	23	13

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

Dell Financial Services ("DFS")

DFS provided 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, net on the condensed consolidated balance sheets. Financing fees recognized on these arrangements were not significant during the three months ended May 5, 2017 and the Transition Period.

Tax Sharing Agreement with Dell

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

	Three Months Ended		Transition Period
	May 5,	March 31,	January 1 to
	2017	2016	February 3,
			2017
Payments from VMware to Dell	\$ —	\$ 40	\$ —

The timing of the tax payments due to and from related parties is governed by a tax sharing agreement. Payments from VMware to Dell under the tax sharing agreement relate to VMware's portion of federal income taxes on Dell's consolidated tax return as well as state tax payments for combined states. The amounts that VMware pays to Dell for its portion of federal income taxes on Dell's consolidated tax return differ from the amounts VMware would owe on a separate tax return basis and the difference is 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 May 5, 2017 and March 31, 2016 and the Transition Period.

Due To/From Related Parties, Net

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

	May 5,	December 31,	Transition Period
	2017	2016	February 3,
			2017
Due (to) related parties	\$ (73)	\$ (71)	\$ (85)
Due from related parties	200	203	178
Due from related parties, net	<u>\$ 127</u>	<u>\$ 132</u>	<u>\$ 93</u>
Income tax related asset, net	\$ —	\$ 181	\$ —
Income tax due (to) related parties	(26)	—	(21)

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

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

Stock Purchase Agreements with Dell

On March 29, 2017, VMware entered into a stock purchase agreement with Dell to purchase \$300 million of VMware Class A common stock. During the three months ended May 5, 2017, VMware paid Dell \$300 million in exchange for an initial delivery of shares of 2.7 million shares, or approximately 80% of the expected total shares to be received and retired under the arrangement. On May 10, 2017, the stock purchase agreement with Dell was completed and VMware received an additional 0.7 million shares. The aggregate number of shares of 3.4 million purchased was determined based upon the volume-weighted average price during a defined period, less an agreed upon discount.

On December 15, 2016, VMware entered into a stock purchase agreement with Dell to purchase \$500 million of VMware Class A common stock. VMware purchased 4.8 million shares for \$375 million through December 31, 2016. On February 15, 2017, the stock purchase agreement with Dell was completed. A total of \$500 million was paid in exchange for 6.2 million shares. The aggregate number of shares purchased was determined based upon the volume-weighted average price during a defined period, less an agreed upon discount.

Notes Payable to Dell

VMware entered into a note exchange agreement with its Parent on January 21, 2014 providing for the issuance of three promissory notes in the aggregate principal amount of \$1,500 million. 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. As of May 5, 2017, \$680 million was classified as a current liability.

The notes bear interest, payable quarterly in arrears, at the annual rate of 1.75%. During the three months ended May 5, 2017 and March 31, 2016 and the Transition Period, \$7 million, \$7 million and \$2 million, respectively, of interest expense was recognized.

C. Definite-Lived Intangible Assets, Net**Definite-Lived Intangible Assets, Net**

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

	May 5, 2017			
	Weighted- Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	6.5	\$ 638	\$ (390)	\$ 248
Leasehold interest	34.9	149	(25)	124
Customer relationships and customer lists	8.3	132	(67)	65
Trademarks and tradenames	8.7	61	(25)	36
Other	5.7	4	(3)	1
Total definite-lived intangible assets		<u>\$ 984</u>	<u>\$ (510)</u>	<u>\$ 474</u>
	December 31, 2016			
	Weighted- Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	6.6	\$ 641	\$ (358)	\$ 283
Leasehold interest	34.9	149	(24)	125
Customer relationships and customer lists	8.3	132	(62)	70
Trademarks and tradenames	8.7	61	(23)	38
Other	5.7	4	(3)	1
Total definite-lived intangible assets		<u>\$ 987</u>	<u>\$ (470)</u>	<u>\$ 517</u>

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

Transition Period February 3, 2017

	Weighted- Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	6.5	\$ 641	\$ (366)	\$ 275
Leasehold interest	34.9	149	(24)	125
Customer relationships and customer lists	8.3	132	(64)	68
Trademarks and tradenames	8.7	61	(23)	38
Other	5.7	4	(3)	1
Total definite-lived intangible assets		<u>\$ 987</u>	<u>\$ (480)</u>	<u>\$ 507</u>

Amortization expense on definite-lived intangible assets was \$32 million, \$34 million and \$10 million during the three months ended May 5, 2017 and March 31, 2016 and the Transition Period, respectively.

Based on intangible assets recorded as of May 5, 2017 and assuming no subsequent additions, dispositions or impairment of underlying assets, the remaining estimated annual amortization expense over the next five fiscal years and thereafter is expected to be as follows (table in millions):

Remainder of 2018	\$ 96
2019	117
2020	93
2021	39
2022	24
Thereafter	105
Total	<u>\$ 474</u>

D. Realignment and Loss on Disposition

Disposition of VMware vCloud Air Business

On April 4, 2017, VMware announced the sale of its VMware vCloud Air business (“vCloud Air”) to OVH US LLC (“OVH”). In connection with the transaction, the fair value of the fixed assets of \$3 million identified as part of the sale was reclassified to assets held for sale in other current assets on the condensed consolidated balance sheets as of May 5, 2017. The initial loss recognized in connection with this transaction was \$51 million and is included in realignment and loss on disposition on the condensed consolidated statements of income. In addition, the unearned revenue of \$35 million associated with vCloud Air will be assumed by OVH and has been reclassified to accrued expenses and other on the condensed consolidated balance sheets as of May 5, 2017.

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 three months ended March 31, 2016. VMware recognized \$50 million of severance-related realignment expenses during the three months ended March 31, 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 three months ended March 31, 2016.

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The following table summarizes the activity for the accrued realignment expenses for the period presented (table in millions):

	Three Months Ended March 31, 2016			
	Balance as of January 1, 2016	Realignment	Utilization	Balance as of March 31, 2016
Severance-related costs	\$ 3	\$ 50	\$ (26)	\$ 27
Costs to exit facilities	—	3	—	3
Total	\$ 3	\$ 53	\$ (26)	\$ 30

E. Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) 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 (loss) per share if their effect would be anti-dilutive. VMware uses the two-class method to calculate net income (loss) 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 (loss) per share during the periods presented (table in millions, shares in thousands):

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Net income (loss)	\$ 232	\$ 161	\$ (8)
Weighted-average shares, basic for Class A and Class B	408,431	423,230	408,625
Effect of other dilutive securities	5,587	950	—
Weighted-average shares, diluted for Class A and Class B	414,018	424,180	408,625
Net income (loss) per weighted-average share, basic for Class A and Class B	\$ 0.57	\$ 0.38	\$ (0.02)
Net income (loss) per weighted-average share, diluted for Class A and Class B ⁽¹⁾	\$ 0.56	\$ 0.38	\$ (0.02)

⁽¹⁾ During the Transition Period, VMware incurred a net loss. As a result, all potentially dilutive securities were anti-dilutive and excluded from the computation of diluted net loss per share.

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

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Anti-dilutive securities:			
Employee stock options	895	2,352	2,353
Restricted stock units	44	15,491	3,259
Total	939	17,843	5,612

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F. Cash, Cash Equivalents and Investments

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

	May 5, 2017			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Cash	\$ 427	\$ —	\$ —	\$ 427
Cash equivalents:				
Money-market funds	\$ 3,422	\$ —	\$ —	\$ 3,422
Municipal obligations	15	—	—	15
Total cash equivalents	\$ 3,437	\$ —	\$ —	\$ 3,437
Short-term investments:				
U.S. Government and agency obligations	\$ 733	\$ —	\$ (3)	\$ 730
U.S. and foreign corporate debt securities	3,607	5	(10)	3,602
Foreign governments and multi-national agency obligations	24	—	—	24
Municipal obligations	207	—	—	207
Mortgage-backed securities	157	—	(1)	156
Marketable available-for-sale equity securities	15	14	—	29
Total short-term investments	\$ 4,743	\$ 19	\$ (14)	\$ 4,748
	December 31, 2016			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Cash	\$ 512	\$ —	\$ —	\$ 512
Cash equivalents:				
Money-market funds	\$ 2,235	\$ —	\$ —	\$ 2,235
Time deposits	26	—	—	26
Municipal obligations	17	—	—	17
Total cash equivalents	\$ 2,278	\$ —	\$ —	\$ 2,278
Short-term investments:				
U.S. Government and agency obligations	\$ 734	\$ —	\$ (3)	\$ 731
U.S. and foreign corporate debt securities	3,885	2	(18)	3,869
Foreign governments and multi-national agency obligations	32	—	—	32
Municipal obligations	365	—	—	365
Asset-backed securities	4	—	—	4
Mortgage-backed securities	196	—	(2)	194
Total short-term investments	\$ 5,216	\$ 2	\$ (23)	\$ 5,195
Other assets:				
Marketable available-for-sale equity securities	\$ 15	\$ 7	\$ —	\$ 22

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	Transition Period February 3, 2017			
	Cost or Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
Cash	\$ 720	\$ —	\$ —	\$ 720
Cash equivalents:				
Money-market funds	\$ 2,471	\$ —	\$ —	\$ 2,471
Time deposits	26	—	—	26
Municipal obligations	3	—	—	3
Total cash equivalents	\$ 2,500	\$ —	\$ —	\$ 2,500
Short-term investments:				
U.S. Government and agency obligations	\$ 733	\$ —	\$ (3)	\$ 730
U.S. and foreign corporate debt securities	3,884	3	(16)	3,871
Foreign governments and multi-national agency obligations	32	—	—	32
Municipal obligations	350	—	—	350
Asset-backed securities	4	—	—	4
Mortgage-backed securities	188	—	(2)	186
Total short-term investments	\$ 5,191	\$ 3	\$ (21)	\$ 5,173
Other assets:				
Marketable available-for-sale equity securities	\$ 15	\$ 7	\$ —	\$ 22

VMware evaluated its available-for-sale investments as of May 5, 2017, December 31, 2016 and February 3, 2017 for other-than-temporary declines in fair value and did not consider any to be other-than-temporarily impaired. The realized gains and losses on investments during the three months ended May 5, 2017 and March 31, 2016 and the Transition Period were not significant.

Unrealized losses on cash equivalents and available-for-sale investments as of the periods presented, which have been in a net loss position for less than twelve months, were classified by sector as follows (table in millions):

	May 5, 2017		December 31, 2016		Transition Period February 3, 2017	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and agency obligations	\$ 681	\$ (3)	\$ 608	\$ (3)	\$ 527	\$ (3)
U.S. and foreign corporate debt securities	1,864	(10)	2,595	(18)	2,287	(16)
Mortgage-backed securities	121	(1)	164	(2)	151	(2)
Total	\$ 2,666	\$ (14)	\$ 3,367	\$ (23)	\$ 2,965	\$ (21)

As of May 5, 2017, December 31, 2016 and February 3, 2017, 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 for the periods presented.

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Contractual Maturities

The contractual maturities of fixed income securities held as of May 5, 2017 consisted of the following (table in millions):

	Amortized Cost Basis	Aggregate Fair Value
Due within one year	\$ 1,445	\$ 1,445
Due after 1 year through 5 years	2,916	2,908
Due after 5 years through 10 years	116	116
Due after 10 years	251	250
Total fixed income securities	<u>\$ 4,728</u>	<u>\$ 4,719</u>

G. 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 that are classified as Level 1. Additionally, VMware's Level 2 classification includes forward contracts, notes payable to Dell and the estimated fair value of assets held for sale in connection with the disposition of vCloud Air. As of May 5, 2017, December 31, 2016 and February 3, 2017, VMware's Level 2 investment securities were generally priced using non-binding market consensus prices that were corroborated by observable market data, quoted market prices for similar instruments, or pricing models such as discounted cash flow techniques. The fair value of assets held for sale in connection with the disposition of vCloud Air was based upon the terms of the sale between VMware and OVH and was immaterial as of May 5, 2017.

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

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The following tables set forth the fair value hierarchy of VMware's cash equivalents, available-for-sale securities and derivatives that were required to be measured at fair value as of the periods presented (tables in millions):

	May 5, 2017		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 3,422	\$ —	\$ 3,422
Municipal obligations	—	15	15
Total cash equivalents	\$ 3,422	\$ 15	\$ 3,437
Short-term investments:			
U.S. Government and agency obligations	\$ 455	\$ 275	\$ 730
U.S. and foreign corporate debt securities	—	3,602	3,602
Foreign governments and multi-national agency obligations	—	24	24
Municipal obligations	—	207	207
Mortgage-backed securities	—	156	156
Marketable available-for-sale equity securities	29	—	29
Total short-term investments	\$ 484	\$ 4,264	\$ 4,748
Other current assets:			
Forward contracts	\$ —	\$ 10	\$ 10
	December 31, 2016		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 2,235	\$ —	\$ 2,235
Time deposits	—	26	26
Municipal obligations	—	17	17
Total cash equivalents	\$ 2,235	\$ 43	\$ 2,278
Short-term investments:			
U.S. Government and agency obligations	\$ 441	\$ 290	\$ 731
U.S. and foreign corporate debt securities	—	3,869	3,869
Foreign governments and multi-national agency obligations	—	32	32
Municipal obligations	—	365	365
Asset-backed securities	—	4	4
Mortgage-backed securities	—	194	194
Total short-term investments	\$ 441	\$ 4,754	\$ 5,195
Other current assets:			
Derivative due to stock purchase with Dell	\$ —	\$ 8	\$ 8
Other assets:			
Marketable available-for-sale equity securities	\$ 22	\$ —	\$ 22

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	Transition Period February 3, 2017		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 2,471	\$ —	\$ 2,471
Time deposits	—	26	26
Municipal obligations	—	3	3
Total cash equivalents	\$ 2,471	\$ 29	\$ 2,500
Short-term investments:			
U.S. Government and agency obligations	\$ 445	\$ 285	\$ 730
U.S. and foreign corporate debt securities	—	3,871	3,871
Foreign governments and multi-national agency obligations	—	32	32
Municipal obligations	—	350	350
Asset-backed securities	—	4	4
Mortgage-backed securities	—	186	186
Total short-term investments	\$ 445	\$ 4,728	\$ 5,173
Other current assets:			
Derivative due to stock purchase with Dell	\$ —	\$ 9	\$ 9
Other assets:			
Marketable available-for-sale equity securities	\$ 22	\$ —	\$ 22

Marketable available-for-sale equity securities were classified as short-term investments as of May 5, 2017 as restrictions on the Company's ability to sell the common stock lapse within twelve months of May 5, 2017. As of December 31, 2016 and February 3, 2017, these securities were classified as other assets.

Notes payable to Dell are not adjusted to fair value. The fair value of the notes payable to Dell was approximately \$1,497 million, \$1,489 million and \$1,492 million as of May 5, 2017, December 31, 2016 and February 3, 2017, respectively. Fair value was estimated primarily based on observable market interest rates (Level 2 inputs).

VMware offers a deferred compensation plan for eligible employees, which allows participants to defer payment for part or all of their compensation. The net impact to the condensed consolidated statements of income is not significant since changes in the fair value of the assets substantially offset changes in the fair value of the liabilities. As such, assets and liabilities associated with this plan have not been included in the above tables. Assets and liabilities associated with this plan were the same at approximately \$45 million, \$35 million and \$36 million as of May 5, 2017, December 31, 2016 and February 3, 2017, 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 holds strategic investments in its portfolio accounted for using the cost method. These strategic investments are periodically assessed for other-than-temporary impairment. VMware uses Level 3 inputs as part of its impairment analysis, including pre- and post-money valuations of recent financing events, the impact of financing events on its ownership percentages, and other available information relevant to 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 months ended March 31, 2016, certain strategic investments were considered to be other-than-temporarily impaired and accordingly, an impairment charge of approximately \$5 million was recognized. The impairment charge for the three months ended May 5, 2017 was not significant. Strategic investments are included in other assets on the condensed consolidated balance sheets. The carrying value of VMware's strategic investments was \$142 million, \$139 million and \$139 million as of May 5, 2017, December 31, 2016 and February 3, 2017, respectively.

H. Derivatives and Hedging Activities

VMware conducts business on a global basis in multiple foreign currencies, subjecting the Company to foreign currency risk. To mitigate a portion of this risk, VMware utilizes hedging contracts as described below, which potentially expose the

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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 certain operating expenses denominated in certain foreign currencies, VMware enters into forward contracts that are designated as cash flow hedging instruments as the accounting criteria for such designation have been met. Therefore, the effective portion of gains or losses resulting from changes in the fair value of these instruments is initially reported in accumulated other comprehensive income (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 months ended May 5, 2017 and March 31, 2016 and the Transition Period, 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.

These forward contracts have contractual maturities of twelve months or less, and as of May 5, 2017, December 31, 2016 and February 3, 2017, outstanding forward contracts had a total notional value of \$193 million, \$22 million and \$250 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 months ended May 5, 2017 and March 31, 2016 and the Transition Period, all cash flow hedges were considered effective.

Forward Contracts Not Designated as Hedges

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

These forward contracts have a contractual maturity of one month, and as of May 5, 2017, December 31, 2016 and February 3, 2017, outstanding forward contracts had a total notional value of \$687 million, \$875 million and \$834 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 months ended May 5, 2017, March 31, 2016 and the Transition Period, VMware recognized a loss of \$8 million, \$23 million and \$18 million, respectively, relating to the settlement of forward contracts. Gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

The combined gains and losses related to forward contracts and the underlying foreign currency denominated assets and liabilities resulted in a net gain of \$4 million during the three months ended May 5, 2017, and net losses of \$2 million and \$1 million during the three months ended March 31, 2016 and the Transition Period, respectively. Net gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

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. On January 6, 2017, the court granted VMware’s motion for summary judgment on the contract statute of limitations issues, which removed Phoenix’s breach of contract claim from the lawsuit. No other claims were removed from the lawsuit on summary judgment and trial began on May 30, 2017, but has not yet concluded. VMware believes that it has meritorious defenses in connection with this lawsuit. A possible range of loss is between zero (if VMware is found not liable) and \$110 million, with the high end of the range based on claims made by Phoenix during trial.

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 the open source General Public License v.2 (“GPL v.2”)

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and seeking an order requiring VMware 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 Mr. Hellwig's lawsuit. Mr. Hellwig has appealed the Regional Court's decision and has filed his opening appellate brief and VMware has filed its responsive appellate brief. No further briefing or hearing schedule has yet been set by the appellate court.

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.

Former employee Dane Smith filed a lawsuit against the Company alleging (i) wrongful retaliation in violation of the False Claims Act and (ii) wrongful termination in violation of public policy. As of May 2, 2017, the parties had completed an arbitration hearing. The results of the arbitration hearing were immaterial to VMware's 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 (collectively, the "Defendants"), alleging that the Defendants 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 did not assert claims directly against VMware, but purported to bring class claims on behalf of other VMware Class A stockholders and derivative claims on behalf of VMware. On May 2, 2017, the Delaware Chancery Court granted Defendants' motion to dismiss without leave to amend, dismissing all claims against all Defendants. The time limitation for the plaintiff to file an appeal lapsed on June 1, 2017. While VMware does not believe that the *Ford* case represents 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 May 5, 2017, amounts accrued relating to these other matters arising as part of the ordinary course of business were considered immaterial. 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. Unearned Revenue

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

	May 5, 2017	December 31, 2016	Transition Period February 3, 2017
Unearned license revenue	\$ 472	\$ 503	\$ 484
Unearned software maintenance revenue	4,323	4,628	4,405
Unearned professional services revenue	440	493	451
Total unearned revenue	<u>\$ 5,235</u>	<u>\$ 5,624</u>	<u>\$ 5,340</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 license revenue derived from commitments to

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future products that have not been delivered represents a significant portion of total unearned license revenue as of May 5, 2017 . VMware expects unearned license revenue to substantially decline upon the adoption of Topic 606.

Unearned software maintenance revenue is attributable to VMware’s maintenance contracts and is generally recognized ratably over the contract period. The weighted-average remaining term as of May 5, 2017 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 affected by fluctuations in the foreign currencies in which VMware invoices.

In connection with the sale of vCloud Air, approximately \$18 million of unearned license revenue and \$35 million of total unearned revenue were reclassified to accrued expenses and other on the condensed consolidated balance sheets as of May 5, 2017 . Refer to Note D for further information.

K. Stockholders’ Equity

VMware Stock Repurchases

During January 2017, VMware’s board of directors authorized the repurchase of up to \$1,200 million of VMware’s Class A common stock through the end of fiscal 2018. Stock will be purchased from time to time in open market transactions, subject to market conditions. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including VMware’s stock price, cash requirements for operations and business combinations, corporate, legal and regulatory requirements and other market and economic conditions. VMware is not obligated to purchase any shares under its stock repurchase programs. Purchases can be discontinued at any time VMware believes additional purchases are not warranted. From time to time, VMware also purchases stock in private transactions, such as with Dell. All shares repurchased under VMware’s stock repurchase programs are retired. As of May 5, 2017 , the cumulative authorized amount remaining for stock repurchases under the January 2017 authorization was \$900 million .

The following table summarizes stock repurchase activity, including shares purchased from Dell, during the period presented (aggregate purchase price in millions, shares in thousands):

	Three Months Ended	
	May 5, 2017	
Aggregate purchase price ⁽¹⁾⁽²⁾	\$	357
Class A common shares repurchased		4,161
Weighted-average price per share	\$	85.85

⁽¹⁾ The aggregate purchase price of repurchased shares is classified as a reduction to additional paid-in capital.

⁽²⁾ The aggregate purchase price of \$357 million includes the purchase price associated with the final delivery of 1.4 million shares under the December 15, 2016 agreement with Dell and the initial delivery of 2.7 million shares under the March 29, 2017 agreement with Dell.

During the three months ended March 31, 2016 and the Transition Period , VMware did not repurchase any shares of its Class A common stock.

VMware Restricted Stock

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

VMware’s restricted stock also includes performance stock unit (“PSU”) awards, which have been granted to certain VMware executives and employees. The PSU awards include performance conditions and, in certain cases, a time-based vesting component. Upon vesting, PSU awards 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.

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The following table summarizes restricted stock activity since January 1, 2017 (units in thousands):

	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Outstanding, January 1, 2017	20,866	\$ 67.54
Vested	(256)	77.07
Forfeited	(159)	68.11
Outstanding, February 3, 2017	20,451	67.41
Granted	813	89.87
Vested	(3,750)	66.05
Forfeited	(448)	70.62
Outstanding, May 5, 2017	17,066	68.70

The total fair value of VMware restricted stock that vested during the three months ended May 5, 2017 and the Transition Period was \$350 million and \$21 million, respectively. As of May 5, 2017, restricted stock representing 17.1 million shares of VMware's Class A common stock were outstanding, with an aggregate intrinsic value of \$1,604 million based on VMware's closing stock price as of May 5, 2017.

Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gain (Loss) on Available-for-Sale Securities	Unrealized Gain (Loss) on Forward Contracts	Total
Balance, January 1, 2017	\$ (8)	\$ (1)	\$ (9)
Unrealized gains (losses), net of tax provision (benefit) of \$1, \$— and \$1	2	3	5
Balance, February 3, 2017	\$ (6)	\$ 2	\$ (4)
Unrealized gains (losses), net of tax provision (benefit) of \$5, \$— and \$5	8	5	13
Amounts reclassified from accumulated other comprehensive income to the consolidated statement of income, net of taxes of \$—	1	1	2
Other comprehensive income (loss), net	9	6	15
Balance, May 5, 2017	\$ 3	\$ 8	\$ 11

	Unrealized Gain (Loss) on Available-for-Sale Securities	Unrealized Gain (Loss) on Forward Contracts	Total
Balance, January 1, 2016	\$ (7)	\$ (1)	\$ (8)
Unrealized gain (loss), net of tax provision (benefit) of \$11, \$— and \$11	18	2	20
Balance, March 31, 2016	\$ 11	\$ 1	\$ 12

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 is reclassified to its related operating expense line item on the condensed consolidated statements of income in the same period that the underlying expenses are incurred. The amounts recorded to their related operating expense

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

functional line items on the condensed consolidated statements of income were not significant to the individual functional line items during the periods presented .

L. Segment Information

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

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

	Three Months Ended		Transition Period
	May 5,	March 31,	January 1 to
	2017	2016	February 3,
			2017
United States	\$ 860	\$ 800	\$ 248
International	876	789	248
Total	<u>\$ 1,736</u>	<u>\$ 1,589</u>	<u>\$ 496</u>

Revenue by geographic area is 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 during the three months ended May 5, 2017 and March 31, 2016 and the Transition Period .

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

	May 5,	December 31,	Transition Period
	2017	2016	February 3,
			2017
United States	\$ 728	\$ 784	\$ 777
International	121	132	131
Total	<u>\$ 849</u>	<u>\$ 916</u>	<u>\$ 908</u>

No individual country other than the United States accounted for 10% or more of these assets as of May 5, 2017 , December 31, 2016 and February 3, 2017 .

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

M. Transition Period**Comparable Financial Information**

In conjunction with VMware's change in fiscal year end, the Company had a Transition Period of 34 days that began on January 1, 2017 and ended on February 3, 2017. The most comparable prior-year period, the one month ended January 31, 2016, had a duration of 31 days.

The following table presents certain financial information during the periods presented (table in millions, shares in thousands):

	Transition Period	Comparable Period
	January 1 to	January 1 to
	February 3,	January 31,
	2017	2016
Total revenue	\$ 496	\$ 470
Operating income (loss)	(41)	22
Income tax provision (benefit)	(26)	4
Net income (loss)	(8)	22
Net income (loss) per weighted-average share, basic for Class A and Class B	\$ (0.02)	\$ 0.05
Net income (loss) per weighted-average share, diluted for Class A and Class B	\$ (0.02)	\$ 0.05
Weighted-average shares, basic for Class A and Class B	408,625	422,067
Weighted-average shares, diluted for Class A and Class B ⁽¹⁾	408,625	423,092

⁽¹⁾ During the Transition Period, VMware incurred a net loss. As a result, all potentially dilutive securities were anti-dilutive and excluded from the computation of diluted net loss per share.

Income Taxes

The Company's net deferred tax assets were \$462 million and \$716 million as of December 31, 2016 and February 3, 2017, respectively. The increase from December 31, 2016 to February 3, 2017 primarily resulted from higher deferred tax assets related to unearned revenue which were \$324 million and \$566 million as of December 31, 2016 and February 3, 2017, respectively. The increase in deferred tax assets was a result of the Dell Acquisition and VMware's new fiscal year calendar. VMware believes it is more-likely-than-not that the net deferred tax assets as of December 31, 2016 and February 3, 2017 will be realized in the foreseeable future as VMware believes that it will generate sufficient taxable income in future years. VMware's ability to generate sufficient taxable income in future years in appropriate tax jurisdictions will determine the amount of net deferred tax asset balances to be realized in future periods.

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 May 5, 2017 should be read in conjunction with our consolidated financial statements for the year ended December 31, 2016 contained in our Form 10-K filed on February 24, 2017.

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.

Over the years, we have increased our product offerings beyond compute virtualization to include offerings that allow organizations to manage IT resources across private clouds and complex multi-cloud, multi-device environments by leveraging synergies across three product categories: Software-Defined Data Center ("SDDC"), Hybrid Cloud Computing and End-User Computing. Our portfolio supports and addresses the four key IT priorities of our customers: modernizing data centers, integrating public clouds, empowering digital workspaces and transforming security.

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

SDDC or Software-Defined Data Center

Our SDDC technologies 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. While overall sales of our VMware vSphere ("vSphere") offerings have remained strong, the majority of our license sales originate from products and services solutions across our portfolio beyond our compute products. We continue to experience growth in sales of VMware NSX ("NSX"), our network virtualization solution, and VMware vSAN ("vSAN") products.

Hybrid Cloud Computing

Our overarching cloud strategy contains three key components: (i) continue to expand beyond compute virtualization in the private cloud, (ii) extend the private cloud into the public cloud and (iii) connect and secure endpoints across a range of public clouds. During the three months ended May 5, 2017, hybrid cloud computing was comprised of VMware vCloud Air Network ("vCAN") and VMware vCloud Air ("vCloud Air") offerings. On April 4, 2017, we announced that OVH US LLC ("OVH") intends to acquire our vCloud Air business. The transaction is expected to be completed during the second quarter of fiscal 2018.

We continue to see revenue growth derived from our vCAN offering. We also expect VMware Cloud on Amazon Web Services ("VMware Cloud on AWS") and Cross-Cloud offerings to become generally available in the second half of fiscal 2018, expanding our hybrid cloud computing offerings in fiscal 2018.

End-User Computing

Our End-User Computing solution consists of VMware Workspace ONE ("Workspace ONE"), our digital workspace platform, which includes VMware AirWatch ("AirWatch") and VMware Horizon ("Horizon"). Our AirWatch business model includes an on-premises solution that we offer through the sale of perpetual licenses and an off-premises solution that we offer as SaaS. Our mobile and desktop products and services within Workspace ONE continued to contribute to the growth of our end-user computing product group during the first quarter of fiscal 2018.

Change in Fiscal Year End

As a result of the change to our fiscal year from a fiscal year ending on December 31 of each calendar year to a fiscal year ending on the Friday nearest to January 31 of each year, the period that began on January 1, 2017 and ended on February 3, 2017 was a transition period (the "Transition Period"). Our first full fiscal year 2018 is a 52-week year that began on February 4, 2017 and will end on February 2, 2018. As permitted under SEC rules, prior-period financial statements have not been recast as we believe (i) the three months ended March 31, 2016 are comparable to the three months ended May 5, 2017;

and (ii) recasting prior-period results was not practicable or cost justified. We have included certain unaudited condensed consolidated financial statements for the Transition Period in this Form 10-Q and will include audited financial statements for the Transition Period in the Form 10-K filed for the fiscal year ended February 2, 2018.

Results of Operations

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

Revenue

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

	Three Months Ended		\$ Change	% Change
	May 5, 2017	March 31, 2016		
Revenue:				
License	\$ 610	\$ 572	\$ 37	7%
Services:				
Software maintenance	974	891	82	9
Professional services	152	126	28	22
Total services	1,126	1,017	110	11
Total revenue	\$ 1,736	\$ 1,589	\$ 147	9
Revenue:				
United States	\$ 860	\$ 800	\$ 59	7%
International	876	789	88	11
Total revenue	\$ 1,736	\$ 1,589	\$ 147	9

Hybrid cloud, including vCAN and vCloud Air, and our SaaS offerings, including our AirWatch mobile solutions, increased to over 9% of our total revenue during the three months ended May 5, 2017 from greater than 7% during the three months ended March 31, 2016. vCAN revenue is included in license revenue, and SaaS revenue, including vCloud Air and our AirWatch mobile solutions, is included in both license and services revenue. We expect to complete our sale of vCloud Air during the second quarter of fiscal 2018.

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

License Revenue

License revenue growth during the three months ended May 5, 2017 compared to the three months ended March 31, 2016 continues to be driven by increasing sales of our emerging product solution offerings, as well as growth in our end-user computing offerings and vCAN. Strength in renewals of our EAs contributed to license revenue growth during the three months ended May 5, 2017 compared to the three months ended March 31, 2016.

We are also seeing continued sales momentum early in the second quarter of fiscal 2018 and are expecting both license and total revenue growth of approximately 10% when comparing the three months ended August 4, 2017 to the three months ended June 30, 2016.

Services Revenue

During the three months ended May 5, 2017, software maintenance revenue benefited from strong renewals of our EAs, maintenance contracts sold in previous periods and additional maintenance contracts sold in conjunction with new software license sales. In each period presented, customers purchased, on a weighted-average basis, more than two and a half years of support and maintenance with each new license purchased.

Professional services revenue increased 22% during the three months ended May 5, 2017 as compared to the three months ended March 31, 2016 . We have continued our focus on solution deployments, including our emerging products such as NSX and vSAN, which attributed to the increase in professional services revenue. Our professional services revenue will vary based on the delivery channels used in any given period as well as the timing of service engagements.

Unearned Revenue

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

	May 5, 2017	December 31, 2016
Unearned license revenue	\$ 472	\$ 503
Unearned software maintenance revenue	4,323	4,628
Unearned professional services revenue	440	493
Total unearned revenue	<u>\$ 5,235</u>	<u>\$ 5,624</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. If 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 license revenue derived from commitments to future products that have not been delivered represents a significant portion of total unearned license revenue as of May 5, 2017 . We expect unearned license revenue to substantially decline upon the adoption of Topic 606.

Unearned software maintenance revenue is attributable to our maintenance contracts and is generally recognized ratably over the contract period. The weighted-average remaining term as of May 5, 2017 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 affected 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 primarily reflected increasing cash-based employee-related expenses, driven by incremental growth in headcount and annual merit increases, across most of our income statement expense categories during the three months ended May 5, 2017 , and we expect increases in cash-based employee-related expenses to continue.

Cost of License Revenue

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.

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

	Three Months Ended		\$ Change	% Change
	May 5, 2017	March 31, 2016		
Cost of license revenue	\$ 38	\$ 39	\$ (2)	(4)%
Stock-based compensation	1	1	—	(2)
Total expenses	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ (2)</u>	<u>(4)</u>
<i>% of License revenue</i>	6%	7%		

Cost of license revenue was flat during the three months ended May 5, 2017 compared to the three months ended March 31, 2016 .

Cost of Services Revenue

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

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

	Three Months Ended		\$ Change	% Change
	May 5, 2017	March 31, 2016		
Cost of services revenue	\$ 236	\$ 199	\$ 38	19%
Stock-based compensation	14	12	2	13
Total expenses	\$ 250	\$ 211	\$ 39	19
<i>% of Services revenue</i>	22%	21%		

Cost of services revenue increased during the three months ended May 5, 2017 compared to the three months ended March 31, 2016. The increase was primarily due to growth in cash-based employee-related expenses of \$23 million, driven by incremental growth in headcount and salaries. In addition, an increase in IT development costs of \$6 million contributed to the increase in cost of services revenue.

Research and Development Expenses

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

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

	Three Months Ended		\$ Change	% Change
	May 5, 2017	March 31, 2016		
Research and development	\$ 339	\$ 286	\$ 53	18%
Stock-based compensation	82	70	12	17
Total expenses	\$ 421	\$ 356	\$ 65	18
<i>% of Total revenue</i>	24%	22%		

Research and development expenses increased during the three months ended May 5, 2017 compared to the three months ended March 31, 2016. The increase was primarily due to growth in cash-based employee-related expenses of \$45 million, driven by incremental growth in headcount and salaries. In addition, stock-based compensation increased by \$12 million, primarily driven by an increase in restricted stock unit awards granted after the first quarter of 2016. An increase of \$8 million in equipment, depreciation and facilities-related costs also contributed to the increase in research and development expenses. These increases were partially offset by an increase in capitalized internal-use software development costs of \$16 million during the three months ended May 5, 2017.

Sales and Marketing Expenses

Sales and marketing expenses include personnel costs, sales commissions and related overhead associated with the sale and marketing of our license and services offerings, as well as the cost of product launches and marketing initiatives. Sales commissions for our license offerings are generally earned and expensed when a firm order is received from the customer. In the event of a multi-year EA or our SaaS offerings, sales commissions are generally expensed over the term of the arrangement.

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

	Three Months Ended			
	May 5, 2017	March 31, 2016	\$ Change	% Change
Sales and marketing	\$ 538	\$ 516	\$ 23	4%
Stock-based compensation	48	49	—	—
Total expenses	\$ 586	\$ 565	\$ 23	4
<i>% of Total revenue</i>	34%	35%		

Sales and marketing expenses increased during the three months ended May 5, 2017 compared to the three months ended March 31, 2016. The increase was primarily due to growth in cash-based employee-related expenses of \$32 million, driven by incremental growth in headcount and salaries.

General and Administrative Expenses

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

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

	Three Months Ended			
	May 5, 2017	March 31, 2016	\$ Change	% Change
General and administrative	\$ 133	\$ 154	\$ (20)	(13)%
Stock-based compensation	18	18	(1)	(4)
Total expenses	\$ 151	\$ 172	\$ (21)	(12)
<i>% of Total revenue</i>	9%	11%		

General and administrative expenses decreased during the three months ended May 5, 2017 compared to the three months ended March 31, 2016. The decrease was primarily driven by compensation expenses of approximately \$14 million that were incurred during the three months ended March 31, 2016 but were not incurred during the three months ended May 5, 2017. These compensation expenses related to payments made to certain individuals in connection with the acquisition of AirWatch. A decrease in IT development costs of \$10 million and a decrease in charitable contributions of \$7 million also contributed to lower costs during the three months ended May 5, 2017. These decreases were partially offset by an increase of \$9 million in cash-based employee-related expenses, driven by incremental growth in headcount and salaries.

Realignment and Loss on Disposition

On April 4, 2017, we announced the sale of our vCloud Air business. The transaction is expected to be completed during the second quarter of fiscal 2018. The initial loss recognized in connection with this transaction was \$51 million and was included in realignment and loss on disposition on the condensed consolidated statements of income during the three months ended May 5, 2017. An additional loss on the sale of our vCloud Air business is expected in the second quarter of fiscal 2018.

Realignment expenses and loss on disposition during the periods presented were as follows (dollars in millions):

	Three Months Ended			
	May 5, 2017	March 31, 2016	\$ Change	% Change
Realignment and loss on disposition	\$ 51	\$ 53	\$ (3)	(5)%
<i>% of Total revenue</i>	3%	3%		

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 three months ended March 31, 2016. We recognized \$50 million of severance-related realignment expenses during the three months ended March 31, 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 three months ended March 31, 2016

Transition Period

In conjunction with our change in fiscal year end, we had a Transition Period of 34 days that began on January 1, 2017 and ended on February 3, 2017. The most comparable prior-year period, the one month ended January 31, 2016, had a duration of 31 days .

The following table presents certain financial information during the periods presented (table in millions, shares in thousands):

	Transition Period	Comparable Period
	January 1 to	January 1 to
	February 3,	January 31,
	2017	2016
Total revenue	\$ 496	\$ 470
Operating income (loss)	(41)	22
Income tax provision (benefit)	(26)	4
Net income (loss)	(8)	22

During the Transition Period, total revenue increased and license sales declined when compared to the one-month period ended January 31, 2016. Operating loss during the Transition Period reflected costs related to our global sales event, as well as increases in employee-related expenses compared to the one month ended January 31, 2016. Factors contributing to the increase in employee-related expenses include both incremental headcount and costs associated with three additional days of expense included in the Transition Period.

The income tax benefit recognized during the Transition Period was driven by the pre-tax loss incurred during the period and our Internal Revenue Code Section 199 deduction (“Deduction”), which reflected the impact of claiming a higher Deduction for two of our U.S. tax return periods compared to the Deduction for the year ended December 31, 2016, which was calculated on a stand-alone basis. We were required to file two U.S. tax returns covering the period prior to the Dell Acquisition from January 1, 2016 to September 7, 2016 and the period following the Dell Acquisition through Dell’s fiscal year ended February 3, 2017. The Deduction was greater during the two U.S tax return periods due to higher taxable income resulting from the acceleration of income recognized from unearned revenue for tax purposes.

Income Tax Provision

Our quarterly effective income tax rate is based on our estimated annual income tax rate forecast and discrete tax items recognized in the period. Our quarterly effective income tax rate was 10.1% and 19.5% during the three months ended May 5, 2017 and March 31, 2016 , respectively. Our estimated annual effective income tax rate for fiscal 2018 increased slightly when compared to the annual effective tax rate for the year ended December 31, 2016 . However, our effective income tax rate for the three months ended May 5, 2017 declined primarily due to the recognition of certain discrete tax items, including the recognition of excess tax benefits of \$31 million in connection with our adoption of Accounting Standards Update (“ASU”) No. 2016-09, Compensation-Stock Compensation (Topic 718). Prior to adopting the updated standard, such amounts were recognized in additional paid-in capital on the condensed consolidated balance sheets.

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 affected 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.

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

Our Relationship with Dell

As of May 5, 2017, Dell controlled 34 million shares of Class A common stock and all 300 million shares of Class B common stock, representing 81.8% of our total outstanding shares of common stock and 97.6% of the combined voting power of our outstanding common stock. For a description of related risks, refer to “Risks Related to Our Relationship with Dell” in Part II, Item 1A of this Quarterly Report on Form 10-Q.

The information provided below includes a summary of the transactions entered into with Dell and Dell’s consolidated subsidiaries including EMC (collectively, “Dell”). Transactions prior to September 7, 2016 reflect transactions only with EMC and its consolidated subsidiaries (“Parent”).

Transactions with Dell

We engaged with Dell 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. Reseller revenue is presented net of related marketing development funds and rebates paid to Dell.
- 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, and unearned revenue from such arrangements, for the periods presented consisted of the following (table in millions):

	Revenue and Receipts			Unearned Revenue		
	Three Months Ended		Transition Period	As of		
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017	May 5, 2017	December 31, 2016	Transition Period February 3, 2017
Reseller revenue	\$ 223	\$ 79	\$ 44	\$ 652	\$ 637	\$ 616
Internal-use revenue	5	5	7	11	15	18
Professional services revenue	29	25	3	—	—	—
Agency fee revenue	—	1	—	—	—	—
Reimbursement for services to Pivotal	—	1	—	n/a	n/a	n/a

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

- We purchase and lease products and purchase services from Dell.
- 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 occupancy expenses. Dell also incurs certain administrative costs on our behalf in the United States 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 during the periods presented consisted of the following (table in millions):

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Purchases and leases of products and purchases of services	\$ 36	\$ 17	\$ 14
Dell subsidiary support and administrative costs	29	23	13

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

Dell Financial Services (“DFS”)

DFS provided 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, net on the condensed consolidated balance sheets. Financing fees recognized on these arrangements were not significant during the three months ended May 5, 2017 and the Transition Period .

Tax Sharing Agreement with Dell

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

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Payments from us to Dell	\$ —	\$ 40	\$ —

The timing of the tax payments due to and from related parties is governed by a tax sharing agreement. Payments from us to Dell under the tax sharing agreement relate to our portion of federal income taxes on Dell’s consolidated tax return as well as state tax payments for combined states. The amounts that we pay to Dell for our portion of federal income taxes on Dell’s consolidated tax return differ from the amounts we would owe on a separate tax return basis and the difference is 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 May 5, 2017 and March 31, 2016 and the Transition Period .

Due To/From Related Parties, Net

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

	May 5, 2017	December 31, 2016	Transition Period February 3, 2017
	Due (to) related parties	\$ (73)	\$ (71)
Due from related parties	200	203	178
Due from related parties, net	<u>\$ 127</u>	<u>\$ 132</u>	<u>\$ 93</u>
Income tax related asset, net	\$ —	\$ 181	\$ —
Income tax due (to) related parties	(26)	—	(21)

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

Stock Purchase Agreements with Dell

On March 29, 2017, we entered into a stock purchase agreement with Dell to purchase \$300 million of our Class A common stock. During the three months ended May 5, 2017, we paid Dell \$300 million in exchange for an initial delivery of shares of 2.7 million shares, or approximately 80% of the expected total shares to be received and retired under the arrangement. On May 10, 2017, the stock purchase agreement with Dell was completed and we received an additional 0.7 million shares. The aggregate number of shares of 3.4 million purchased was determined based upon the volume-weighted average price during a defined period, less an agreed upon discount.

On December 15, 2016, we entered into a stock purchase agreement with Dell to purchase \$500 million of our Class A common stock. We purchased 4.8 million shares for \$375 million through December 31, 2016. On February 15, 2017, the stock purchase agreement with Dell was completed. A total of \$500 million was paid in exchange for 6.2 million shares. The aggregate number of shares purchased was determined based upon the volume-weighted average price during a defined period, less an agreed upon discount.

Notes Payable to Dell

We entered into a note exchange agreement with our Parent on January 21, 2014 providing for the issuance of three promissory notes in the aggregate principal amount of \$1,500 million. 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. As of May 5, 2017, \$680 million was classified as a current liability.

The notes bear interest, payable quarterly in arrears, at the annual rate of 1.75%. During the three months ended May 5, 2017 and March 31, 2016 and the Transition Period, \$7 million, \$7 million and \$2 million, respectively, of interest expense was recognized.

Liquidity and Capital Resources

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

	May 5, 2017	December 31, 2016	Transition Period February 3, 2017
Cash and cash equivalents	\$ 3,864	\$ 2,790	\$ 3,220
Short-term investments	4,748	5,195	5,173
Total cash, cash equivalents and short-term investments	<u>\$ 8,612</u>	<u>\$ 7,985</u>	<u>\$ 8,393</u>

We hold a diversified portfolio of money market funds and fixed income securities. 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 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 May 5, 2017, our cash, cash equivalents and short-term investments held outside the United States were \$7,684 million. 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 affected 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 periods presented were as follows (table in millions):

	Three Months Ended		Transition Period
	May 5, 2017	March 31, 2016	January 1 to February 3, 2017
Net cash provided by (used in):			
Operating activities	\$ 775	\$ 720	\$ 361
Investing activities	407	(456)	7
Financing activities	(538)	28	62
Net increase in cash and cash equivalents	\$ 644	\$ 292	\$ 430

Operating Activities

Cash provided by operating activities increased \$55 million during the three months ended May 5, 2017 compared to the three months ended March 31, 2016 . Cash provided by operating activities was negatively affected by a net decrease in cash collections and higher employee-related expenses. Although sales increased during the three months ended May 5, 2017 compared to the three months ended March 31, 2016 , cash collections decreased as a result of the change in our fiscal year end. Cash collected from sales made in our seasonally strong fourth quarter of 2016 were partially collected during the Transition Period . These negative impacts were offset by lower cash outflows related to operating expenses, federal tax payments and our employee stock purchase plan. Purchases under our employee stock purchase plan occurred during the three months ended March 31, 2016 and the Transition Period .

Cash provided by operating activities of \$361 million during the Transition Period primarily reflected cash provided by cash collections, partially offset by cash payments for employee-related expenses including salaries, bonuses and commissions, and other operating expenses.

Investing Activities

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

Cash provided by investing activities increased \$863 million during the three months ended May 5, 2017 compared to the three months ended March 31, 2016 , driven primarily by the net cash provided by our available-for-sale securities.

Financing Activities

Cash used in financing activities increased \$566 million during the three months ended May 5, 2017 compared to the three months ended March 31, 2016 , primarily as a result of the increase in our repurchase of common stock during the first quarter of 2018. During the first quarter of 2016, we did not repurchase any shares of our common stock as we were subject to a number of legal and regulatory constraints related to the then proposed Dell Acquisition.

Cash provided by financing activities of \$62 million during the Transition Period was driven by cash proceeds from the issuance of common stock of \$61 million , resulting primarily from our employee stock purchase plan.

Notes Payable to Dell

We entered into a note exchange agreement with our Parent on January 21, 2014 providing for the issuance of three promissory notes in the aggregate principal amount of \$1,500 million . 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 . As of May 5, 2017 , \$680 million was classified as a current liability.

The notes bear interest, payable quarterly in arrears, at the annual rate of 1.75% . During the three months ended May 5, 2017 and March 31, 2016 and the Transition Period , \$7 million , \$7 million and \$2 million , respectively, of interest expense was recognized.

Stock Repurchase Program

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

purchases are not warranted. From time to time, we also purchase stock in private transactions, such as with Dell. All shares repurchased under our stock repurchase programs are retired.

During January 2017, our board of directors authorized the repurchase of up to \$1,200 million of our Class A common stock through the end of fiscal 2018. As of May 5, 2017, the cumulative authorized amount remaining for repurchase under an authorized program was \$900 million. Refer to Note K to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), we are required to make estimates, assumptions and judgments that affect the amounts reported on our financial statements and the accompanying disclosures. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. We base our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. These estimates may change, as new events occur and additional information is obtained, and are recognized in the condensed consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to our financial statements. We believe that the critical accounting policies and estimates set forth within Item 7 of our 2016 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 strategic positioning; continued strength in renewals; continued growth in sales of our NSX, vSAN and vCAN offerings; anticipated completion of the sale of vCloud Air; availability and anticipated benefits to customers of VMware Cloud on AWS and Cross-Cloud Services; filing of financial statements for the Transition Period; continued sales momentum and expected license and total revenue growth when compared year-over-year for the second quarter of fiscal 2018; unearned license and software maintenance revenue fluctuations; increases in cash-based employee-related expense; continued tax consolidation with Dell; indefinitely reinvesting our overseas earnings outside of the U.S. and not repatriating them to the U.S.; our ability to generate positive cash flows from operations; sufficiency of our liquidity and capital reserves; our product development and marketing strategies; extent to which our revenue is derived from our server virtualization products; advantages to customers of our strategic alliance offerings; impact of a growing number of partnerships among our competitors; increasing competition with companies in our developer and technology partner ecosystem; challenges in hiring and retaining highly skilled and qualified employees; increasing dependence upon IT systems for business operations; plans to further expand our international activities and the resulting increased risks; anticipated involvement in intellectual property infringement claims; intent to extend product functionality to work with native public cloud applications and the related dependence on the cooperation of public cloud vendors; investments required to expand SaaS and related cross-cloud offerings; increasing customer use of our services to store and process personal information and other regulated data; anticipated investments in privacy and data protection compliance; intent to acquire other businesses, products and technologies; enhancements to our information systems; impact of changes in Irish tax laws; impact on our business and financial reporting from changes in accounting rules, including Topic 606; synergies and benefits resulting from the acquisition of EMC by Dell and the strategic alignment we have with Dell; financial reporting for our revised fiscal calendar; and impacts of the tax sharing agreement with Dell.

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 three months ended May 5, 2017 or the Transition Period. See Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our 2016 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 periods covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the periods covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended May 5, 2017 or the Transition Period 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”) following Dell’s acquisition of our former 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.”

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-premises data center servers, which form the foundation for private cloud computing. As the market for server virtualization continues to mature, the rate of growth in license sales of our vSphere hypervisor product has declined. We are increasingly directing our product development and marketing efforts toward products and services that enable businesses to utilize virtualization as the foundation for private, public and hybrid cloud-based computing and mobile computing, including our vSphere-based software-defined data center (“SDDC”) products such as our management and automation and network virtualization (“NSX”) offerings, our Horizon client virtualization offerings, VMware AirWatch (“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 by investing in cross-cloud and SaaS initiatives and partnering with public cloud providers such as Amazon Web Services (“AWS”) and IBM. 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, we may fail to realize returns on our investments in new initiatives and our operating results could be materially adversely affected.

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

A significant portion of our revenue is derived, and will for the foreseeable future continue to be derived, from our server virtualization products. As more and more businesses achieve high levels of virtualization in their data centers, the market for our VMware vSphere product continues to mature. Additionally, as businesses increasingly utilize public cloud and SaaS-based offerings, they are building more of their new compute workloads off-premises and 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, network virtualization and our planned new cross-cloud 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 interrelated and rapidly evolving, and we face intense competition across all the markets for our products and services. Many of our current or potential competitors have longer operating histories, greater name recognition, larger customer bases and significantly greater

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

We face competition from, among others:

Providers of public cloud infrastructure and SaaS-based offerings. As businesses increasingly utilize public cloud and SaaS-based offerings, they are building more of their new compute workloads off-premises and may also shift some of their existing workloads. As a result, the demand for on-premises information technology (“IT”) resources is expected to slow, and our products and services will need to increasingly compete for customers’ IT workloads with off-premises public cloud and SaaS-based offerings. If we fail to develop products and services that address evolving customer requirements for hybrid cloud computing, 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 may compete directly with infrastructure-as-a service (“IaaS”) offerings from various public cloud providers such as AWS and Microsoft. In October 2016, we announced a strategic alliance with AWS to deliver a vSphere-based cloud service running on AWS. 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 vCloud Air Network offerings and adversely affect our relationship with 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, network and storage 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, OpenShift, Mesos, Kubernetes and OpenStack appear to provide 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 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 IBM and Cisco. VMware is delivering container technologies such as Photon OS™ and vSphere Integrated Containers designed to help customers adopt micro-services architectures. The adoption of distributed micro-service application architectures, and their alignment with container technologies, represents an emerging area of competition.

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

Our partners and members of our developer and technology partner ecosystem. We face competition from our partners. For example, third parties currently selling our products and services could build and market their own competing products and services or market competing products and services of other vendors. Additionally, as formerly distinct sectors of enterprise IT such as software-based virtualization and hardware-based server, networking and storage solutions converge, we also increasingly compete with companies who are members of our developer and technology partner ecosystem. 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. Additionally, changes in immigration and work permit laws and regulations or the administration or interpretation of such laws or regulations could impair our ability to attract and retain highly qualified employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could suffer.

Adverse economic conditions may harm our business.

Our business depends on the overall demand for IT and on the economic health of our current and prospective customers. The purchase of our products and services is often discretionary and may involve a significant commitment of capital and other resources. Weak economic conditions or significant uncertainty regarding the stability of financial markets 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 response to sustained economic uncertainty, many national and local governments that are current or prospective customers for our products and services, including the U.S. federal government, have made, or threatened to make, significant spending cutbacks which could reduce the amount of government spending on IT and the potential demand for our products and services from the government sector.

Regional economic uncertainty can also result in general and ongoing tightening in the credit markets, lower levels of liquidity, increases in the rates of default and bankruptcy and significant volatility in the credit, equity and fixed income markets. Changes in governmental fiscal, monetary and tax policies may also impact interest rates on credit and debt, which have been at historically low levels for several years. As a result, current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services. 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. Increases in our cost of borrowing could also impact our ability to access capital markets should we wish to raise additional funding for business investments, which could adversely affect our ability to repay or refinance our existing notes payable to Dell, fund future product development and acquisitions or conduct stock buybacks.

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. Additionally, if we fail to realize returns on investments in our newer SaaS and cross-cloud initiatives, our operating margins and results of operations will be adversely impacted.

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 materially 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.

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;
- the timing of when sales orders are processed, which can cause fluctuations in our backlog and impact our bookings and timing of revenue recognition;
- seasonal factors such as the end of fiscal period budget expenditures by our customers and the timing of holiday and vacation periods;
- renewal rates and the amounts of the renewals for EAs as original EA terms expire;
- the timing and amount of internally developed software development costs that may be capitalized;
- unplanned events that could affect market perception of the quality or cost-effectiveness of our products and solutions;
- the impact of new accounting pronouncements, for example, the adoption of ASU 2016-09, which will likely result in increased volatility in the provision for income taxes because excess tax benefits and tax deficiencies are now recognized within the income tax provision in the period in which they occur;
- 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; and
- to the extent that we buy back shares of our common stock in private transactions with Dell or other third parties through arrangements that are accounted for as derivative instruments, fluctuations in our stock price during the pricing reference periods of such arrangements may result in gains or losses in our quarterly earnings.

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 quarter ended May 5, 2017, 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 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.

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;
- changes and instability in government policies and international trade arrangements that could adversely affect the ability of U.S.-based companies to conduct business in non-U.S. markets;
- economic or political instability and security concerns in countries that are important to our international sales and operations;
- difficulties in transferring funds from certain countries;
- increased compliance risks, particularly in emerging markets; and
- difficulties in maintaining appropriate controls relating to revenue recognition practices.

An example is the ongoing efforts of the Chinese government to more closely regulate network security. A new Cyber Security Law was enacted in November 2016 and came into effect on June 1, 2017, which promotes utilization of “secure and reliable” network products and services, requires the sale of certain key network equipment and network security products to be subject to security certification, and imposes data localization measures and various network security measures relevant to a vaguely defined scope of “key information infrastructure.” Among those network security measures is a requirement that certain network products and services procured by operators of “key information infrastructure” undergo a formal security assessment in order to evaluate their “security” and “controllability.” The specific technical requirements of the security assessment have not yet been clarified. 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. 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, vSAN virtual storage, cross-cloud and SaaS initiatives, requires significant investments of resources and often entails greater risk than incremental investments in existing products and services. Our investment in research and development may not result in marketable products or services or may result in products and services that generate less revenue than we anticipate. Our research and development expenses were approximately 24% of our total revenue during the quarter ended May 5, 2017. Our future plans include significant investments in software research and development and related product opportunities. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. However, we may not receive significant revenue from these investments for several years, if at all.

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

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

We have been, and expect to continue to be, subject to intellectual property infringement claims, including claims by entities that do not have operating businesses of their own and therefore may limit our ability to seek counterclaims for

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

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

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

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. As such, despite our efforts, the steps we have taken to protect our proprietary rights may not be adequate to prevent misappropriation of our proprietary information or infringement of our intellectual property rights, and our ability to police such misappropriation or infringement is uncertain, particularly in countries outside of the 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 the open source 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. We have filed our responsive appellate brief. 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 Network-integrated virtual desktop and mobile device, cross-cloud and SaaS) offerings that enable customers to transform their IT systems requires a greater focus on marketing and selling product suites and more holistic solutions, rather than selling on a product-by-product basis. Consequently, we have developed, and must continue to develop, new strategies for marketing and selling our offerings. 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 Network 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 quarter ended May 5, 2017 . Although we believe that we have in place, or would have in place by the date of any such termination, agreements with replacement distributors sufficient to maintain our revenue from distribution, if we were to lose the distribution services of a significant distributor, such loss could have a negative impact on our operating results until such time as we arrange to replace these distribution services with the services of existing or new distributors.

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

Our 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 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. The expansion of our SaaS and related cross-cloud offerings will also require significant investments, and our operating margins, results of operations and operating cash flows may be adversely affected if our new offerings are not widely adopted by customers.

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.

The European Union data protection law, the General Data Protection Regulation ("GDPR"), 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 sizable fines. EU data protection regulators are expected to publish guidance for compliance with the law which may further impact our information processing activities. In parallel, the European Commission has published a new draft Regulation on Privacy and Electronic Communications which is designed to align with the GDPR and certain other EU privacy rules like e-marketing, the use of cookies on websites, and preserving the confidentiality of communications. In order to adapt to these new requirements, we will likely have to invest resources necessary to implement internal and policy changes across our business units and services. Additionally, 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. 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. For instance, in April 2017, we announced the sale of our VMware vCloud Air business ("vCloud Air") to OVH US LLC. 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, such as the sale of our vCloud Air business, which may result in the diversion of resources and focus;
- difficulty achieving expected business results due to a lack of experience in new markets, products or technologies or the initial dependence on unfamiliar distribution partners or vendors;
- retaining and motivating key personnel from acquired companies;
- declining employee morale and retention issues affecting employees of businesses that we acquire or dispose of, which may result from changes in compensation, or changes in management, reporting relationships, future prospects or the direction of the acquired or disposed business;
- assuming the liabilities of an acquired business, including acquired litigation-related liabilities and regulatory compliance issues, and potential litigation or regulatory action arising from a proposed or completed acquisition;
- lawsuits resulting from an acquisition or disposition;
- maintaining good relationships with customers or business partners of an acquired business or our own customers as a result of any integration of operations or the divestiture of a business upon which our customers rely, such as our recent divestiture of our vCloud Air business;
- unidentified issues not discovered during the diligence process, including issues with the acquired or divested business's intellectual property, product quality, security, privacy practices, accounting practices, regulatory compliance or legal contingencies;
- maintaining or establishing acceptable standards, controls, procedures or policies with respect to an acquired business;
- risks relating to the challenges and costs of closing a transaction; 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 May 5, 2017, goodwill and amortizable intangible assets were \$4,032 million and \$474 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, such as our enterprise resource planning software. The implementation of these types of enhancements is frequently disruptive to the underlying business of an enterprise, which may especially be the case for us due to the size and complexity of our business. Implementation may disrupt internal controls and business processes and could introduce unintended vulnerability to error. Additionally, our information systems may not support new business models and initiatives and significant investments could be required in order to upgrade them. For example, in February 2017 we implemented a change in our fiscal calendar, which required us to make adjustments to our critical business processes and data systems. 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 U.S. and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenue and expenses in different jurisdictions and the timing of recognizing revenue and expenses. Significant judgment is required in determining our worldwide provision for income taxes and other tax liabilities. We are subject to income and indirect tax examinations. The Dell-owned EMC consolidated group is routinely under audit by the Internal Revenue Service (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, changes in our business or statutory rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation and the recognition of excess tax benefits and tax deficiencies within the income tax provision in the period in which they occur, the impact of accounting for business combinations, shifts in the amount of earnings in the United States compared with other regions in the world and overall levels of income before tax, changes in our international organization, as well as the expiration of statute of limitations and settlements of audits.

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

Our 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.

The current U.S. administration has made public statements indicating that tax reform is a priority. Any significant change to U.S. tax laws could have a material impact on our financial condition and operating results.

In addition, 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

material 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). We plan to adopt Topic 606 using the full retrospective transition method when it becomes effective for us in the first fiscal quarter of 2019, under the Company’s new fiscal calendar. While we are continuing to assess the potential impacts of Topic 606, we currently expect unearned license revenue related to the sale of perpetual licenses will decline significantly upon adoption. Currently, we defer all license revenue related to the sale of perpetual licenses in the event certain revenue recognition criteria are not met. However, under Topic 606, we would generally expect that substantially all license revenue related to sale of perpetual licenses will be recognized upon delivery. Topic 606 is also expected to impact the timing and recognition of costs to obtain contracts with customers, such as commissions. Under the new standard, incremental costs to obtain contracts with customers are deferred and recognized over the expected period of benefit. As a result, we expect deferred commission costs to increase. We are continuing to evaluate the effect that Topic 606 will have on our financial statements and related disclosures, and preliminary assessments are subject to change.

Risks Related to Our Relationship with Dell

Our stock price fluctuated significantly following the announcement of the Dell Acquisition, and our future relationship with Dell 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 50% economic interest in our business.

Our stock price fluctuated significantly following the announcement of the Dell Acquisition. A number of factors relating to our future relationship with Dell could adversely affect our business or our stock price in the future, including:

- Dell is able to control matters requiring our stockholders’ approval, including the election of a majority of our directors 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 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 to approve certain matters under our certificate of incorporation, including acquisitions or investments in excess of \$100 million, and Dell may choose not to consent to matters that our board of directors believes are in the best interests of VMware.
- 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 has initially been 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 Dell Acquisition creates potential litigation risk. Various lawsuits have been filed against EMC and others in connection with the Dell Acquisition, including one ongoing litigation 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 May 5, 2017, Dell controlled 34,089,000 shares of our Class A common stock and all 300,000,000 shares of our Class B common stock, representing 81.8% of the total outstanding shares of common stock or 97.6% 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 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 May 5, 2017, Dell controlled 81.8% of VMware’s outstanding common stock, and Dell’s percentage ownership of VMware common stock could increase as a result of repurchases by VMware of its Class A common stock or purchases by Dell. Section 253 of the Delaware General Corporation Law permits a parent company, when it owns 90% or more of each class of a subsidiary’s stock that generally would be entitled to vote on a merger of that subsidiary with the parent, to unilaterally effect a merger of the subsidiary into the parent without a vote of the subsidiary’s board or stockholders.

Accordingly, if Dell becomes the holder of at least 90% of VMware's outstanding stock, neither VMware's board of directors nor VMware's stockholders would be entitled to vote on a merger of VMware into Dell (the "short-form merger"). Moreover, a short-form merger is not subject to the stringent "entire fairness" standard and the parent company is not required to negotiate with a special committee of disinterested directors that would serve to approximate arm's length negotiations designed to ensure that a fair price is paid. Rather, a minority stockholder's sole remedy in the context of a short-form merger is to exercise appraisal rights under Delaware law. In such a proceeding, petitioning stockholders may be awarded more or less than the merger price or the amount they would have received in a merger negotiated between the parent and a disinterested special committee advised by independent financial and legal advisors. Dell is prohibited through September 7, 2018 under its charter from purchasing or otherwise acquiring 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, in 2013 we contributed technology and transferred employees to Pivotal Software, Inc. ("Pivotal"). We continue to hold a significant ownership interest in Pivotal after contributing \$20 million in cash to Pivotal in exchange for additional preferred equity interests in Pivotal.

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 make it more difficult to compare our year-over-year performance and identify changes in business trends and conditions.

Dell provides segment reporting on VMware in its public reports on financial results. However, prior to February 2017, the fiscal calendars for Dell and VMware did not align. VMware reported on a calendar year basis through December 31, 2016, 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 our fiscal calendar effective January 1, 2017 so that our fiscal calendar will align with Dell's.

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

We are including certain unaudited condensed consolidated financial statements for the Transition Period in this Form 10-Q and will include audited financial statements for the Transition Period in the Form 10-K for the fiscal year ended February 2, 2018. Following the change in our fiscal calendar and for the first fiscal year, we will compare results from each fiscal period under our new fiscal calendar to the corresponding period under our prior calendar. For example, this Form 10-Q compares the results of the first quarter of our 2018 fiscal year running from February 4, 2017 through May 5, 2017 to the results of the first quarter of our 2016 fiscal year which ran from January 1, 2016 through March 31, 2016, and in accordance with generally accepted accounting practices, we will not denote any full fiscal quarters or a fiscal year as a "2017" fiscal period.

Our fiscal year transition may also distort the impact of seasonal factors that we have observed in our business, such as the end of fiscal period budget expenditures by our customers and the timing of holiday and vacation periods on our quarterly results. Consequently, it may be difficult to accurately determine the extent to which year-over-year changes in our financial results represent actual changes to business conditions and trends or are instead artifacts of our fiscal period transition.

Additionally, the financial results for Dell's VMware business segment may differ from the financial results reported by us due to the impact of intercompany transactions, purchase accounting, and reporting practices. These differences in the reporting of VMware's financial results by us and Dell could result in volatility and fluctuations in the price of our Class A common stock.

Further, the process of implementing a fiscal calendar transition required 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 believe that we have successfully managed the transition of our processes and systems to the new fiscal calendar, there can be no assurance that errors and failures will not occur that could impact comparisons of our year-over-year results.

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

We have historically been included in EMC's consolidated group for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups that include EMC Corporation or certain of its subsidiaries for state and local income tax purposes, and 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. Although our tax sharing agreement provides that our tax liability is calculated primarily as though VMware were a separate taxpayer, certain tax attributes and transactions are assessed using consolidated tax return rules as applied to the Dell consolidated tax group and are subject to other specialized terms under the tax sharing agreement. Pursuant to our agreement, we and Dell generally will make payments to each other such that, with respect to tax returns for any taxable period in which we or any of our subsidiaries are included in Dell's consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Dell or its subsidiaries, the amount of taxes to be paid by us will be determined, subject to certain consolidated return adjustments, as if we and each of our subsidiaries included in such consolidated, combined or unitary group filed our own consolidated, combined or unitary tax return. Consequently, compared to our historical results as a member of the EMC consolidated tax group, the amount of our tax sharing payment compared to our separate stand alone liability may increase, vary more widely from period to period and be less predictable.

When we become subject to federal income tax audits as a member of Dell's consolidated group, the tax sharing agreement provides that Dell has authority to control the audit and represent Dell and our interests to the IRS. Accordingly, if we and Dell

or its successor-in-interest differ on appropriate responses and positions to take with respect to tax questions that may arise in the course of an audit, our ability to affect the outcome of such audits may be impaired. In addition, if Dell effects a 355 Distribution or other transaction that is subsequently determined to be taxable, we could be liable for all or a portion of the tax liability, which could have a material adverse effect on our operating results and financial condition.

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

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

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

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

While we are controlled by Dell, we may not have the leverage to negotiate 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 quarter ended May 5, 2017, we recognized revenue of \$257 million and as of May 5, 2017, \$663 million of sales were included in unearned revenue from such transactions with Dell. For additional information, refer to "Our Relationship with Dell" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 and Note B to the consolidated financial statements in Part I, Item 1 of this Quarterly report on Form 10-Q.

Risks Related to Owning Our Class A Common Stock

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

The trading price of our Class A common stock has fluctuated significantly in the past and could fluctuate substantially in the future due to the factors discussed in this Risk Factors section and elsewhere in this report. The 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 81.8% of our outstanding stock as of May 5, 2017, 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 50% 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 Transition Period and the three months ended May 5, 2017 :

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share ⁽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 ⁽³⁾
January 1 – February 3, 2017	—	\$ —	—	\$ 1,325,000,000
February 4 – March 3, 2017	1,461,514	80.17	1,461,514	1,200,000,000
March 4 – March 31, 2017	—	—	—	1,200,000,000
April 1 – May 5, 2017	2,699,204	88.92	2,699,204	900,000,000
	<u>4,160,718</u>	<u>\$ 85.85</u>	<u>4,160,718</u>	<u>900,000,000</u>

(1) During January 2017, VMware’s board of directors authorized the repurchase of up to \$1,200 million of VMware’s Class A common stock through the end of fiscal 2018.

On March 29, 2017, VMware entered into a stock purchase agreement with Dell to purchase \$300 million of VMware Class A common stock. During the three months ended May 5, 2017, VMware paid Dell \$300 million in exchange for an initial delivery of shares of 2.7 million shares, or approximately 80% of the expected total shares to be received and retired under the arrangement. On May 10, 2017, the stock purchase agreement with Dell was completed and VMware received an additional 0.7 million shares. The aggregate number of shares of 3.4 million purchased was determined based upon the volume-weighted average price during a defined period, less an agreed upon discount.

On December 15, 2016, VMware entered into a stock purchase agreement with Dell to purchase \$500 million of VMware Class A common stock. VMware purchased 4.8 million shares for \$375 million through December 31, 2016. On February 15, 2017, the stock purchase agreement with Dell was completed. A total of \$500 million was paid in exchange for 6.2 million shares. The aggregate number of shares purchased was determined based upon the volume-weighted average price during a defined period, less an agreed upon discount.

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

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

ITEM 5. OTHER INFORMATION

VMware held its Annual Meeting of Stockholders on June 8, 2017 (the “Annual Meeting”). At the Annual Meeting, the stockholders of the Company (1) elected the two Class I, Group I director nominees and the one Class I, Group II director nominee to each serve a three-year term expiring at the 2020 Annual Meeting of Stockholders; (2) approved, on an advisory basis, the compensation of the Company’s named executive officers; (3) selected, on an advisory basis, one year as the frequency with which stockholders are provided future advisory votes on executive compensation; (4) approved the Amended and Restated 2007 Equity and Incentive Plan (the “Incentive Plan”); (5) approved the Amended and Restated 2007 Employee

Stock Purchase Plan (the “Purchase Plan”); (6) approved the Amended and Restated Certificate of Incorporation; and (7) ratified the selection by the Audit Committee of the Company’s Board of Directors of PricewaterhouseCoopers LLP to serve as the Company’s independent auditor for the fiscal year ending February 2, 2018.

The Incentive Plan, a plan in which the named executive officers of the Company may participate, includes amendments that, among other things, (1) increase in the number of shares of Class A common stock authorized for issuance by 4,500,000 to 126,050,000 shares; (2) extend the term of the plan to June 5, 2027; and (3) provide maximum annual limits on the combined value of awards granted under the plan and cash fees paid in a single fiscal year to each of our non-employee directors and our lead director. In approving the Incentive Plan, stockholders also approved the material terms of the Incentive Plan such that the Company retains the ability to grant awards under the Incentive Plan that may be exempt from the deduction limitations under Section 162(m) of the Internal Revenue Code.

The Purchase Plan, a plan in which the named executive officers of the Company may participate, includes amendments that, among other things, increase the number of shares of Class A common stock authorized for issuance by 9,000,000 to 23,300,000 shares.

The Amended and Restated Certificate of Incorporation includes amendments that provide more flexibility with respect to Class B common stock and certain other clarifying changes, and no longer includes certain obsolete provisions.

The results of the voting for each of the above proposals is as follows:

1. Election of Class I, Group I directors and Class I, Group II director:

	Class	For	Against	Abstain	Broker Non-Votes
Class I, Group I					
Michael Dell	Class B	3,000,000,000	—	—	—
Egon Durban	Class B	3,000,000,000	—	—	—

Class I, Group II					
Anthony Bates	Class A	78,117,080	1,698,787	41,394	13,159,733
	Class B	300,000,000	—	—	—

2. Non-binding advisory vote on the compensation of the Company’s named executive officers:

Class	For	Against	Abstain	Broker Non-Votes
Class A	72,622,990	5,870,780	1,363,491	13,159,733
Class B	3,000,000,000	—	—	—

3. Non-binding advisory vote on the frequency of advisory votes on executive compensation:

Class	One Year	Two Years	Three Years	Abstain	Broker Non-Votes
Class A	78,526,354	40,635	1,239,882	50,390	13,159,733
Class B	3,000,000,000	—	—	—	—

4. Approval of the Amended and Restated 2007 Equity and Incentive Plan, which is attached hereto as Exhibit 10.6 and is incorporated herein by reference:

Class	For	Against	Abstain	Broker Non-Votes
Class A	73,613,540	6,193,964	49,757	13,159,733
Class B	3,000,000,000	—	—	—

5. Approval of the Amended and Restated 2007 Employee Stock Purchase Plan, which is attached hereto as Exhibit 10.11 and is incorporated herein by reference:

Class	For	Against	Abstain	Broker Non-Votes
Class A	79,620,743	194,292	42,226	13,159,733
Class B	3,000,000,000	—	—	—

6. Approval of the Amended and Restated Certificate of Incorporation, which is attached hereto as Exhibit 3.1 and is incorporated herein by reference:

Class	For	Against	Abstain	Broker Non-Votes
Class A	92,705,474	126,121	185,399	—
Class B	3,000,000,000	—	—	—

7. Ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent auditors for the fiscal year ending February 2, 2018:

Class	For	Against	Abstain	Broker Non-Votes
Class A	92,234,883	720,725	61,386	—
Class B	3,000,000,000	—	—	—

In connection with the stockholder vote on Proposal No. 3, the Board determined that the Company will hold an annual advisory vote on the compensation of the Company's named executive officers as disclosed in the proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission, until such time as the next advisory vote is submitted to the stockholders of the Company with regard to the frequency of future advisory votes on the compensation of the Company's named executive officers, or the Board of Directors otherwise determines that a different frequency for such advisory votes is in the best interests of the stockholders of the Company.

ITEM 6. EXHIBITS

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

SIGNATURE

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

VMWARE, INC.

Dated: June 9, 2017

By: _____ /s/ Kevan Krysler
Kevan Krysler
Senior Vice President, Chief Accounting Officer
(Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1*	Amended and Restated Certificate of Incorporation				
3.2	Amended and Restated Bylaws	8-K	001-33622	3.1	2/23/17
10.6+*	2007 Equity and Incentive Plan, as amended and restated June 8, 2017				
10.7+	Form of Indemnification Agreement for VMware, Inc. Directors and Executive Officers, as approved April 5, 2017				
10.11+*	2007 Employee Stock Purchase Plan, as amended and restated June 8, 2017				
10.12+*	Executive Bonus Program, as amended and restated February 10, 2017				
10.34	Stock Purchase Agreement, dated as of March 29, 2017, by and among Dell Technologies Inc., EMC Equity Assets LLC and VMware, Inc.	8-K	001-33622	10.1	3/30/17
31.1*	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2*	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1‡	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				
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				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase				
101.LAB*	XBRL Taxonomy Extension Label Linkbase				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase				

+ Indicates management contract or compensatory plan or arrangement

* Filed herewith

‡ Furnished herewith

**AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION OF
VMWARE, INC.**

VMWARE, INC., a corporation organized and existing under the laws of the State of Delaware (the “Corporation”), DOES HEREBY CERTIFY AS FOLLOWS:

1. The name of the Corporation is VMware, Inc. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on February 10, 1998 under its current name.
2. This Amended and Restated Certificate of Incorporation (this “Certificate of Incorporation”) was duly adopted in accordance with Section 245 of the General Corporation Law of the State of Delaware. Pursuant to Sections 242 and 228 of the General Corporation Law of the State of Delaware, the amendments and restatement herein set forth have been duly adopted by the Board of Directors and the stockholders of the Corporation.
3. Pursuant to Section 245 of the General Corporation Law of the State of Delaware, this Certificate of Incorporation amends and integrates and restates the provisions of the Certificate of Incorporation of this Corporation.

The text of this Certificate of Incorporation is hereby amended and restated to read in its entirety as follows:

ARTICLE I

NAME

The name of the Corporation is VMware, Inc.

ARTICLE II

REGISTERED OFFICE AND AGENT

The address of the Corporation’s registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation’s registered agent at such address is The Corporation Trust Company.

ARTICLE III

PURPOSE

The purpose of the Corporation shall be to engage in any lawful act or activity for which corporations may be organized and incorporated under the General Corporation Law of the State of Delaware (the “**DGCL**”), subject to the limitations and other restrictions contained herein.

ARTICLE IV
CAPITAL STOCK

A. The Corporation shall be authorized to issue three billion six hundred million (3,600,000,000) shares of capital stock, of which (i) two billion five hundred million (2,500,000,000) shares shall be shares of Class A Common Stock, par value \$.01 per share (the “**Class A Common Stock**”), (ii) one billion (1,000,000,000) shares shall be shares of Class B Common Stock, par value \$.01 per share (the “**Class B Common Stock**”); the Class A Common Stock and the Class B Common Stock being collectively referred to herein as the “**Common Stock**”), and (iii) one hundred million (100,000,000) shares shall be shares of Preferred Stock, par value \$.01 per share (the “**Preferred Stock**”).

B. Shares of Preferred Stock may be issued from time to time in one or more series. The board of directors (the “**Board of Directors**”) of the Corporation is hereby authorized by resolution or resolutions to provide for series of Preferred Stock to be issued and, by filing a certificate pursuant to the DGCL (a “**Certificate of Designations**”), to fix the number of shares constituting such series, and to increase or decrease the number of shares of any such series (but not below the number of shares thereof then outstanding), and with respect to each such series, to fix the voting powers, if any, designations, preferences and the relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of any such series. The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, determination of the following:

- (i) the designation of the series, which may be by distinguishing number, letter or title;
- (ii) the number of shares of the series, which number the Board of Directors may thereafter increase or decrease (but not below the number of shares thereof then outstanding);
- (iii) whether dividends, if any, shall be cumulative or noncumulative and the dividend rate of the series;
- (iv) dates at which dividends, if any, shall be payable;
- (v) the redemption rights and price or prices, if any, for shares of the series;
- (vi) the terms and amount of any sinking fund provided for the purchase or redemption of shares of the series;
- (vii) the amounts payable on, and the preferences, if any, of, shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation;
- (viii) whether the shares of the series shall be convertible into shares of any other class or series, or any other security, of the Corporation or any other entity, and, if so, the specification of such other class or series of such other security, the conversion price or prices or rate or rates, any adjustments thereof, the date or dates at which such shares shall be convertible and all other terms and conditions upon which such conversion may be made;
- (ix) restrictions on the issuance of shares of the same series or of any other class or series;
- (x) the voting rights, if any, of the holders of shares of the series; and

(xi) such other powers, privileges, preferences and rights, and qualifications, limitations and restrictions thereof, as the Board of Directors shall determine.

C. The voting powers, preferences and relative participating, optional or other special rights, and the qualifications, limitations and restrictions, of the Class A Common Stock and Class B Common Stock are as follows:

(i) Except as otherwise set forth below in this Article IV and in Article VII, the voting powers, preferences and relative participating, optional or other special rights, and the qualifications, limitations or restrictions, of the Class A Common Stock and Class B Common Stock shall be identical in all respects.

(ii) Subject to the other provisions of this Certificate of Incorporation and the provisions of any Certificate of Designations, the holders of Common Stock shall be entitled to receive such dividends and other distributions, in cash, stock of any entity or property of the Corporation, when and as may be declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor, and shall share equally on a per share basis in all such dividends and other distributions. No such dividend or distribution that is payable in shares of Common Stock, including distributions pursuant to stock splits or divisions of Common Stock, may be made unless: (a) shares of Class A Common Stock are paid or distributed only in respect of Class A Common Stock, (b) shares of Class B Common Stock are paid or distributed only in respect of Class B Common Stock, (c) no such dividend or distribution is made in respect of the Class A Common Stock unless simultaneously also made in respect of the Class B Common Stock, (d) no such dividend or distribution is made in respect of the Class B Common Stock unless simultaneously also made in respect of the Class A Common Stock and (e) the number of shares of Class A Common Stock paid or distributed in respect of each outstanding share of Class A Common Stock is equal to the number of shares of Class B Common Stock paid or distributed in respect of each outstanding share of Class B Common Stock.

(iii) (a) Except as may be otherwise required by law or by this Certificate of Incorporation and subject to any voting rights that may be granted to holders of Preferred Stock pursuant to the provisions of a Certificate of Designations, all rights to vote and all voting power of the capital stock of the Corporation, whether for the election of directors or any other matter submitted to a vote of stockholders of the Corporation, shall be vested exclusively in the holders of Common Stock.

(b) Except as may be otherwise required by law or by this Certificate of Incorporation, at every meeting of the stockholders of the Corporation, in connection with the election of directors and on all other matters submitted to a vote of stockholders of the Corporation, (A) every holder of Class A Common Stock shall be entitled to one vote in person or by proxy for each share of Class A Common Stock standing in such holder's name on the transfer books of the Corporation, and (B) every holder of Class B Common Stock shall be entitled to 10 votes in person or by proxy for each share of Class B Common Stock standing in such holder's name on the transfer books of the Corporation. Except as may be otherwise required by law or by this Certificate of Incorporation, the holders of Class A Common Stock and Class B Common Stock shall vote together as a single class in connection with the election of directors and on all other matters submitted to a vote of stockholders of the Corporation, and the votes cast in respect of the Class A Common Stock and the Class B Common Stock shall be counted and totaled together.

(c) Notwithstanding anything to the contrary in this Section C(iii) of this Article IV or in Article VII, following a Distribution (as defined in Article XI hereof), for so long as any Person or group of Persons acting in concert beneficially owns 10% or more of the outstanding shares of Class B Common Stock, such Person or group of Persons shall not, with respect to any shares of Class B Common Stock, have any voting powers in any election of

directors or be entitled to exercise any voting rights in any election of directors unless such Person or group of Persons is also the beneficial owner of at least an equivalent percentage of the outstanding shares of Class A Common Stock; *provided, however*, that this provision shall not apply to (A) any Person or group of Persons that, prior to acquiring beneficial ownership of 5% or more of the outstanding shares of Class B Common Stock, obtains the written consent of the Board of Directors and (B) EMC, or any Person to the extent that such Person acquires beneficial ownership of 5% or more of the outstanding shares of Class B Common Stock solely pursuant to a Distribution, provided that EMC or such Person obtains the written consent of the Board of Directors prior to acquiring beneficial ownership of any additional shares of Class B Common Stock following such Distribution.

(d) Every reference in this Certificate of Incorporation to a majority or other proportion of shares, or a majority or other proportion of the votes of shares, of Common Stock, Class A Common Stock or Class B Common Stock shall refer to such majority or other proportion of the votes to which such shares of Common Stock, Class A Common Stock or Class B Common Stock entitle their holders to cast as provided in this Certificate of Incorporation.

(iv) In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, whether voluntary or involuntary, after payment in full of the amounts required to be paid to the holders of Preferred Stock pursuant to the provisions of a Certificate of Designations, the remaining assets and funds of the Corporation shall be distributed pro rata to the holders of Common Stock, and the holders of Class A Common Stock and the holders of Class B Common Stock shall be entitled to receive the same amount per share in respect thereof. For purposes of this clause (iv) of this Section C, the voluntary sale, conveyance, lease, license, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the assets of the Corporation or a consolidation or merger of the Corporation with one or more other entities (whether or not the Corporation is the entity surviving such consolidation or merger) shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

(v) In connection with any reorganization of the Corporation, any consolidation of the Corporation with one or more other entities or any merger of the Corporation with or into another entity, the holders of each share of Class A Common Stock and Class B Common Stock shall be entitled to receive the same per share consideration as the per share consideration, if any, received by the holders of each share of such other class of Common Stock. In the event that the holders of Class A Common Stock or of Class B Common Stock are granted rights to elect to receive one of two or more alternative forms of consideration in connection with such merger or consolidation, the foregoing provision shall be deemed satisfied if holders of Class A Common Stock and holders of Class B Common Stock are granted substantially identical election rights.

(vi) (a) The holders of Class A Common Stock shall not be entitled to convert any share of Class A Common Stock into any other security of the Corporation or any other property.

(b) Prior to the date of a Distribution (as defined in Article XI), the holders of Class B Common Stock shall be entitled to convert, at any time and from time to time, any share of Class B Common Stock into one (1) fully paid and non-assessable share of Class A Common Stock. Such right shall be exercised by the surrender to the Corporation of the certificate or certificates, if any, representing the shares of Class B Common Stock to be converted at any time during normal business hours at the principal executive offices of the Corporation or at the office of the Corporation's transfer agent (the "**Transfer Agent**"), accompanied by a written notice from the holder of such shares stating that such holder desires to convert such shares, or a stated number of the shares represented by such certificate or certificates, if any, into an equal number of shares of

Class A Common Stock, and (if so required by the Corporation or the Transfer Agent) by instruments of transfer, in form satisfactory to the Corporation and to the Transfer Agent, duly executed by such holder or such holder's duly authorized attorney, and transfer tax stamps or funds therefor if required pursuant to sub-clause (g) of this clause (vi) of this Section C. To the extent permitted by law, such voluntary conversion shall be deemed to have been effected at the close of business on the date of such surrender. Following a Distribution, shares of Class B Common Stock shall no longer be convertible into shares of Class A Common Stock except as hereinafter set forth in Section C(vi)(d) of this Article IV.

(c) Prior to the date of a Distribution, each outstanding share of Class B Common Stock shall immediately and automatically (without any action on the part of the holder or the Corporation) convert into one (1) fully paid and non-assessable share of Class A Common Stock upon any transfer of such share (other than a transfer that constitutes a Distribution) if, after such transfer, such share is not beneficially owned by EMC.

(d) Following a Distribution, the Corporation may submit for stockholder approval, subject to the conditions set forth in this sub-paragraph (d), a proposal to convert all outstanding shares of Class B Common Stock into shares of Class A Common Stock, so long as the Corporation has previously received an opinion of counsel or a favorable private letter ruling from the Internal Revenue Service, in each case satisfactory to EMC in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the intended tax treatment of the Distribution (and in determining whether an opinion or ruling is satisfactory, EMC may consider, among other factors, the appropriateness of any underlying assumptions and representations if used as a basis for such opinion or ruling, and EMC may determine that no opinion or ruling would be acceptable to EMC), to the effect that such conversion will not affect the intended tax treatment of the Distribution. Notwithstanding the provisions of Section C(iii)(b) of this Article IV, at any meeting of stockholders at which such proposal is submitted to stockholders for their approval, each holder of Common Stock shall be entitled to one vote in person or by proxy for each share of Common Stock standing in such holder's name on the books of the Corporation. Subject to applicable law, approval of such conversion shall require approval by the affirmative vote of a majority of the votes entitled to be cast by the holders of the Class A Common Stock and Class B Common Stock, voting together as a single class, and neither class of Common Stock shall be entitled to a separate class or series vote. Such conversion shall be effective on the date on which such approval is given at a meeting of stockholders called for such purpose. In the event of any Distribution, any outstanding shares of Class B Common Stock that are not distributed in such Distribution shall be automatically converted into an equal number of fully paid and non-assessable shares of Class A Common Stock in accordance with the terms of this Certificate of Incorporation upon such Distribution.

(e) Each share of Class B Common Stock shall automatically convert into one (1) fully paid and non-assessable share of Class A Common Stock on the date, if any, on which the outstanding shares of Class B Common Stock owned by EMC represent less than 20% of the aggregate number of shares of the then outstanding Common Stock, provided that, as at such date, a Distribution has not occurred. For the avoidance of doubt, Section C, paragraph (iii)(c) of this Article IV shall not apply to the preceding sentence.

(f) The Corporation shall provide notice of any automatic conversion of shares of Class B Common Stock pursuant to sub-clause (c) of this clause (vi) to holders of record of such shares of Common Stock as soon as practicable following such conversion; *provided, however*, that the Corporation may satisfy such notice requirements by providing such notice prior to such conversion. Such notice shall be provided by any means then permitted by the DGCL;

provided, however, that no failure to give such notice nor any defect therein shall affect the validity of the automatic conversion of any shares of Class B Common Stock. Each such notice shall, as appropriate, (A) state the automatic conversion date; (B) identify the shares of Class B Common Stock that are automatically converted; and (C) the place or places where certificates if any, for such shares may be surrendered in exchange for certificates, if any, representing Class A Common Stock, or the method by which book-entry interest in the Class A Common Stock may be obtained in exchange for such certificates in respect of shares of Class B Common Stock.

(g) Immediately upon conversion of shares of Class B Common Stock in the manner provided in sub-clauses (b) or (c) of this clause (vi) of this Section C, as applicable, the rights of the holders of shares of Class B Common Stock as such shall cease, and such holders shall be treated for all purposes as having become the record holder or holders of such shares of Class A Common Stock; *provided, however*, that if the date on which any share of Class B Common Stock is converted into Class A Common Stock pursuant to the provisions of this clause (vi) of this Section C is after the record date for the determination of the holders of Class B Common Stock entitled to receive any dividend and prior to the date on which such dividend is to be paid to such holders, the holder of the Class A Common Stock issued upon the conversion of such converted share of Class B Common Stock will be entitled to receive such dividend on such payment date; *provided, however*, that to the extent that such dividend is payable in shares of Class B Common Stock, no such shares of Class B Common Stock shall be issued in payment thereof and such dividend shall instead be paid by the issuance of such number of shares of Class A Common Stock into which such shares of Class B Common Stock, if issued, would have been convertible on such payment date.

(h) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock, solely for the purpose of issuance upon conversion, exchange or transfer of outstanding shares of Class B Common Stock, such number of shares of Class A Common Stock that shall be issuable upon the conversion, exchange or transfer of all such outstanding shares of Class B Common Stock.

(i) The issuance of certificates, if any, for shares of Class A Common Stock upon conversion of shares of Class B Common Stock shall be made without charge to the holders of such shares for any stamp or other similar tax in respect of such issuance; *provided, however*, that if any such certificate is to be issued in a name other than that of the holder of the share or shares of Class B Common Stock converted, then the Person or Persons requesting the issuance thereof shall pay to the Corporation the amount of any tax that may be payable in respect of any transfer involved in such issuance or shall establish to the satisfaction of the Corporation that such tax has been paid or is not payable.

(j) The Corporation shall not reissue or resell any shares of Class B Common Stock that are converted into shares of Class A Common Stock pursuant to this clause (vi) of this Section C or that are acquired by the Corporation in any other manner. The Corporation shall, from time to time, take such appropriate action as may be necessary to retire such shares and to reduce the authorized number of shares of Class B Common Stock accordingly.

(vii) The holders of shares of Common Stock are not entitled to any preemptive right to subscribe for, purchase or receive any part of any new or additional issue of stock of any class or series of the Corporation, whether now or hereafter authorized, or of bonds, debentures or other securities convertible into or exchangeable for stock of the Corporation.

(viii) No stockholder shall be entitled to exercise any right of cumulative voting.

ARTICLE V

CORPORATE OPPORTUNITIES

A. In anticipation that the Corporation and EMC may engage in the same or similar activities or lines of business and have an interest in the same areas of corporate opportunities, and in recognition of the benefits to be derived by the Corporation through its continued contractual, corporate and business relations with EMC (including service of officers and directors of EMC as directors of the Corporation), and in addition to and subject to the limitations set forth in Article VI, the provisions of this Article V are set forth to regulate and define the conduct of certain affairs of the Corporation as they may involve EMC and its officers and directors, and the powers, rights, duties and liabilities of the Corporation and its officers, directors and stockholders in connection therewith.

B. No contract, agreement, arrangement or transaction between the Corporation and EMC shall be void or voidable solely for the reason that EMC is a party thereto, and EMC (i) shall have fully satisfied and fulfilled any duties to the Corporation and its stockholders with respect thereto; (ii) shall not be liable to the Corporation or its stockholders for any breach of fiduciary duty by reason of the entering into, performance or consummation of any such contract, agreement, arrangement or transaction; (iii) shall be deemed to have acted in good faith and in a manner it reasonably believed to be in and not opposed to the best interests of the Corporation; and (iv) shall be deemed not to have breached any duties of loyalty to the Corporation and its stockholders and not to have received an improper personal gain therefrom, if the material facts as to the contract, agreement, arrangement or transaction are disclosed or are known to the Board of Directors or the committee thereof that authorizes the contract, agreement, arrangement or transaction, and the Board of Directors or such committee in good faith authorizes the contract, agreement, arrangement or transaction by the affirmative vote of a majority of the disinterested directors, even though less than a quorum. Directors of the Corporation who are also directors or officers of EMC may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract, agreement, arrangement or transaction.

C. EMC shall have the right to, and shall have no duty not to (i) engage in the same or similar business activities or lines of business as the Corporation, (ii) do business with any client or customer of the Corporation and (iii) employ or otherwise engage any officer or employee of the Corporation, and the Corporation shall not be deemed to have an interest or expectancy in any such activities merely because the Corporation engages in the same or similar activities. Neither EMC nor any officer or director thereof (except as provided in Section D of this Article) shall be liable to the Corporation or its stockholders for breach of any fiduciary duty by reason of any such activities of EMC or of such person's participation therein. In the event that EMC acquires knowledge of a potential transaction or matter which may be a corporate opportunity for both EMC and the Corporation, EMC shall have no duty to communicate or present such corporate opportunity to the Corporation, and the Corporation, to the fullest extent permitted by law, renounces any interest or expectancy in such corporate opportunity and waives any claim that such corporate opportunity should have been presented to the Corporation. EMC shall not be liable to the Corporation or its stockholders for breach of any fiduciary duty as a stockholder of the Corporation by reason of the fact that EMC pursues or acquires such corporate opportunity for itself, directs such corporate opportunity to another person or entity or does not present such corporate opportunity to the Corporation.

D. In the event that a director or officer of the Corporation who is also a director or officer of EMC acquires knowledge of a potential transaction or matter which may be a corporate opportunity for both the Corporation and EMC and which may be properly pursued by the Corporation consistent with the provisions of Article VI hereof, such director or officer of the Corporation (i) shall be deemed to have

fully satisfied and fulfilled such person's fiduciary duty to the Corporation and its stockholders with respect to such corporate opportunity, (ii) shall not be liable to the Corporation or its stockholders for breach of any fiduciary duty by reason of the fact that EMC pursues or acquires such corporate opportunity for itself or direct such corporate opportunity to another person or does not present such corporate opportunity to the Corporation, (iii) shall be deemed to have acted in good faith and in a manner such person reasonably believes to be in and not opposed to the best interests of the Corporation for the purposes of Article X hereof and the other provisions of this Certificate of Incorporation and (iv) shall be deemed not to have breached such person's duty of loyalty to the Corporation or its stockholders or to have derived an improper personal economic gain therefrom for the purposes of Article X hereof and the other provisions of this Certificate of Incorporation, if such director or officer acts in good faith in a manner consistent with the following policy:

(w) where a corporate opportunity is offered to a person who is a director but not an officer of the Corporation and who is also a director or officer of EMC, the Corporation shall be entitled to pursue such opportunity only if such opportunity is expressly offered to such person solely in his or her capacity as a director of the Corporation;

(x) where a corporate opportunity is offered to a person who is an officer of both the Corporation and EMC, the Corporation shall be entitled to pursue such opportunity only if such opportunity is expressly offered to such person solely in his or her capacity as an officer of the Corporation;

(y) where a corporate opportunity is offered to a person who is an officer of the Corporation and who is also a director but not an officer of EMC, the Corporation shall be entitled to pursue such opportunity unless such opportunity is expressly offered to such person solely in his or her capacity as a director of EMC, in which case EMC shall be entitled to pursue such opportunity; and

(z) if an officer or director of the Corporation, who also serves as an officer or director of EMC, acquires knowledge of a potential transaction or matter which may be a corporate opportunity for both the Corporation and EMC in any manner not addressed by Article V, Section D, clauses (w), (x) or (y), such officer or director shall have no duty to communicate or present such corporate opportunity to the Corporation and shall to the fullest extent permitted by law not be liable to the Corporation or its stockholders for breach of fiduciary duty as an officer or director of the Corporation by reason of the fact that EMC pursues or acquires such corporate opportunity for itself, directs such corporate opportunity to another person or entity or does not present such corporate opportunity to the Corporation, and the Corporation to the fullest extent permitted by law renounces any interest or expectancy in such business opportunity and waives any claim that such business opportunity constituted a corporate opportunity that should be presented to the Corporation.

The provisions of this Section D are not intended to be an allocation of corporate opportunities between the Corporation and EMC or an exhaustive statement of corporate opportunities which may be available to the Corporation, pursuit of which shall be in accordance with this Certificate of Incorporation and applicable law.

E. In the event that a director, officer, employee or agent of the Corporation or EMC takes any action that is expressly contemplated by Sections I, II or III of the VMware Rules of Engagement with Storage, Server and Infrastructure Software Vendors, as such document may be amended from time to time with the approval of the Board of Directors, and such action is consistent with the provisions of Article VI, such director, officer, employee or agent of the Corporation or EMC (i) shall have fully satisfied and fulfilled such person's fiduciary duty to the Corporation and its stockholders, if applicable, with respect to such action, (ii) shall not be liable to the Corporation or its stockholders for breach of any

applicable fiduciary duty by reason of the fact that such person takes such action, whether or not such action results in the acquisition of a corporate opportunity for the Corporation, (iii) shall be deemed to have acted in good faith and in a manner such person reasonably believes to be in and not opposed to the best interests of the Corporation, including without limitation, for the purposes of Article X and the other provisions of this Certificate of Incorporation and (iv) shall be deemed not to have breached such person's duty of loyalty to the Corporation or its stockholders, if applicable, or to have derived an improper personal economic gain therefrom, including without limitation, for the purposes of Article X and the other provisions of this Certificate of Incorporation.

F. For the purposes of this Article, “**corporate opportunities**” of the Corporation shall include business opportunities which the Corporation is financially able to undertake, which are, from their nature, in the line of the Corporation's business, are of practical advantage to it and are ones in which the Corporation has an interest or a reasonable expectancy, and in which, by embracing the opportunities, the self-interest of EMC or its officers or directors will be brought into conflict with that of the Corporation;

(i) For purposes of this Article and Article VI, “Corporation” means the Corporation and all corporations, partnerships, joint ventures, limited liability companies, trusts, associations and other entities in which the Corporation owns (directly or indirectly) fifty percent (50%) or more of the outstanding voting stock, voting power, partnership interests or similar ownership interests.

G. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article.

H. Except for Section B, Section F, Section G, Section H and Section I, this Article shall become inoperative and of no effect on the later of (i) the Operative Date and (ii) the date upon which no officer or director of the Corporation is also an officer or director of EMC. Neither the alteration, amendment, termination or repeal of this Article nor the adoption of any provision inconsistent with this Article shall eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article would accrue or arise, prior to such alteration, amendment, termination, repeal or adoption. Following the later of (i) the Operative Date and (ii) the date upon which no officer or director of the Corporation is also an officer or director of EMC, any contract, agreement, arrangement or transaction involving a corporate opportunity not approved or allocated as provided in this Article shall not by reason thereof result in any breach of any fiduciary duty or duty of loyalty or failure to act in good faith or in the best interests of the Corporation or derivation of any improper personal economic gain, but shall be governed by the other provisions of this Certificate of Incorporation, the Bylaws, the DGCL and other applicable law.

I. Notwithstanding any other provision of this Certificate of Incorporation, the affirmative vote of at least eighty percent (80%) of the votes entitled to be cast thereon shall be required to amend, alter, change or repeal, or to adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of this Article V.

ARTICLE VI

CONSENT OF HOLDERS OF CLASS B COMMON STOCK

A. In addition to any other vote required by law or by this Certificate of Incorporation, prior to the Operative Date, the prior affirmative vote of the holders of a majority of the outstanding shares of the Class B Common Stock, voting separately as a class, shall be required to authorize the Corporation to

(and (in the case of clauses (iii) through (v) below) authorize or permit any Subsidiary (as defined in Article XI) to):

(i) adopt or implement any stockholder rights plan or similar takeover defense measure;

(ii) consolidate or merge with or into any Person;

(iii) permit any Subsidiary to consolidate or merge with or into any Person (other than (a) a consolidation or merger of a Wholly-Owned Subsidiary with or into the Corporation or with or into another Wholly-Owned Subsidiary or (b) in connection with a Permitted Acquisition);

(iv) directly or indirectly acquire Stock, Stock Equivalents or assets (including, without limitation, any business or operating unit) of any Person (other than the Corporation or its Subsidiaries), in each case in a single transaction or series of related transactions, involving consideration (whether in cash securities, assets or otherwise, and including Indebtedness assumed by the Corporation or any of its Subsidiaries and Indebtedness of any entity so acquired) paid or delivered by the Corporation and its Subsidiaries in excess of \$100,000,000; *provided, however*, this clause (iv) of this Section A shall not require the vote of the holders of Class B Common Stock in connection with acquisitions of securities pursuant to portfolio investment decisions in the ordinary course of business or transactions to which the Corporation and one or more Wholly-Owned Subsidiaries are the only parties;

(v) issue any Stock or any Stock Equivalents, except (a) the issuance of shares of Stock of a Wholly-Owned Subsidiary of the Corporation to the Corporation or another Wholly-Owned Subsidiary of the Corporation or (b) the issuance of shares of Class A Common Stock or options or other rights to purchase Class A Common Stock pursuant to employee benefit plans or dividend reinvestment plans approved by the Board of Directors (*provided, however*, that notwithstanding the provision of this clause (b), the prior affirmative vote of the holders of a majority of the outstanding shares of the Class B Common Stock, voting separately as a class, shall be required to authorize the Corporation to finally determine the aggregate size of its annual equity grants);

(vi) dissolve, liquidate or wind up the Corporation;

(vii) declare dividends on any class or series of the capital stock of the Corporation;

(viii) enter into any arrangement or agreement with any Person which the Board of Directors determines to be on terms exclusionary to EMC or that are exclusive to such Person, where such Person is offering or proposes to offer products or services that are substantially equivalent to products and services offered by EMC and

(ix) alter, amend, terminate or repeal, or adopt any provision inconsistent with, in each case whether directly or indirectly, or by merger, consolidation or otherwise, Articles V or VI or Sections A, C through G or J of Article VII of the Amended and Restated Certificate of Incorporation or Sections 2.2, 2.8(D), 2.11, 3.2(A), 3.2(C), 3.9 or 3.11 of the Amended and Restated Bylaws of VMware.

B. For purposes of this Article VI and Article VII:

(i) “ **Indebtedness** ” means, with respect to any Person, any liability of such Person in respect of borrowed money or evidenced by bonds, notes, debentures or similar instruments and shall also include (a) any liability of such Person under any agreement related to the fixing of interest rates on any Indebtedness and (b) any capitalized lease obligations of such Person (if and to the extent the same

would appear on a balance sheet of such Person prepared in accordance with United States generally accepted accounting principles).

(ii) “ **Permitted Acquisition** ” means any acquisition by the Corporation or any of its Subsidiaries of Stock, Stock Equivalents or assets of any Person not requiring the prior affirmative vote of the holders of the Class B Common Stock pursuant to clause (iv) of Section A of this Article VI.

(iii) “ **Stock** ” means shares of capital stock (whether denominated as common stock or preferred stock), beneficial, partnership or membership interests, participations or other equivalents (regardless of how designated) of or in a corporation, partnership, limited liability company or business trust, whether voting or non-voting.

(iv) “ **Stock Equivalents** ” means all securities convertible into or exchangeable for Stock and all warrants, options or other rights to purchase or subscribe for any Stock, whether or not presently convertible, exchangeable or exercisable, and all voting debt.

(v) “ **Wholly-Owned Subsidiary** ” means each Subsidiary in which the Corporation owns (directly or indirectly) all of the outstanding voting Stock, voting power, partnership interests or similar ownership interests, except for director’s qualifying shares in nominal amount.

C. The Corporation shall not undertake any action or conduct that would have the effect of indirectly engaging the Corporation in activities that the provisions of this Article would otherwise prohibit.

D. Any Person purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article.

E. Neither the alteration, amendment or repeal of this Article VI nor the adoption of any provision inconsistent with this Article VI shall eliminate or reduce the effect of this Article VI in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article VI, would accrue or arise, prior to such alteration, amendment, repeal or adoption.

F. Notwithstanding any other provision of this Certificate of Incorporation, the affirmative vote of at least eighty percent (80%) of the votes entitled to be cast thereon shall be required to amend, alter, change or repeal this Article VI, including the amendment, alteration, change or repeal of any of the defined terms used in this Article VI and defined elsewhere in this Certificate of Incorporation, or to adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of this Article VI.

ARTICLE VII

BOARD OF DIRECTORS

A. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors. The Board of Directors shall consist of no less than six directors. Subject to the limitation in the preceding sentence, the number of directors shall be determined from time to time solely by resolution adopted by affirmative vote of a majority of the entire Board of Directors which the Corporation would have if there were no vacancies at the time such resolution is adopted (the “ **Entire Board of Directors** ”).

B. Elections of the members of the Board of Directors shall be held annually at the annual meeting of stockholders and each member of the Board of Directors shall hold office until such director’s

successor is elected and qualified, subject to such director's earlier death, resignation, disqualification or removal. Elections of the members of the Board need not be by written ballot unless the Bylaws shall so provide.

C. The holders of Class B Common Stock, voting separately as a class, shall be entitled to elect a number of members of the Board of Directors equal to the minimum whole number of directors that would constitute at least eighty percent (80%) of the total number of directors constituting the Entire Board of Directors. Subject to any rights of any series of Preferred Stock to elect directors as provided for or fixed pursuant to the provisions of Article IV hereof, the holders of Class A Common Stock and the holders of Class B Common Stock, voting together as a single class, shall be entitled to elect the remaining number of directors, which shall be in no event less than one director. Notwithstanding the provisions of Section C(iii)(b) of Article IV hereof, each holder of Class A Common Stock and each holder of Class B Common Stock shall be entitled to one vote in person or by proxy for each share of Common Stock standing in such holder's name on the books of the Corporation in any election of Group II Members (as defined below) to the Board of Directors in which such holders are entitled to vote. In the event that the rights of any series of Preferred Stock to elect directors would preclude the holders of Class A Common Stock and the holders of Class B Common Stock, voting together as a single class, from electing at least one director, the Board of Directors shall increase the number of directors prior to the issuance of such Preferred Stock to the extent necessary to allow such holders to elect at least one director in accordance with the provisions of this Article VII.

D. The Board of Directors, other than with respect to any directors who may be elected by the holders of any series of Preferred Stock, shall be divided into two groups, designated Group I and Group II. Any director elected by the holders of Class B Common Stock voting separately as a class shall be a Group I member (a "**Group I Member**"), and the remaining directors shall be Group II members (each a "**Group II Member**").

E. The directors, other than those who may be elected by the holders of any series of Preferred Stock, shall be further divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the Entire Board of Directors and one-third of the respective Group I Members and Group II Members. No director shall be a member of more than one class of directors. The class designation and term of office of each director in office at the time of filing of this Amended and Restated Certificate of Incorporation (the "**Effective Time**") shall remain unchanged following the Effective Time. At each annual meeting of stockholders following the Effective Time, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors and the respective number of Group I Members and Group II Members in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. If an additional director could be added to more than one class, such director shall be added to the class with the shortest remaining term.

F. Any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by the affirmative vote of a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring on the Board of Directors may be filled by the affirmative vote of a majority of the Board of Directors then in office, even if less than a quorum, or by a sole remaining director; *provided, however*, that, until EMC ceases to be the beneficial owner of shares of Common Stock representing at least a majority of the votes entitled to be cast by the

holders of the Class A Common Stock and the holders of Class B Common Stock, voting together as a single class, if such vacancy was caused by an action of the stockholders, such vacancy shall be filled pursuant to the procedures set forth in Section C of this Article VII; *provided, further*, that, notwithstanding any of the foregoing, if the appointment of any person to a vacancy on the Board of Directors would cause the number of Group I Members to be less than eighty percent (80%) of the total number of directors constituting the Entire Board of Directors, then the vacancy shall be found to be with respect to a Group I Member and shall be filled by the Group I Members then in office by affirmative vote of a majority of the Group I Members then in office and the director filling such vacancy shall be deemed to be a Group I Member. Any director of any class elected to fill a vacancy resulting from an increase in the number of directors of such class shall hold office for a term that shall coincide with the remaining term of that class. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his or her predecessor.

G. Any Group I Member may be removed from office at any time, with or without cause, by the affirmative vote of holders of at least eighty percent (80%) of the shares of Class B Common Stock, voting separately as a class. Any Group II Member may be removed from office at any time, with or without cause, by the affirmative vote of holders of at least a majority of the votes entitled to be cast to elect any such director.

H. Advance notice of stockholder nominations for the election of directors and stockholder proposals for business to be conducted at any meeting of stockholders shall be given in the manner provided in the Bylaws.

I. The books and records of the Corporation may be kept (subject to any mandatory requirement of law) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or by the Bylaws.

J. Notwithstanding any other provision of this Certificate of Incorporation, the affirmative vote of at least eighty percent (80%) of the votes entitled to be cast thereon shall be required to amend, alter, change or repeal, or to adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of this Article VII.

ARTICLE VIII

STOCKHOLDER ACTION

A. Any action required or permitted to be taken by stockholders at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding capital stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of capital stock entitled to vote thereon were present and voted; *provided, however*, that except as otherwise provided by a Certificate of Designations, from and after the date that EMC ceases to be the beneficial owner of shares representing at least a majority of votes entitled to be cast by the holders of the Class A Common Stock and the holders of Class B Common Stock, voting together as a single class, any action required or permitted to be taken by stockholders may be effected only at a duly called annual or special meeting of stockholders and may not be effected by a written consent or consents by stockholders in lieu of such a meeting.

B. Except as otherwise required by law or provided by a Certificate of Designations, special meetings of stockholders of the Corporation may be called only by (1) the Chairman of the Board of Directors, (2) the Board of Directors or the Secretary of the Corporation pursuant to a resolution adopted

by a majority of directors then in office or (3) EMC, so long as EMC is the beneficial owner of at least a majority of votes entitled to be cast by the holders of the Class A Common Stock and the holders of Class B Common Stock, voting together as a single class. No business other than that stated in the notice of a special meeting of stockholders shall be transacted at such special meeting.

ARTICLE IX

AMENDMENT OF BYLAWS AND CERTIFICATE OF INCORPORATION

In furtherance and not in limitation of the powers conferred by law, the Board of Directors is expressly authorized and empowered to adopt, amend and repeal the Bylaws at any regular or special meeting of the Board of Directors or by written consent, subject to the power of the stockholders of the Corporation to adopt, amend or repeal any Bylaws. The stockholders shall have the power to make, amend or repeal the Bylaws; *provided, however*, that from and after the date that EMC ceases to be the beneficial owner of shares representing at least a majority of the votes entitled to be cast by the holders of the Class A Common Stock and the holders of Class B Common Stock, voting together as a single class, Section 2.8, Section 3.2 and Section 3.11 of the Bylaws shall not be amended, altered or repealed, other than by the affirmative vote of eighty percent (80%) of the votes entitled to be cast thereon. Notwithstanding any other provision of this Certificate of Incorporation or the Bylaws (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, this Certificate of Incorporation or the Bylaws), the affirmative vote of the holders of at least eighty percent (80%) of the votes entitled to be cast thereon shall be required to adopt, amend, alter or repeal any provision part of Article V, Article VI, Article VII, this Article IX and Article X of this Certificate of Incorporation in a manner inconsistent with the purpose and intent of such Articles.

ARTICLE X

LIMITATIONS ON LIABILITY AND INDEMNIFICATION

A. A director of this Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or may hereafter be amended. Any repeal or modification of this Section A shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such repeal or modification.

B. The Corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person (a “**Covered Person**”) who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a “**proceeding**”), by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director or officer of the Corporation, or has or had agreed to become a director of the Corporation, or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a limited liability company, partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, against all liability and loss suffered and expenses (including attorneys’ fees and expenses, judgments, fines, amounts to be paid in settlement and excise payments or penalties arising under the Employee Retirement Income Security Act of 1974 (“**ERISA**”)) reasonably incurred by such Covered Person in connection

therewith, and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators. Notwithstanding the preceding sentence, except as otherwise provided in this Article X, the Corporation shall be required to indemnify a Covered Person in connection with a proceeding (or part thereof) commenced by such Covered Person only if the commencement of such proceeding (or part thereof) by the Covered Person was authorized in the specific case by the Board of Directors. The Corporation may, by the action of the Board of Directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

C. The Corporation shall to the fullest extent not prohibited by applicable law pay the expenses (including attorneys' fees and expenses) incurred by a Covered Person in defending any proceeding in advance of its final disposition; *provided, however*, that, to the extent required by law, such payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the Covered Person to repay all amounts advanced if it should be ultimately determined that the Covered Person is not entitled to be indemnified under this Article X or otherwise. The rights contained in this Section C shall inure to the benefit of a Covered Person's heirs, executors and administrators.

D. If a claim for indemnification (following the final disposition of such action, suit or proceeding) or advancement of expenses under this Article X is not paid in full within thirty days after a written claim therefor by the Covered Person has been received by the Corporation, the Covered Person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expenses of prosecuting such claim to the fullest extent permitted by law. In any such action the Corporation shall have the burden of proving that the Covered Person is not entitled to the requested indemnification or advancement of expenses under applicable law.

E. The rights conferred on any Covered Person by this Article X shall not be exclusive of any other rights which such Covered Person may have or hereafter acquire under any statute, provision of this Certificate of Incorporation, the Bylaws of the Corporation, agreement, vote of stockholders or disinterested directors or otherwise.

F. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such Person against such expense, liability or loss under the DGCL.

G. The Corporation's obligation, if any, to indemnify or to advance expenses to any Covered Person who was or is serving at its request as a director, officer, employee or agent of another corporation, limited liability company, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such Covered Person is entitled to collect and is collectible as indemnification or advancement of expenses from such other corporation, limited liability company, partnership, joint venture, trust, enterprise or non-profit enterprise.

H. Any repeal or modification of the foregoing provisions of this Article X shall not adversely affect any right or protection hereunder of any Covered Person in respect of any act or omission occurring prior to the time of such repeal or modification.

I. This Article X shall not limit the right of the Corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to persons other than Covered Persons, to a greater extent or in a manner otherwise different than provided for in this Article X when and as authorized by appropriate corporate action.

J. If this Article X or any portion hereof will be invalidated on any ground by any court of competent jurisdiction, then the Corporation will nevertheless indemnify each Covered Person entitled to indemnification under Section B of this Article X as to all expense, liability and loss (including attorneys' fees and related disbursements, judgments, fines, ERISA excise taxes and penalties, penalties and amounts paid or to be paid in settlement) actually and reasonably incurred or suffered by such Covered Person and for which indemnification is available to such Covered Person pursuant to this Article X to the fullest extent permitted by any applicable portion of this Article X that shall not have been invalidated and to the fullest extent permitted by applicable law.

ARTICLE XI

CERTAIN DEFINITIONS

For purposes of this Certificate of Incorporation:

“ **beneficial owner** ” and “ **beneficial ownership** ” have the meaning scribed to such terms in Rule 13d-3 under the Securities Exchange Act of 1934, as amended, but shall not include shares of Common Stock beneficially owned by EMC but not for its own account, including (in such exclusion) beneficial ownership which arises by virtue of some entity that is an affiliate of EMC being a sponsor or advisor of a mutual or similar fund that beneficially owns shares of Common Stock.

“ **Distribution** ” means a distribution or transfer of the Class B Common Stock to stockholders or security holders who are not members of the consolidated tax group of which EMC is a member in connection with a transaction intended to qualify for non-recognition of gain and loss under Section 355 of the Internal Revenue Code of 1986, as amended (or any corresponding provisions of any successor statute).

“ **EMC** ” means EMC Corporation, a Massachusetts corporation, all successors to EMC Corporation by way of merger, consolidation or sale of substantially all of its assets, and all corporations, limited liability companies, joint ventures, partnerships, trusts, associations or other entities in which EMC Corporation: (i) beneficially owns, either directly or indirectly, more than fifty percent (50%) of (a) the total combined voting power of all classes of voting securities of such entity, (b) the total combined equity interests, or (c) the capital or profits interest, in the case of a partnership; or (ii) otherwise has the power to vote, either directly or indirectly, sufficient securities to elect a majority of the board of directors or similar governing body, but shall not include the Corporation or any Subsidiary of the Corporation (any such successor in interest, corporation, limited liability company, joint venture, partnership, trust, association or other entity referred to in this definition shall be deemed to be an “ **EMC Company** ”).

“ **Operative Date** ” means the first date on which EMC ceases to beneficially own twenty percent (20%) or more of the aggregate number of shares of the then outstanding Common Stock.

“ **Person** ” means any individual, partnership, joint venture, limited liability company, firm, corporation, trust or other entity, including governmental authorities.

“ **Pledge** ” means any mortgage, lien (statutory or otherwise), pledge, hypothecation, charge, security interest, preference, priority or encumbrance of any kind in, attaching or applicable to, affecting or otherwise in respect of any share of Class B Common Stock, whether or not filed, recorded or otherwise perfected under applicable law, created, incurred or existing pursuant to any bona fide loan or indebtedness transaction or other bona fide obligation.

AMENDED AND RESTATED 2007 EQUITY AND INCENTIVE PLAN**1. PURPOSE; TYPES OF AWARDS; CONSTRUCTION.**

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

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

- (a) "Adoption Date" means June 5, 2017, the date approved by the Board as the adoption date of the Plan, including the extension of its term as set forth in Section 7(f) below.
- (b) "Affiliate" means an affiliate of the Company, as defined in Rule 12b-2 promulgated under Section 12 of the Exchange Act.
- (c) "Award" means individually or collectively, a grant under the Plan of Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights or Other Stock-Based Awards or Other Cash-Based Awards.
- (d) "Award Terms" means any written agreement, contract, notice or other instrument or document evidencing an Award.
- (e) "Beneficial Owner" has the meaning ascribed to such term in Rule 13d-3 of the Exchange Act.
- (f) "Board" means the Board of Directors of the Company.
- (g) "Cause" has the meaning set forth in the Grantee's employment or other agreement with the Company, any Subsidiary or any Affiliate, if any, provided that if the Grantee is not a party to any such employment or other agreement or such employment or other agreement does not contain a definition of Cause, then Cause has the meaning set forth below:
 - (i) willful neglect, failure or refusal by the Grantee to perform his or her employment duties (except resulting from the Grantee's incapacity due to illness) as reasonably directed by his or her employer;
 - (ii) willful misconduct by the Grantee in the performance of his or her employment duties;
 - (iii) the Grantee's indictment for a felony (other than traffic related offense) or a misdemeanor involving moral turpitude; or
 - (iv) the Grantee's commission of an act involving personal dishonesty that results in financial, reputational, or other harm to the Company and its Affiliates and Subsidiaries, including, but not limited to, an act constituting misappropriation or embezzlement of property, provided, however, that the Award Terms may include a definition of Cause that modifies or supersedes this definition.
- (h) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(bb) "Subsidiary" means any entity in an unbroken chain of entities beginning with the Company if, at the time of granting of an Award, each of the entities (other than the last entity in the unbroken chain)

owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other entities in the chain.

3. ADMINISTRATION .

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

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

4. ELIGIBILITY .

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

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

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

5. STOCK SUBJECT TO THE PLAN .

(a) The maximum number of shares of Stock reserved for the grant or settlement of Awards under the Plan (the “Share Limit”) is 126,050,000, subject to adjustment as provided herein, not including shares of stock added to the Share Limit pursuant to Section 5(c).

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

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

(d) Subject to the Share Limit and Section 5(g), the aggregate maximum number of shares of Stock that may be issued pursuant to the exercise of ISOs will be 126,050,000 shares of Stock.

(e) Subject to the Share Limit and Section 5(g), the aggregate number of shares of Stock that may be issued pursuant to Awards granted during any fiscal year to any single individual may not exceed 3,000,000 shares of Stock.

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

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

6. SPECIFIC TERMS OF AWARDS .

(a) *General* . Subject to the terms of the Plan and any applicable Award Terms, (i) the term of each Award will be for such period as may be determined by the Committee, and (ii) payments to be made by the Company or a Subsidiary or Affiliate upon the grant, maturation, or exercise of an Award may be made in such forms as the Committee determines at the date of grant or thereafter, including, without limitation, cash, Stock or

other property, and may be made in a single payment or transfer, in installments, or, subject to the requirements of Section 409A of the Code on a deferred basis.

(b) *Awards.* The Committee is authorized to grant to Grantees the following Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee will determine the terms and conditions of such Awards, consistent with the terms of the Plan. Options and Stock Appreciation Rights (“SARs”) are subject to a minimum one-year vesting period following grant, with the exception that up to 5% of the available shares of Stock reserved for grant may be subject to such Awards without such minimum vesting period.

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

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

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

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

(D) Upon the termination of a Grantee’s employment or service with the Company and its Subsidiaries or Affiliates, the Options granted to such Grantee, to the extent that they are exercisable at the time of such termination, will remain exercisable for such period as may be provided in the applicable Award Terms, but in no event following the expiration of their term. The treatment of any Option that is unexercisable as of the date of such termination will be as set forth in the applicable Award Terms.

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

(ii) *Restricted Stock.*

(A) The Committee may grant Awards of Restricted Stock under the Plan, subject to such restrictions, terms and conditions, as the Committee may determine in its sole discretion and as evidenced by the applicable Award Terms (provided that any such Award is subject to the vesting requirements described herein). The vesting of a Restricted Stock Award granted under the Plan may be conditioned upon the

completion of a specified period of employment or service with the Company, any Subsidiary or an Affiliate, upon the attainment of specified Performance Goals or upon such other criteria as the Committee may determine in its sole discretion.

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

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

(D) If and to the extent that the applicable Award Terms may so provide, a Grantee will have the right to vote and be credited with dividends on Restricted Stock granted under the Plan but such dividends will be distributed to the Grantee only if, when and to the extent the shares of Restricted Stock vest. The value of dividends payable with respect to any shares of Restricted Stock that do not vest shall be forfeited.

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

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

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

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

(C) Subject to compliance with the requirements of Section 409A of the Code, Restricted Stock Units may provide the Grantee with the right to receive dividend equivalent payments with respect to Stock actually or notionally subject to the Award, which payments will be credited to an account for the Grantee, and may be settled in cash or Stock, as determined by the Committee. Any such dividend equivalents will be settled in cash or Stock to the Grantee only if, when and to the extent the related Restricted Stock Units vest. The value of dividend equivalent payments payable with respect to any Restricted Stock Unit that does not vest shall be forfeited.

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

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

(A) The Committee is authorized to grant Awards to Grantees in the form of Other Stock-Based Awards or Other Cash-Based Awards, as deemed by the Committee to be consistent with the purposes of the Plan. The Committee will determine the terms and conditions of such Awards, consistent with the

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

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

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

7. GENERAL PROVISIONS .

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

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

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

(d) *Clawback/Recoupment*

(i) All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company determines to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Committee may impose additional clawback, recovery or recoupment provisions in an Award agreement as the Committee

determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of Stock or other cash or property upon the occurrence of Cause as determined by the Committee.

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

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

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

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

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

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

(i) *No Fractional Shares*. No fractional shares of Stock will be issued or delivered pursuant to the Plan or any Award. The Committee will determine whether cash, other Awards, or other property will be

issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto will be forfeited or otherwise eliminated.

(j) *Regulations and Other Approvals* .

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

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

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

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

(k) *Governing Law* . The Plan and all determinations made and actions taken pursuant hereto is governed by the laws of the State of Delaware without giving effect to the conflict of laws principles thereof. Notwithstanding anything to the contrary herein, the Committee, in order to conform with provisions of local laws and regulations in foreign countries in which the Company or its Subsidiaries operate, has sole discretion to (i) modify the terms and conditions of Awards made to Grantees employed outside the United States, (ii) establish sub-plans with modified exercise procedures and such other modifications as may be necessary or advisable under the circumstances presented by local laws and regulations, and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan or any sub-plan established hereunder.

(l) *Merger or Consolidation* . If the Company is the surviving corporation in any merger or consolidation (other than a merger or consolidation in which the Company survives but in which a majority of its

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

FORM OF INDEMNIFICATION AGREEMENT

This Indemnification Agreement (“**Agreement**”) is entered into effective as of [DATE], between VMware, Inc., a Delaware corporation (the “**Company**”), and [NAME] (the “**Indemnitee**”). [This Agreement amends, restates and supersedes that certain Indemnification Agreement, dated as of [DATE], by and between the Indemnitee and the Company (the “**Original Agreement**”).]

[WHEREAS, pursuant to Section 10 of the Original Agreement, the Company and the Indemnitee wish to amend and restate the Original Agreement to read as set forth herein; and]

WHEREAS, it is essential to the Company to retain and attract as directors and officers the most capable persons available; and

WHEREAS, the Indemnitee is a director or officer of the Company; and

WHEREAS, both the Company and the Indemnitee recognize the increased risk of litigation and other claims being asserted against directors and officers of public companies; and

WHEREAS, the current Amended and Restated Bylaws and Amended and Restated Certificate of Incorporation of the Company (collectively, the “**Charter Documents**”) require the Company to indemnify and advance expenses to its directors and officers to the fullest extent permitted by law, and the Indemnitee will serve, has been serving and continues to serve as a director or officer of the Company in part in reliance on such Charter Documents; and

WHEREAS, the Board of Directors (the “**Board**”) of the Company has determined that the inability of the Company to retain and attract as directors and officers the most capable persons would be detrimental to the interests of the Company and that the Company therefore should seek to assure such persons that indemnification and liability insurance coverage will be available in the future; and

WHEREAS, in recognition of (i) the Indemnitee’s need for substantial protection against personal liability in order to enhance the Indemnitee’s continued service to the Company in an effective manner, and (ii) the Indemnitee’s reliance on the Company’s Charter Documents, and to provide the Indemnitee with specific contractual assurance that the protection promised by such Charter Documents will be available to the Indemnitee (regardless of, among other things, any amendment to or revocation of such Charter Documents or any change in the composition of the Board or acquisition transaction relating to the Company), the Company wishes to provide in this Agreement for indemnification of and the advancing of expenses to the Indemnitee to the fullest extent (whether partial or complete) permitted by law and as set forth in this Agreement, and, to the extent insurance is maintained by the Company, for the continued coverage of the Indemnitee under the Company’s directors’ and officers’ liability insurance policies;

NOW, THEREFORE, in consideration of the premises and of the Indemnitee continuing to serve the Company directly or, at its request, another enterprise, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Basic Indemnification Arrangement.

(a) In accordance with the provisions of the DGCL (as defined below), the Company will, to the extent legally permissible, indemnify the Indemnitee against any and all Expenses (as defined below) actually and reasonably incurred by the Indemnitee and any and all judgments, fines and amounts paid or to be paid in settlement, excise taxes or penalties, any interest, assessment or other charges imposed thereon, and any federal, state, local, or foreign taxes imposed as a result of the actual or deemed receipt of payment under this Agreement (collectively, “**Liabilities**”) in connection with a Proceeding (as defined below) where the Indemnitee was or is a party to or is

involved (as a party, witness or otherwise) by reason of (or arising in part out of) an Indemnifiable Event (as defined below).

(b) If so requested by the Indemnitee, the Company will advance (within five business days of such request) any and all Expenses in connection with such a Proceeding (an “ **Expense Advance** ”) to the fullest extent permitted by the DGCL. The Company will advance to the Indemnitee Expenses in accordance with such request (but without duplication) by either (i) paying such Expenses on behalf of the Indemnitee, or (ii) if requested by the Indemnitee, reimbursing the Indemnitee for such Expenses. The Indemnitee’s right to an Expense Advance is absolute and is not subject to any prior determination by the Company or any Reviewing Party (as defined below) that the Indemnitee has satisfied any applicable standard of conduct for indemnification.

(c) Notwithstanding anything in this Agreement to the contrary, the Indemnitee is not entitled to indemnification or Expense Advance pursuant to this Agreement in connection with any Proceeding initiated by the Indemnitee unless (i) the Company has joined in or the Company’s Board has authorized or consented in advance to the initiation of such Proceeding, or (ii) the Proceeding is one to enforce the Indemnitee’s rights under this Agreement.

(d) Notwithstanding the foregoing, the Indemnitee is not entitled to indemnification under Section 1(a) if the Reviewing Party has determined that the Indemnitee is not permitted to be indemnified under applicable law unless a court of competent jurisdiction otherwise determines.

(e) If, when and to the extent that the Reviewing Party determines that the Indemnitee would not be permitted to be indemnified under applicable law, Indemnitee agrees to repay any related Expense Advance; *provided, however*, that if the Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that the Indemnitee should be indemnified under applicable law, any determination made by the Reviewing Party that the Indemnitee would not be permitted to be indemnified under applicable law is not binding and the Indemnitee is not required to reimburse the Company for any Expense Advance until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). The Indemnitee’s undertaking to repay such Expense Advances is unsecured and interest-free.

(f) If there has been no determination by the Reviewing Party within thirty days after written demand is presented to the Company, or if the Reviewing Party determines that the Indemnitee would not be permitted to be indemnified in whole or in part under applicable law, or if the Indemnitee has not been timely paid pursuant to Section 1(b) after a written demand has been received by the Company, the Indemnitee will have the right to commence litigation in the Delaware Court of Chancery to seek an initial determination by the court or challenge any such determination by the Reviewing Party or any aspect thereof, including the legal or factual bases therefor, and to recover the unpaid amount of demand, and the Company hereby consents to service of process and to appear in any such proceeding. Any determination by the Reviewing Party otherwise is conclusive and binding on the Company and the Indemnitee.

(g) If a determination has been made by the Reviewing Party that Indemnitee is entitled to indemnification, the Company will be bound by such determination in any judicial proceeding commenced pursuant to Section 1(f), absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee’s statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(h) The Company agrees that if there is a Change in Control (as defined below) of the Company, other than a Change in Control which has been approved by a majority of the Company’s Board who were directors immediately prior to such Change in Control, then with respect to all matters thereafter arising concerning the rights of the Indemnitee to indemnity payments and Expense Advances under this Agreement or any other agreement or under applicable law or the Company’s Charter Documents now or hereafter in effect relating to indemnification for Indemnifiable Events, the Company will seek legal advice only from special independent counsel selected by the Indemnitee and approved by the Company, which approval will not be unreasonably withheld (the “ **Special**

Independent Counsel”). The Special Independent Counsel will not have otherwise performed services for the Company or the Indemnitee, or their respective affiliates, other than in connection with such matters, within the last five years. The Special Independent Counsel will not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee’s rights under this Agreement. The Special Independent Counsel, among other things, will render its written opinion to the Company and the Indemnitee as to whether and to what extent the Indemnitee would be permitted to be indemnified under applicable law. The Company agrees to pay the reasonable fees of the Special Independent Counsel referred to above and to indemnify fully such counsel against any and all expenses (including attorneys’ fees), claims, liabilities and damages arising out of or relating to this Agreement or the engagement of Special Independent Counsel pursuant to this Agreement.

(i) The Company will pay all costs associated with its determination of Indemnitee’s eligibility for indemnification.

(j) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement is required to be made prior to the final disposition of the Proceeding as to which indemnity is sought. In connection with any request for indemnification related to a threatened proceeding or investigation that does not lead to a Proceeding, the Reviewing Party will have the discretion to determine whether there has been a final disposition of the threatened proceeding or investigation.

2. Other Expenses . The Company is liable to and will pay the Indemnitee for any and all expenses (including attorneys’ fees) that are incurred by the Indemnitee in connection with any action brought by the Indemnitee for (i) indemnification or Expense Advance by the Company under this Agreement or any other agreement or Charter Documents now or hereafter in effect relating to indemnification, or (ii) recovery under any directors’ and officers’ liability insurance policies maintained by the Company, to the extent that Indemnitee ultimately is determined to be entitled to such indemnification, Expense Advance or insurance recovery, as the case may be. If requested by the Indemnitee, the Company will promptly advance (but in no event more than five business days after receiving such request) any such expenses to the Indemnitee, subject to repayment thereof to the extent Indemnitee is not successful in any action referred to in clause (i) above.

3. Partial Indemnity, Etc . If the Indemnitee is entitled under any provision of this Agreement to indemnification or payment by the Company for some or a portion of the Expenses or Liabilities, but not, however, for all of the total amount thereof, the Company will nevertheless indemnify or pay the Indemnitee for the portion thereof to which the Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that the Indemnitee has been successful on the merits or otherwise in defense of any or all Proceedings relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, the Indemnitee will be indemnified against all Expenses incurred in connection with such successful defense.

4. Burden of Proof . In connection with any determination by the Reviewing Party or otherwise as to whether the Indemnitee is entitled to be indemnified hereunder, the Reviewing Party or court will presume that the Indemnitee has satisfied the applicable standard of conduct and is entitled to indemnification, and the burden of proof will be on the Company to establish, by clear and convincing evidence, that Indemnitee is not so entitled.

5. No Other Presumptions . For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, will not create a presumption that the Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law. In addition, neither the failure of the Reviewing Party to have made a determination as to whether the Indemnitee has met any particular standard of conduct or had any particular belief, nor an actual determination by the Reviewing Party that the Indemnitee has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by the Indemnitee to secure a judicial determination that the Indemnitee should be indemnified under applicable law, will be a defense to the Indemnitee’s claim or create a presumption that the Indemnitee has not met any particular standard of conduct or did not have any particular belief.

6. Non-exclusivity, Etc . The rights of the Indemnitee hereunder are in addition to any other rights the Indemnitee may have under the Company's Charter Documents or the DGCL or otherwise. To the extent that a change in applicable law (whether by statute or judicial decision) permits greater indemnification by agreement than would be afforded currently under the Company's Charter Documents or this Agreement, it is the intent of the parties hereto that the Indemnitee will enjoy by this Agreement the greater benefits so afforded by such change.

7. Liability Insurance . To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, the Indemnitee will be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company director or officer. The Company will promptly notify Indemnitee of any good faith determination not to provide such coverage or of any lapse or termination of any such policy.

8. Defense of Claims, Settlement of Claims .

(a) Except as otherwise provided in this Section 8, to the extent that it may wish, the Company may, separately or jointly with any other indemnifying party, assume the defense of the Proceeding. After notice from the Company to Indemnitee of its election to assume the defense of the Proceeding, the Company will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee except as otherwise provided below. Indemnitee will have the right to employ Indemnitee's own counsel in such Proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof will be at the expense of Indemnitee unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) Indemnitee and his or her counsel has reasonably determined that there is a conflict of interest between the Company and Indemnitee in the conduct of the defense of the Proceeding or that there may be one or more legal defenses available to the Indemnitee that are different or in addition to those available to the Company, or (iii) the Company has not in fact employed counsel to assume the defense of the Proceeding within 60 days of receipt of notice from Indemnitee. The Company will not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company, or as to which Indemnitee has made the determination provided for in (ii) above.

(b) Regardless of whether the Company has assumed the defense of a Proceeding, the Company will not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's written consent, and the Company will not settle any Proceeding in any manner that would impose any penalty or limitation on, or require any payment from, Indemnitee, or which does not provide a complete and unconditional release of Indemnitee, in each case without Indemnitee's written consent. Neither the Company nor the Indemnitee will unreasonably withhold the consents discussed in this subparagraph.

9. Certain Definitions .

(a) A "**Change in Control**" is deemed to have occurred if:

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

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

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

Any other provision of this definition notwithstanding, the term Change in Control will not be deemed to have occurred by virtue of: (i) any transaction which results in such Indemnitee, or a group of Persons in which such Indemnitee has a substantial interest, acquiring, directly or indirectly, 35% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities, or (ii) Parent's distribution of the Company's shares in a transaction intended to qualify as a distribution under Section 355 ("355 Distribution") of the Internal Revenue Code of 1986, as amended.

(b) "**Dell or Silver Lake Indemnitee**" means an Indemnitee who is a director, officer or employee of Parent or who is a partner, officer or employee of Silver Lake Partners.

(c) "**DGCL**" means the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended or interpreted.

(d) "**Expense**" means attorneys' fees and all other costs, expenses and obligations paid or incurred in connection with investigating, defending (including any counterclaims), being a witness in or participating in (including on appeal), or preparing for any of the foregoing, any Proceeding.

(e) "**Indemnifiable Event**" means any event or occurrence that takes place either prior to or after the Effective Date (as defined below), related to the fact that the Indemnitee is or was a director or officer of the Company, or is or was serving at the request of the Company as a director, officer, employee, or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, or by reason of anything done or not done by the Indemnitee in any such capacity, whether or not the Indemnitee continues to serve in such capacity(ies).

(f) "**Indemnitee-Related Entity**" means Parent or Silver Lake Partners, or any of their respective affiliates (other than the Company or its subsidiaries or the insurer under and pursuant to an insurance policy of the Company or its subsidiaries) from whom a Dell or Silver Lake Indemnitee may be entitled to indemnification or advancement of Expenses with respect to which the Company may also have an indemnification or advancement obligation.

(g) "**Parent**" means Dell Technologies Inc., a Delaware corporation.

(h) "**Person**" has the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and as used in Sections 13(d) and 14(d) thereof, including a group as defined in Section 13(d) of the Exchange Act but excluding (i) the Company or Parent, any of their respective subsidiaries or any employee benefit plan sponsored or maintained by the Company, Parent or any of their respective subsidiaries (including any trustee or other fiduciary

of any such plan), (ii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iii) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(i) “ **Proceeding** ” means any threatened, pending or completed action, suit, investigation, arbitration or proceeding, and any appeal thereof, whether civil, criminal, administrative or investigative or any inquiry or investigation, whether conducted by the Company or any other party, that the Indemnitee in good faith believes might lead to the institution of any such action, whether or not instituted prior to the Effective Date.

(j) “ **Reviewing Party** ” means any appropriate person or body consisting of a member or members of the Company’s Board or any other person or body appointed by the Board who is not a party to the particular Proceeding with respect to which the Indemnitee is seeking indemnification. But if there has been a Change in Control (other than a Change in Control which has been approved by a majority of the Board who were directors prior to such a Change in Control), the Reviewing Party will be the Special Independent Counsel.

10. Amendments, Etc . No supplement, modification or amendment of this Agreement will be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement will be deemed or will constitute a waiver of any other provisions hereof (whether or not similar) nor will such waiver constitute a continuing waiver.

11. Subrogation . Except as otherwise provided in Section 19, in the event of payment under this Agreement, the Company will be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who will execute all papers reasonably required and do everything that may be reasonably necessary to secure such rights, including the execution of such documents reasonably necessary to enable the Company effectively to bring suit to enforce such rights. For the avoidance of doubt, any Liabilities incurred by the Indemnitee in complying with this Section 11 will be fully reimbursed by the Company.

12. No Duplication of Payments . Except as otherwise provided in Section 19, the Company will not be liable under this Agreement to make any payment in connection with any claim made against the Indemnitee in connection with any Proceeding to the extent the Indemnitee has otherwise actually received payment (under any insurance policy, provision of a Charter Document or otherwise) of the amounts otherwise indemnifiable hereunder.

13. Not Employment Contract . This Agreement will not be deemed an employment contract between the Company and Indemnitee, and the Company is not be obligated to continue Indemnitee’s corporate status as a director or an officer or any other capacity by reason of this Agreement.

14. Notice . All notices, requests, consents or other communications under this Agreement must be delivered by hand or sent by registered or certified mail, return receipt requested, or by overnight prepaid courier, or by facsimile (receipt confirmed) to:

if to the Company:

VMware, Inc.
3401 Hillview Avenue
Palo Alto, CA 94304
Attention: Office of the General Counsel
Facsimile: 650-475-5101

if to the Indemnitee:

[NAME
ADDRESS]

All such notices, requests, consents and other communications is deemed to have been duly delivered and received three days following the date on which mailed, or one day following the date mailed if sent by overnight courier, or on the date on which delivery by hand or by facsimile transmission.

15. Duration of Agreement . This Agreement is effective as of the earlier of (a) the first day the Indemnitee serves as a director or officer of the Company and (b) the first day the Indemnitee serves at the request of the Company as a director, officer, employee, or agent of another corporation or of a partnership, joint venture, trust or other enterprise, even if such date occurred prior to the date of this Agreement (the “ **Effective Date** ”). The agreements and obligations of the Company contained in this Agreement will continue for so long as Indemnitee may be subject to any possible Proceeding by reason of (or arising in part out of) an Indemnifiable Event.

16. Binding Effect, Etc . This Agreement is effective as of the Effective Date and is binding upon and inures to the benefit of and will be enforceable by the parties hereto and their respective successors, assigns, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company, spouses, heirs, executors and personal and legal representatives, but is not otherwise assignable or delegable by the Company. The Company will require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all, or a substantial part, of the business or assets of the Company, by agreement in form and substance satisfactory to the Indemnitee and his or her counsel, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

17. Severability . The provisions of this Agreement will be severable in the event that any of the provisions hereof (including any provision within a single section, paragraph or sentence) are held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and of the remaining provisions hereof will not be in any way impaired and will remain enforceable to the fullest extent permitted by law.

18. Governing Law . This Agreement is governed by and will be construed and enforced in accordance with the laws of the State of Delaware applicable to contracts made and to be performed in such state without giving effect to the principles of conflicts of laws.

19. Indemnitor of First Resort . The Company hereby acknowledges that a Dell or Silver Lake Indemnitee may have certain rights to indemnification, advancement of expenses or insurance provided by an Indemnitee-Related Entity. The Company hereby agrees that (i) it is the indemnitor of first resort (i.e., its obligations to any Dell or Silver Lake Indemnitee are primary and any obligation of the Indemnitee-Related Entity to advance expenses or to provide indemnification for the same expenses or liabilities incurred by a Dell or Silver Lake Indemnitee are secondary), (ii) it is required to advance the full amount of Expenses incurred by any Dell or Silver Lake Indemnitee and will be liable for the full amount of all Expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the Charter Documents (or any agreement between the Company and indemnitee), without regard to any rights such Dell or Silver Lake Indemnitee may have against the Indemnitee-Related Entity, and (iii) it irrevocably waives, relinquishes and releases the Indemnitee-Related Entity from any and all claims against the Indemnitee-Related Entity for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that no advancement or payment by the Indemnitee-Related Entity on behalf of a Dell or Silver Lake Indemnitee with respect to any claim for which such Indemnitee has sought indemnification from the Company will affect the foregoing, and the indemnitee-Related Entity will have a right of contribution or be subrogated (or both) to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Company.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the date and year first above written.

VMWARE, INC.

By:

Name:

Title:

Date:

By:

Name:

Title:

Date:

Amended and Restated on June 8, 2017

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

Section 1. Purpose of Plan

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

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

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

Section 2. Options to Purchase Stock

Under the Plan, no more than 23,300,000 shares of stock are available for purchase (subject to adjustment as provided in Section 16) pursuant to the exercise of options (“options”) granted under the Plan to employees of the Company (“employees”). All of the shares of stock are available for purchase under the Plan may be used for offerings under the 423 component of the Plan. The stock to be delivered upon exercise of options under the Plan may be either shares of VMware’s authorized but unissued stock, or shares of reacquired stock, as the Board of Directors shall determine.

Section 3. Eligible Employees

Except as otherwise provided in Section 20, each employee who has completed three months or more of continuous service in the employ of the Company, or any lesser number of months established by the Committee (if required under local law), shall be

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

Section 4. Method of Participation

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

Section 5. Contributions

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

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

Section 6. Grant of Options

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

Section 7. Purchase Price

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

Section 8. Exercise of Options

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

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

Section 9. Interest

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

Section 10. Cancellation and Withdrawal

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

Section 11. Termination of Employment

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

Section 12. Death of Participant

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

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

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

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

Section 14. Employment Rights

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

Section 15. Rights as a Shareholder/Use of Funds

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

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

Section 16. Change in Capitalization

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

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

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

Section 17. Administration of Plan

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

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

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

Section 18. Amendment and Termination of Plan

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

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

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

Section 19. Approval of Shareholders

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

Section 20. Limitations

Notwithstanding any other provision of the Plan:

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

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

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

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

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

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

Section 21. Jurisdiction and Governing Law.

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

Section 22. Compliance with Foreign Laws and Regulations.

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

VMware, Inc.
Executive Bonus Program

Executive Bonus Program Objectives

Among the objectives of the VMware Bonus Program are to:

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

Overview

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

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

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

Eligibility

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

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

Administration

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

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

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

Target Percentage

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

Target bonus amounts will be a designated percentage (the “**Target Bonus Percentage**”) of a Participant’s actual annual base salary earned for the Performance Period or for such other period determined by the Committee (the “**Annual Base Salary**”). The Target Bonus Percentage will be determined by the Committee within 90 days of the commencement of the performance period.

The Calculated Bonus Amount, if any, may range 0% to 240% of the Target Bonus Percentage multiplied by the Participant’s Annual Base Salary depending upon performance achievement. Minimum bonus thresholds are described below. For purposes of this calculation, a Participant’s Annual Base Salary shall not exceed 200% of the Participant’s base salary rate as of the date that annual performance targets are approved.

Performance Period

Unless otherwise determined by the Compensation and Corporate Governance Committee, the performance periods for bonuses granted under the Executive Bonus Program shall run for the duration of the Company’s fiscal year (each, a “**Performance Period**”). Participants are rewarded during the period that they are actively employed by VMware.

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

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

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

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

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

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

Performance Metrics

The Calculated Bonus Amount will depend on both a company component (“**Corporate Financial Metric**”) and an individual component (“**MBO**”) selected from the performance goals from the 2007 Plan. The Company must meet a minimum performance threshold established within the Corporate Financial Metric in order for any bonus payouts to be made. If the minimum threshold is not achieved, the Executive Bonus Program shall not be funded and no bonus payouts shall be made. The Corporate Financial Metrics and the relative weighting of the Corporate Financial Metrics and the MBOs shall be determined by the Committee within 90 days of the commencement of the performance period. The MBOs shall be determined by the Committee within 90 days of the commencement of the performance period; provided, however, that if the MBOs are used solely as a factor for the Administrator to consider in determining whether to exercise negative discretion, then they can be established or amended at any time during the performance period.

Corporate Financial Metric Component

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

MBO (Individual) Component

Each Participant will be assigned individual performance goals by the Compensation and Corporate Governance Committee that are appropriate to the Participant’s role at the Company. If the threshold achievement under the Corporate Financial Metric is met, then the MBO component is funded at 1.5 times the Corporate Financial Metric percentage. The Compensation and Corporate Governance Committee can exercise negative discretion to reduce the bonus for the MBO component. In making its determination whether to reduce the bonus for the MBO component, the Committee’s shall review and discuss the Chief Executive Officer’s assessment of each Participant’s achievement of his or her individual performance goals.

Bonus Determination and Payment

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

Cancellation, Rescission and Recoupment of Awards

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

Additionally, the Compensation and Corporate Governance Committee shall have the discretion to require that each Participant reimburse the Company for all or any portion of any bonuses paid under the Executive Bonus Program if –

- (a) the payment was predicated upon the achievement of certain financial results that were subsequently the subject of a material financial restatement,
 - (b) in the Board’s view, the Participant engaged in fraud or misconduct that caused or partially caused the need for a material financial restatement by the Company or any substantial affiliate, and
-

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

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

At-Will Employment (US Only)

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

**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: June 9, 2017

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: June 9, 2017

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 May 5, 2017 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: June 9, 2017

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 May 5, 2017 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: June 9, 2017

By: /s/ Zane Rowe

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