

**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 April 30, 2021

OR

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

For the transition period from _____ to _____

Commission File Number 001-33622

VMWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3292913
(I.R.S. Employer
Identification Number)

3401 Hillview Avenue
Palo Alto, CA
(Address of principal executive offices)

94304
(Zip Code)

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

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

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

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

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

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

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

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

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

As of May 28, 2021, the number of shares of common stock, par value \$0.01 per share, of the registrant outstanding was 418,930,983, of which 111,709,147 shares were Class A common stock and 307,221,836 were Class B common stock.

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

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Revenue ⁽¹⁾ :		
License	\$ 646	\$ 660
Subscription and SaaS	741	572
Services	1,607	1,502
Total revenue	2,994	2,734
Operating expenses ⁽²⁾ :		
Cost of license revenue	37	40
Cost of subscription and SaaS revenue	157	126
Cost of services revenue	337	318
Research and development	708	665
Sales and marketing	959	917
General and administrative	236	246
Realignment	1	4
Operating income	559	418
Investment income	—	5
Interest expense	(50)	(49)
Other income (expense), net	(23)	(6)
Income before income tax	486	368
Income tax provision (benefit)	61	(18)
Net income	\$ 425	\$ 386
Net income per weighted-average share, basic for Classes A and B	\$ 1.01	\$ 0.92
Net income per weighted-average share, diluted for Classes A and B	\$ 1.01	\$ 0.92
Weighted-average shares, basic for Classes A and B	419,116	418,383
Weighted-average shares, diluted for Classes A and B	422,038	421,513
⁽¹⁾ Includes related party revenue as follows (refer to Note C):		
License	\$ 287	\$ 323
Subscription and SaaS	173	115
Services	588	444
⁽²⁾ Includes stock-based compensation as follows:		
Cost of subscription and SaaS revenue	\$ 5	\$ 4
Cost of services revenue	25	22
Research and development	127	125
Sales and marketing	75	72
General and administrative	31	49

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

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Net income	\$ 425	\$ 386
Other comprehensive income (loss):		
Changes in fair value of effective foreign currency forward contracts:		
Unrealized gains (losses), net of tax provision (benefit) of \$— and (\$2)	2	(13)
Foreign currency translation adjustments	—	(1)
Total other comprehensive income (loss)	2	(14)
Comprehensive income, net of taxes	<u>\$ 427</u>	<u>\$ 372</u>

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)

	April 30, 2021	January 29, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,594	\$ 4,692
Short-term investments	120	23
Accounts receivable, net of allowance of \$5 and \$5	1,532	1,929
Due from related parties, net	753	1,438
Other current assets	537	530
Total current assets	8,536	8,612
Property and equipment, net	1,343	1,334
Other assets	2,592	2,697
Deferred tax assets	5,815	5,781
Intangible assets, net	926	993
Goodwill	9,599	9,599
Total assets	\$ 28,811	\$ 29,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 205	\$ 131
Accrued expenses and other	1,810	2,382
Unearned revenue	5,830	5,873
Total current liabilities	7,845	8,386
Note payable to Dell	270	270
Long-term debt	4,719	4,717
Unearned revenue	4,370	4,441
Income tax payable	816	805
Operating lease liabilities	891	891
Other liabilities	447	455
Total liabilities	19,358	19,965
Contingencies (refer to Note D)		
Stockholders' equity:		
Class A common stock, par value \$0.01; authorized 2,500,000 shares; issued and outstanding 111,488 and 112,082 shares	1	1
Class B convertible common stock, par value \$0.01; authorized 1,000,000 shares; issued and outstanding 307,222 shares	3	3
Additional paid-in capital	1,960	1,985
Accumulated other comprehensive loss	(3)	(5)
Retained earnings	7,492	7,067
Total stockholders' equity	9,453	9,051
Total liabilities and stockholders' equity	\$ 28,811	\$ 29,016

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	
	April 30, 2021	May 1, 2020
Operating activities:		
Net income	\$ 425	\$ 386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	269	244
Stock-based compensation	263	272
Deferred income taxes, net	(48)	(98)
Unrealized (gain) loss on equity securities, net	35	(6)
(Gain) loss on disposition of assets, revaluation and impairment, net	1	6
Other	1	(4)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	395	352
Other current assets and other assets	(161)	(171)
Due to/from related parties, net	685	690
Accounts payable	65	(10)
Accrued expenses and other liabilities	(630)	(249)
Income taxes payable	80	15
Unearned revenue	(114)	(53)
Net cash provided by operating activities	1,266	1,374
Investing activities:		
Additions to property and equipment	(70)	(87)
Sales of investments in equity securities	8	—
Purchases of strategic investments	—	(5)
Proceeds from disposition of assets	—	4
Business combinations, net of cash acquired, and purchases of intangible assets	(10)	(38)
Net cash used in investing activities	(72)	(126)
Financing activities:		
Proceeds from issuance of common stock	131	106
Net proceeds from issuance of long-term debt	—	1,984
Repurchase of common stock	(371)	(181)
Shares repurchased for tax withholdings on vesting of restricted stock	(56)	(115)
Principal payments on finance lease obligations	(1)	(1)
Net cash provided by (used in) financing activities	(297)	1,793
Effect of exchange rate changes on cash, cash equivalents and restricted cash	—	(1)
Net increase in cash, cash equivalents and restricted cash	897	3,040
Cash, cash equivalents and restricted cash at beginning of the period	4,770	3,031
Cash, cash equivalents and restricted cash at end of the period	\$ 5,667	\$ 6,071
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 46	\$ 74
Cash paid for taxes, net	38	76
Non-cash items:		
Changes in capital additions, accrued but not paid	\$ 3	\$ (7)

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

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

Three Months Ended April 30, 2021

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Balance, January 29, 2021	112	\$ 1	307	\$ 3	\$ 1,985	\$ 7,067	\$ (5)	\$ 9,051
Proceeds from issuance of common stock	1	—	—	—	131	—	—	131
Purchase and retirement of common stock	(3)	—	—	—	(371)	—	—	(371)
Issuance of restricted stock	1	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	—	—	—	—	(52)	—	—	(52)
Stock-based compensation	—	—	—	—	267	—	—	267
Total other comprehensive income (loss)	—	—	—	—	—	—	2	2
Net income	—	—	—	—	—	425	—	425
Balance, April 30, 2021	111	\$ 1	307	\$ 3	\$ 1,960	\$ 7,492	\$ (3)	\$ 9,453

Three Months Ended May 1, 2020

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
	Shares	Par Value	Shares	Par Value				
Balance, January 31, 2020	110	\$ 1	307	\$ 3	\$ 2,000	\$ 5,009	\$ (4)	\$ 7,009
Proceeds from issuance of common stock	1	—	—	—	110	—	—	110
Purchase and retirement of common stock	(2)	—	—	—	(181)	—	—	(181)
Issuance of restricted stock	3	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	—	—	—	—	(154)	—	—	(154)
Stock-based compensation	—	—	—	—	272	—	—	272
Total other comprehensive income (loss)	—	—	—	—	—	—	(14)	(14)
Net income	—	—	—	—	—	386	—	386
Balance, May 1, 2020	112	\$ 1	307	\$ 3	\$ 2,047	\$ 5,395	\$ (18)	\$ 7,428

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

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

A. Overview and Basis of Presentation

Company and Background

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

Accounting Principles

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

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 2022. Certain information and footnote disclosures typically included in annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in VMware’s Annual Report on Form 10-K filed on March 26, 2021.

Effective September 7, 2016, Dell Technologies Inc. (“Dell”) (formerly Denali Holding Inc.) acquired EMC Corporation (“EMC”), VMware’s parent company, including EMC’s majority control of VMware. As of April 30, 2021, Dell controlled 80.7% of VMware’s outstanding common stock and 97.5% of the combined voting power of VMware’s outstanding common stock, including 31 million shares of VMware’s Class A common stock and all of VMware’s Class B common stock.

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

On April 14, 2021, VMware and Dell entered into a Separation and Distribution Agreement, pursuant to which, subject to the satisfaction of all closing conditions, Dell will distribute the shares of Class A Stock and Class B Stock owned by its wholly owned subsidiaries, to the holders of shares of Dell as of a record date determined pursuant to the Separation and Distribution Agreement on a pro rata basis (the “Spin-Off”). Immediately following, and automatically as a result of the Spin-Off, and prior to receipt thereof by Dell’s stockholders, each share of Class B Stock will automatically convert into one fully paid and non-assessable share of Class A Stock. Subject to the various conditions, VMware will also pay a cash dividend, pro rata, to each of the holders of Common Stock (including Dell) immediately prior to the Spin-Off in an aggregate amount equal to an amount to be mutually agreed by Dell and VMware between \$11.5 billion and \$12.0 billion (the “Special Dividend”). As a result of the Spin-Off, Michael Dell, chairman and chief executive officer of Dell, and Silver Lake Partners, of which Egon Durban, a VMware director, is a managing partner, will own direct interests in VMware. Dell would receive approximately \$9.3 billion to \$9.7 billion in cash based on Dell’s current 80.7% ownership in VMware as of April 30, 2021. VMware expects to fund the Special Dividend, in part, through the incurrence of new indebtedness. The Spin-Off is expected to close during the fourth quarter of calendar 2021, subject to certain closing conditions, including receipt of a favorable Internal Revenue Service (“IRS”) ruling that the distribution of shares to Dell and its stockholders will qualify as generally tax-free for U.S. federal income tax purposes.

Management believes the assumptions underlying the condensed consolidated financial statements are reasonable. However, the amounts recorded for VMware’s related party transactions with Dell and its consolidated subsidiaries may not be considered arm’s length with an unrelated third party. Therefore, the condensed consolidated financial statements included herein may not necessarily reflect the results of operations, financial position and cash flows had VMware engaged in such

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

transactions with an unrelated third party during all periods presented. Accordingly, VMware's historical financial information is not necessarily indicative of what the Company's results of operations, financial position and cash flows will be in the future, if and when VMware contracts at arm's length with unrelated third parties for products and services the Company receives from and provides to Dell.

Principles of Consolidation

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

Use of Accounting Estimates

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

Recently Adopted Accounting Standards

Effective January 30, 2021, VMware adopted, on a modified retrospective basis, Accounting Standards Update ("ASU") No. 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. This update simplifies the accounting for convertible instruments and contracts in an entity's own equity and amends the diluted earnings per share guidance for greater consistency within the standard. The standard did not have an impact on the Company's condensed consolidated financial statements during the three months ended April 30, 2021.

Effective January 30, 2021, VMware adopted ASU No. 2019-12, Income Taxes (Topic 740), simplifying the accounting for income taxes. The standard did not have a material impact on the Company's condensed consolidated financial statements.

B. Revenue, Unearned Revenue and Remaining Performance Obligations

Revenue

Contract Assets

A contract asset is recognized when a conditional right to consideration exists and transfer of control has occurred. Contract assets include fixed fee professional services where transfer of services has occurred in advance of the Company's right to invoice. Contract assets are classified as accounts receivables upon invoicing. Contract assets are included in other current assets on the condensed consolidated balance sheets. Contract assets were \$40 million and \$43 million as of April 30, 2021 and January 29, 2021, respectively. Contract asset balances will fluctuate based upon the timing of the transfer of services, billings and customers' acceptance of contractual milestones.

Contract Liabilities

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

Customer Deposits

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

As of April 30, 2021, customer deposits related to customer prepayments and cloud credits of \$283 million were included in accrued expenses and other, and \$155 million were included in other liabilities on the condensed consolidated balance sheets.

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

As of January 29, 2021, customer deposits related to customer prepayments and cloud credits of \$294 million were included in accrued expenses and other, and \$163 million were included in other liabilities on the condensed consolidated balance sheets.

Deferred Commissions

Deferred commissions are classified as current or non-current based on the duration of the expected period of benefit. Deferred commissions, including the employer portion of payroll taxes, included in other current assets as of April 30, 2021 and January 29, 2021 were \$20 million and \$31 million, respectively. Deferred commissions included in other assets were \$1.1 billion and \$1.1 billion as of April 30, 2021 and January 29, 2021, respectively.

Amortization expense for deferred commissions was included in sales and marketing on the condensed consolidated statements of income and was \$125 million and \$100 million during the three months ended April 30, 2021 and May 1, 2020, respectively.

Unearned Revenue

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

	April 30, 2021	January 29, 2021
Unearned license revenue	\$ 16	\$ 15
Unearned subscription and SaaS revenue	2,064	1,998
Unearned software maintenance revenue	6,957	7,092
Unearned professional services revenue	1,163	1,209
Total unearned revenue	\$ 10,200	\$ 10,314

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

Unearned software maintenance revenue is attributable to VMware's maintenance contracts and is generally recognized ratably over the contract duration. The weighted-average remaining contractual term as of April 30, 2021 was approximately two years. Unearned professional services revenue results primarily from prepaid professional services and is generally recognized as the services are performed.

Total billings and revenue recognized during the three months ended April 30, 2021 were \$1.9 billion and \$2.0 billion, respectively, and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses.

Revenue recognized during the three months ended May 1, 2020 was \$1.8 billion and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses.

Remaining Performance Obligations

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

As of April 30, 2021, the aggregate transaction price allocated to remaining performance obligations was \$11.0 billion, of which approximately 56% is expected to be recognized as revenue over the next twelve months and the remainder thereafter. As of January 29, 2021, the aggregate transaction price allocated to remaining performance obligations was \$11.3 billion, of which approximately 55% was expected to be recognized as revenue during fiscal 2022, and the remainder thereafter.

C. Related Parties

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

Transactions with Dell

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

- Pursuant to original equipment manufacturer ("OEM") and reseller arrangements, Dell integrates or bundles VMware's products and services with Dell's products and sells them to end users. Dell also acts as a distributor,

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

purchasing VMware's standalone products and services for resale to end-user customers through VMware-authorized resellers. Revenue under these arrangements is presented net of related marketing development funds and rebates paid to Dell. In addition, VMware provides professional services to end users based upon contractual agreements with Dell.

- Dell purchases products and services from VMware for its internal use.
- From time to time, VMware and Dell enter into agreements to collaborate on technology projects, and Dell pays VMware for services or reimburses VMware for costs incurred by VMware, in connection with such projects.

During the three months ended April 30, 2021 and May 1, 2020, revenue from Dell accounted for 35% and 32% of VMware's consolidated revenue, respectively. During the three months ended April 30, 2021 and May 1, 2020, revenue recognized on transactions where Dell acted as an OEM accounted for 13% and 12% of total revenue from Dell, respectively, or 5% and 4% of VMware's consolidated revenue, respectively.

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

	Revenue and Receipts		Unearned Revenue	
	Three Months Ended		As of	
	April 30, 2021	May 1, 2020	April 30, 2021	January 29, 2021
Reseller revenue	\$ 1,036	\$ 864	\$ 4,928	\$ 4,952
Internal-use revenue	12	18	42	45

Receipts from Dell for collaborative technology projects were not material during the three months ended April 30, 2021 and May 1, 2020.

Customer deposits resulting from transactions with Dell were \$209 million and \$214 million as of April 30, 2021 and January 29, 2021, respectively.

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

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

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

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Purchases and leases of products and purchases of services ⁽¹⁾	\$ 47	\$ 44
Dell subsidiary support and administrative costs	13	27

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

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

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

In connection with and subject to the consummation of the Spin-Off, VMware and Dell have agreed to enter into a commercial agreement that is intended to preserve and enhance the Company's strategic partnership with Dell to deliver joint customer value and a transition services agreement to facilitate the transactions and the operation of the Company and Dell following the Spin-Off.

Dell Financial Services ("DFS")

DFS provided financing to certain of VMware's end users at the end users' discretion. Upon acceptance of the financing arrangement by both VMware's end users and DFS, amounts classified as trade accounts receivable are reclassified to due from related parties, net on the condensed consolidated balance sheets. Revenue recognized on transactions financed through DFS was recorded net of financing fees. Financing fees on arrangements accepted by both parties were not significant during the three months ended April 30, 2021 and were \$13 million during the three months ended May 1, 2020.

Tax Agreements with Dell

In connection with the Spin-Off and concurrently with the execution of the Separation and Distribution Agreement, effective as of April 14, 2021, VMware and Dell entered into a Tax Matters Agreement (the "Tax Matters Agreement") and agreed to terminate the tax sharing agreement as amended on December 30, 2019 (together, the "Tax Agreements"). The Tax Matters Agreement governs the Company's and Dell's respective rights and obligations, both for pre-Spin-Off periods and post-Spin-Off periods, regarding income and other taxes, and related matters, including tax liabilities and benefits, attributes and returns.

Payments received from and made to Dell pursuant to the Tax Agreements were \$45 million and \$12 million, respectively, during the three months ended April 30, 2021 and payments made to Dell pursuant to the Tax Agreements during the three months ended May 1, 2020 were \$25 million.

Payments from VMware to Dell under the Tax Agreements relate to VMware's portion of federal income taxes on Dell's consolidated tax return as well as state tax payments for combined states. The timing of the tax payments due to and from related parties is governed by the Tax Agreements. VMware's portion of the mandatory one-time transition tax on accumulated earnings of foreign subsidiaries (the "Transition Tax") is governed by a letter agreement between Dell, EMC and VMware executed on April 1, 2019 (the "Letter Agreement"). VMware's 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 VMware's payments to Dell generally are capped at the amount that VMware would have paid on a separate tax return basis. The difference between the amount of tax calculated on a separate tax return basis and the amount of tax calculated pursuant to the Tax Agreements that was recorded in additional paid-in capital was not significant during each of the three months ended April 30, 2021 and May 1, 2020.

As a result of the activity under the Tax Agreements with Dell, amounts due to Dell were \$523 million and \$451 million as of April 30, 2021 and January 29, 2021, respectively, primarily related to VMware's estimated tax obligation resulting from the Transition Tax. The 2017 Tax Act included a deferral election for an eight-year installment payment method on the Transition Tax. The Company expects to pay the remainder of its Transition Tax over a period of five years.

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Pivotal Tax Sharing Agreement with Dell

During the fourth quarter of fiscal 2020, VMware completed the acquisition of Pivotal. Pivotal continues to file its separate tax return for U.S. federal income tax purposes as it left the Dell consolidated tax group at the time of Pivotal's IPO in April 2018. Pivotal continues to be included on Dell's unitary state tax returns. Pursuant to a tax sharing agreement, Pivotal historically received payments from Dell for tax benefits that Dell realized due to Pivotal's inclusion on such returns. There were no payments received from Dell during the three months ended April 30, 2021 and May 1, 2020.

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):

	April 30, 2021	January 29, 2021
Due from related parties, current	\$ 848	\$ 1,558
Due to related parties, current ⁽¹⁾	95	120
Due from related parties, net, current	\$ 753	\$ 1,438

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

The Company also recognized an immaterial amount related to non-current operating lease liabilities due to related parties. This amount has been included in operating lease liabilities on the condensed consolidated balance sheets as of April 30, 2021 and January 29, 2021.

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

Notes Payable to Dell

As of April 30, 2021 and January 29, 2021, VMware had an outstanding promissory note payable to Dell in the principal amount of \$270 million due December 1, 2022. The note may be prepaid without penalty or premium. Interest is payable quarterly in arrears at the annual rate of 1.75%. During each of the three months ended April 30, 2021 and May 1, 2020, interest expense on the notes payable to Dell was not significant.

D. Commitments and Contingencies**Litigation**

On March 5, 2020, two purported Pivotal stockholders filed a petition for appraisal in the Delaware Court of Chancery (the "Court") seeking a judicial determination of the fair value of an aggregate total of 10,000,100 Pivotal shares (the "Appraisal Action"). Separately, on June 4, 2020, purported Pivotal stockholder Kenia Lopez filed a lawsuit in the Court against Dell, VMware, Michael Dell, Robert Mee, and Cynthia Gaylor (the "Lopez Action"), which alleges breach of fiduciary duty and aiding and abetting, all tied to VMware's acquisition of Pivotal. On July 16, 2020, purported Pivotal stockholder Stephanie Howarth filed a similar lawsuit against the same defendants asserting similar claims (the "Howarth Action"). On August 14, 2020, the Court entered an order consolidating the Appraisal Action, the Lopez Action, and the Howarth Action into a single action (the "Consolidated Action") for all purposes including pretrial discovery and trial. The Court has not yet issued a scheduling order for the Consolidated Action, but the parties have moved forward with pretrial discovery. On June 23, 2020, the Company made a payment of \$91 million to the petitioners in the Appraisal Action, which reduces the Company's exposure to accumulating interest. In addition, on September 23, 2020, the Company filed a motion to dismiss the claims asserted in the Lopez Action and the Howarth Action. A hearing on this motion occurred on April 27, 2021, but the Court has not yet issued its ruling. The Company is unable at this time to assess whether or to what extent it may be found liable and, if found liable, what the damages may be, and believes a loss is not probable and reasonably estimable. The Company intends to vigorously defend itself in connection with this matter.

On April 25, 2019, Cirba Inc. and Cirba IP, Inc. (collectively, "Cirba") sued VMware in the United States District Court for the District of Delaware (the "Delaware Court") for allegedly infringing two patents and three trademarks ("First Action"). After an August 6, 2019 hearing, the Delaware Court denied Cirba's preliminary injunction motion. On August 20, 2019, VMware filed counterclaims against Cirba for infringing four VMware patents. The Delaware Court severed VMware's patent infringement counterclaims from Cirba's claims. On January 24, 2020, a jury returned a verdict that VMware had willfully infringed Cirba's two patents and awarded approximately \$237 million in damages. As to Cirba's trademark-related claims, the

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jury found that VMware was not liable. A total of \$237 million was accrued for the First Action as of January 31, 2020, which reflected the estimated losses that were considered both probable and reasonably estimable at that time. The amount accrued for this matter was included in accrued expenses and other on the consolidated balance sheet as of January 31, 2020 and the charge was included in general and administrative expense on the consolidated statement of income for the year ended January 31, 2020. On March 9, 2020, the parties filed post-trial motions in the First Action. On December 21, 2020, the Delaware Court granted VMware's request for a new trial based, in part, on Cirba Inc.'s lack of standing, set aside the verdict and damages award, and denied Cirba's post-trial motions (the "Post-Trial Order"). On October 22, 2019, VMware filed a separate lawsuit against Cirba Inc. in the United States District Court for the Eastern District of Virginia for infringing four additional VMware patents ("Second Action"). The Second Action was transferred to the Delaware Court on February 25, 2020. On March 23, 2020, Cirba filed a counterclaim against VMware in the Second Action alleging infringement of an additional Cirba patent. The Delaware Court consolidated the First and Second Actions and ordered a consolidated trial on all of the parties' patent infringement claims and counterclaims. On January 20, 2021, Cirba moved to certify the Post-Trial Order to enable an interlocutory appeal to the United States Court of Appeals for the Federal Circuit, and on May 3, 2021 the Court denied Cirba's motion. Also, on May 3, 2021, the Court granted Cirba's motion for leave to assert an additional patent against VMware. Separately, in February 2021, the U.S. Patent and Trademark Office ("PTO") granted VMware's *ex parte* reexamination request as to the '687 patent (which was at issue in the January 2020 trial and subject to the Court's new trial order). In addition, in May 2021, the PTO's Patent Trial and Appeal Board instituted *Inter Partes* Review ("IPR") of the '492 patent in response to VMware's IPR petition. As of January 29, 2021, the Company reassessed its estimated loss accrual for the First Action based on the Post-Trial Order and determined that a loss was no longer probable and reasonably estimable with respect to the consolidated First and Second Actions. Accordingly, the estimated loss accrual of \$237 million recorded on the consolidated balance sheet was derecognized, with the credit included in general and administrative expense on the consolidated income statement for the year ended January 29, 2021. The Company is unable at this time to assess whether, or to what extent, it may be found liable and, if found liable, what the damages may be. The Company intends to vigorously defend against this matter.

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

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

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

VMware is also subject to other legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business or in connection with business mergers and acquisitions, including claims with respect to commercial, contracting and sales practices, product liability, intellectual property, employment, corporate and securities law, class action, whistleblower and other matters. From time to time, VMware also receives inquiries from and has discussions with government entities and stockholders on various matters. As of April 30, 2021, amounts accrued relating to these other matters arising as part of the ordinary course of business were considered not material. VMware does not believe that any liability from any reasonably possible disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on its consolidated financial statements.

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E. Definite-Lived Intangible Assets, Net

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

	April 30, 2021			
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5.3	\$ 958	\$ (505)	\$ 453
Customer relationships and customer lists	11.5	726	(305)	421
Trademarks and tradenames	7.6	132	(83)	49
Other	2.0	21	(18)	3
Total definite-lived intangible assets		\$ 1,837	\$ (911)	\$ 926

	January 29, 2021			
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5.3	\$ 948	\$ (462)	\$ 486
Customer relationships and customer lists	11.4	727	(281)	446
Trademarks and tradenames	7.6	132	(78)	54
Other	2.0	21	(14)	7
Total definite-lived intangible assets		\$ 1,828	\$ (835)	\$ 993

Amortization expense on definite-lived intangible assets was \$77 million and \$80 million during the three months ended April 30, 2021 and May 1, 2020, respectively.

Based on intangible assets recorded as of April 30, 2021 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 2022	\$ 224
2023	251
2024	199
2025	106
2026	66
Thereafter	80
Total	\$ 926

F. Net Income Per Share

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

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Net income attributable to VMware, Inc.	\$ 425	\$ 386
Weighted-average shares, basic for Classes A and B	419,116	418,383
Effect of other dilutive securities	2,922	3,130
Weighted-average shares, diluted for Classes A and B	<u>422,038</u>	<u>421,513</u>
Net income per weighted-average share, basic for Classes A and B	\$ 1.01	\$ 0.92
Net income per weighted-average share, diluted for Classes A and B	\$ 1.01	\$ 0.92

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Anti-dilutive securities:		
Employee stock options	40	550
Restricted stock units	513	6,167
Total	<u>553</u>	<u>6,717</u>

G. Cash, Cash Equivalents, Restricted Cash and Short-Term Investments

Cash and Cash Equivalents

Cash and cash equivalents totaled \$5.6 billion and \$4.7 billion as of April 30, 2021 and January 29, 2021, respectively. Cash equivalents were \$4.8 billion as of April 30, 2021 and consisted of money-market funds of \$4.7 billion and time deposits of \$89 million. Cash equivalents were \$3.8 billion as of January 29, 2021 and consisted of money-market funds of \$3.7 billion and time deposits of \$102 million.

Restricted Cash

The following table provides a reconciliation of the Company's cash and cash equivalents, and current and non-current portion of restricted cash reported on the condensed consolidated balance sheets that sum to the total cash, cash equivalents and restricted cash as of April 30, 2021 and January 29, 2021 (table in millions):

	April 30, 2021	January 29, 2021
Cash and cash equivalents	\$ 5,594	\$ 4,692
Restricted cash within other current assets	58	56
Restricted cash within other assets	15	22
Total cash, cash equivalents and restricted cash	<u>\$ 5,667</u>	<u>\$ 4,770</u>

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

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Short-Term Investments

Short-term investments totaled \$120 million and \$23 million as of April 30, 2021 and January 29, 2021, respectively, and consisted of marketable equity securities. Short-term investments as of April 30, 2021 consisted of marketable equity securities that were previously subject to a certain sale restriction and therefore were classified as other assets on the condensed consolidated balance sheet as of January 29, 2021. Refer to Note I for more information regarding the Company's marketable equity securities.

H. Debt**Unsecured Senior Notes**

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

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

	April 30, 2021	January 29, 2021	Effective Interest Rate
Senior Notes issued August 21, 2017:			
2.95% Senior Note Due August 21, 2022	\$ 1,500	\$ 1,500	3.17%
3.90% Senior Note Due August 21, 2027	1,250	1,250	4.05%
Senior Notes issued April 7, 2020:			
4.50% Senior Note Due May 15, 2025	750	750	4.70%
4.65% Senior Note Due May 15, 2027	500	500	4.80%
4.70% Senior Note Due May 15, 2030	750	750	4.86%
Total principal amount	4,750	4,750	
Less: unamortized discount	(6)	(7)	
Less: unamortized debt issuance costs	(25)	(26)	
Net carrying amount included in long-term debt	<u>\$ 4,719</u>	<u>\$ 4,717</u>	

Interest on the Senior Notes issued on April 7, 2020 is payable semiannually in arrears, on May 15 and November 15 of each year, beginning November 15, 2020. The interest rate on each note issued on April 7, 2020 is subject to adjustment based on certain rating events. Interest on the Senior Notes issued on August 21, 2017 is payable semiannually in arrears, on February 21 and August 21 of each year. Interest expense was \$48 million and \$39 million during the three months ended April 30, 2021 and May 1, 2020, respectively. Interest expense, which included amortization of discount and issuance costs, was recognized on the condensed consolidated statements of income. The discount and issuance costs are amortized over the term of the Senior Notes on a straight-line basis, which approximates the effective interest method.

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

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

Revolving Credit Facility

On September 12, 2017, VMware entered into an unsecured credit agreement establishing a revolving credit facility with a syndicate of lenders that provides the Company with a borrowing capacity of up to \$1.0 billion for general corporate purposes. Commitments under the revolving credit facility are available for a period of five years, which may be extended, subject to the satisfaction of certain conditions, by up to two one-year periods. As of April 30, 2021 and January 29, 2021, there was no outstanding borrowing under the revolving credit facility. The credit agreement contains certain representations, warranties and

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covenants. Commitment fees, interest rates and other terms of borrowing under the revolving credit facility may vary based on VMware's external credit ratings. The amount paid in connection with the ongoing commitment fee, which is payable quarterly in arrears, was not significant during the three months ended April 30, 2021 and May 1, 2020.

I. Fair Value Measurements

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

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

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

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

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

	April 30, 2021		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 4,725	\$ —	\$ 4,725
Time deposits ⁽¹⁾	—	89	89
Total cash equivalents	\$ 4,725	\$ 89	\$ 4,814
Short-term investments:			
Marketable equity securities	\$ 120	\$ —	\$ 120
Total short-term investments	\$ 120	\$ —	\$ 120

	January 29, 2021		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	\$ 3,738	\$ —	\$ 3,738
Time deposits ⁽¹⁾	—	102	102
Total cash equivalents	\$ 3,738	\$ 102	\$ 3,840
Short-term investments:			
Marketable equity securities	\$ 23	\$ —	\$ 23
Total short-term investments	\$ 23	\$ —	\$ 23

⁽¹⁾ Time deposits were valued at amortized cost, which approximated fair value.

The note payable to Dell and the Senior Notes were not adjusted to fair value. The fair value of the note payable to Dell was \$275 million and \$276 million as of April 30, 2021 and January 29, 2021, respectively. The fair value of the Senior Notes was approximately \$5.2 billion and \$5.3 billion as of April 30, 2021 and January 29, 2021, respectively. Fair value for the note payable to Dell and the Senior Notes was estimated primarily based on observable market interest rates (Level 2 inputs).

VMware offers a deferred compensation plan for eligible employees, which allows participants to defer payment for part or all of their compensation. There is no net impact to the condensed consolidated statements of income since changes in the fair value of the assets offset changes in the fair value of the liabilities. As such, assets and liabilities associated with this plan have not been included in the above tables. Assets associated with this plan were the same as the liabilities at \$167 million and

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\$140 million as of April 30, 2021 and January 29, 2021, respectively, and were included in other assets and other liabilities on the condensed consolidated balance sheets, respectively.

Equity Securities With a Readily Determinable Fair Value

VMware's equity securities include an investment in a company that completed its initial public offering during the third quarter of fiscal 2021. The fair value of the investment is based on quoted prices for identical assets in an active market (Level 1). As of January 29, 2021, this investment had a fair value of \$162 million, of which \$139 million was included in other assets on the condensed consolidated balance sheet due to a certain sale restriction and \$23 million was included in short-term investments as they were unrestricted and available for sale. The sale restriction lapsed for the remaining shares during the three months ended April 30, 2021. As of April 30, 2021, the fair value of the investment was \$120 million and was included in short-term investments on the condensed consolidated balance sheet. During the three months ended April 30, 2021, VMware recognized unrealized losses of \$33 million on the investment. All gains and losses, whether realized or unrealized, are recognized in other income (expense), net on the condensed consolidated statements of income.

Equity Securities Without a Readily Determinable Fair Value

VMware's equity securities also include investments in privately held companies, which do not have a readily determinable fair value. As of April 30, 2021 and January 29, 2021, investments in privately held companies, which consisted primarily of equity securities, had a carrying value of \$128 million and \$129 million, respectively, and were included in other assets on the condensed consolidated balance sheets. Unrealized gains and losses recognized during the three months ended April 30, 2021 and May 1, 2020 were not significant. All gains and losses on these securities, whether realized or unrealized, are recognized in other income (expense), net on the condensed consolidated statements of income.

J. Derivatives and Hedging Activities

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

Cash Flow Hedges

To mitigate its exposure to foreign currency fluctuations resulting from certain operating expenses denominated in certain foreign currencies, VMware enters into forward contracts that are designated as cash flow hedging instruments as the accounting criteria for such designation are met. Therefore, the effective portion of gains or losses resulting from changes in the fair value of these instruments is initially reported in accumulated other comprehensive loss on the condensed consolidated balance sheets and is subsequently reclassified to the related operating expense line item on the condensed consolidated statements of income in the same period that the underlying expenses are incurred. During the three months ended April 30, 2021 and May 1, 2020, the effective portion of gains or losses reclassified to the condensed consolidated statements of income was not significant. Interest charges or forward points on VMware's forward contracts were excluded from the assessment of hedge effectiveness and were recorded to the related operating expense line item on the condensed consolidated statements of income in the same period that the interest charges are incurred.

These forward contracts have contractual maturities of twelve months or less, and as of April 30, 2021 and January 29, 2021, outstanding forward contracts had a total notional value of \$374 million and \$486 million, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. The fair value of these forward contracts was not significant as of April 30, 2021 and January 29, 2021.

During the three months ended April 30, 2021 and May 1, 2020, all cash flow hedges were considered effective.

Forward Contracts Not Designated as Hedges

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

These forward contracts generally have a contractual maturity of one month, and as of April 30, 2021 and January 29, 2021, outstanding forward contracts had a total notional value of \$907 million and \$1.2 billion, respectively. The notional value

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represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. The fair value of these forward contracts was not significant as of April 30, 2021 and January 29, 2021.

Gains related to the settlement of forward contracts were not significant during the three months ended April 30, 2021, and were \$15 million during the three months ended May 1, 2020. Gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

The combined gains and losses related to the settlement of forward contracts and the underlying foreign currency denominated assets and liabilities were not significant during the three months ended April 30, 2021 and May 1, 2020. Net gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

K. Leases

VMware has operating and finance leases primarily related to office facilities and equipment, which have remaining lease terms of one month to 25 years.

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Operating lease expense	\$ 49	\$ 46
Finance lease expense:		
Amortization of right-of-use (“ROU”) assets	2	2
Short-term lease expense	—	1
Variable lease expense	7	8
Total lease expense	<u>\$ 58</u>	<u>\$ 57</u>

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

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

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 44	\$ 43
Financing cash flows from finance leases	1	1
ROU assets obtained in exchange for lease liabilities:		
Operating leases	\$ 44	\$ 74
Finance leases	—	1

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

	April 30, 2021	
	Operating Leases	Finance Leases
ROU assets, non-current ⁽¹⁾	\$ 1,001	\$ 51
Lease liabilities, current ⁽²⁾	\$ 115	\$ 5
Lease liabilities, non-current ⁽³⁾	891	48
Total lease liabilities	\$ 1,006	\$ 53
	January 29, 2021	
	Operating Leases	Finance Leases
ROU assets, non-current ⁽¹⁾	\$ 997	\$ 53
Lease liabilities, current ⁽²⁾	\$ 109	\$ 5
Lease liabilities, non-current ⁽³⁾	891	50
Total lease liabilities	\$ 1,000	\$ 55

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

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

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

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

	April 30, 2021	January 29, 2021
Weighted-average remaining lease term (in years)		
Operating leases	12.4	12.6
Finance leases	8.0	8.3
Weighted-average discount rate		
Operating leases	3.4 %	3.5 %
Finance leases	2.9 %	2.9 %

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

	April 30, 2021	
	Operating Leases	Finance Leases
Remainder of 2022	\$ 105	\$ 5
2023	171	7
2024	141	7
2025	109	6
2026	92	7
Thereafter	669	27
Total future minimum lease payments	1,287	59
Less: Imputed interest	(281)	(6)
Total lease liabilities ⁽¹⁾	<u>\$ 1,006</u>	<u>\$ 53</u>

⁽¹⁾ Total lease liabilities as of April 30, 2021 excluded legally binding lease payments for leases signed but not yet commenced of \$96 million.

L. Stockholders' Equity

VMware Stock Repurchases

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

During May 2019, VMware's board of directors authorized the repurchase of up to \$1.5 billion of Class A common stock through January 29, 2021. During July 2020, VMware's board of directors extended authorization of the existing stock repurchase program through January 28, 2022 and authorized the repurchase of up to an additional \$1.0 billion of Class A common stock through January 28, 2022. As of April 30, 2021, the cumulative authorized amount remaining for stock repurchases was \$684 million.

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Aggregate purchase price ⁽¹⁾	\$ 371	\$ 181
Class A common stock repurchased	2,500	1,540
Weighted-average price per share	\$ 148.42	\$ 117.52

VMware Restricted Stock

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

VMware's restricted stock also includes PSU awards granted to certain VMware executives and employees. PSU awards have performance conditions and, in certain cases, a time-based or market-based vesting component. Upon vesting, PSU awards convert into VMware's Class A common stock at various ratios ranging from 0.4 to 2.0 shares per PSU, depending upon the degree of achievement of the performance or market-based target designated by each award. If minimum performance thresholds are not achieved, then no shares are issued.

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

The following table summarizes restricted stock activity since January 29, 2021 (units in thousands):

	VMware RSUs	
	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Outstanding, January 29, 2021	17,790	\$ 147.46
Granted	1,126	124.52
Vested	(874)	133.62
Forfeited	(960)	106.12
Outstanding, April 30, 2021	<u>17,082</u>	<u>147.96</u>

The aggregate vesting date fair value of VMware's restricted stock that vested during the three months ended April 30, 2021 was \$128 million. As of April 30, 2021, restricted stock representing 17.1 million shares of VMware's Class A common stock were outstanding, with an aggregate intrinsic value of \$2.7 billion based on VMware's closing stock price as of April 30, 2021.

Net Excess Tax Benefits

Net excess tax benefits recognized in connection with stock-based awards are included in income tax provision (benefit) on the condensed consolidated statements of income. Net excess tax benefits recognized during the three months ended April 30, 2021 was not material and was \$13 million during the three months ended May 1, 2020.

Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gain (Loss) on Forward Contracts	Foreign Currency Translation Adjustments	Total
Balance, January 29, 2021	\$ (1)	\$ (4)	\$ (5)
Unrealized gains (losses), net of tax provision (benefit) of \$—, \$—, and \$—	2	—	2
Other comprehensive income (loss), net	2	—	2
Balance, April 30, 2021	<u>\$ 1</u>	<u>\$ (4)</u>	<u>\$ (3)</u>

	Unrealized Gain (Loss) on Forward Contracts	Foreign Currency Translation Adjustments	Total
Balance, January 31, 2020	\$ —	\$ (4)	\$ (4)
Unrealized gains (losses), net of tax provision (benefit) of (\$2), \$— and (\$2)	(13)	—	(13)
Foreign currency translation adjustments	—	(1)	(1)
Other comprehensive income (loss), net	(13)	(1)	(14)
Balance, May 1, 2020	<u>\$ (13)</u>	<u>\$ (5)</u>	<u>\$ (18)</u>

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

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

M. Segment Information

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

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Revenue:		
License	\$ 646	\$ 660
Subscription and SaaS	741	572
Total license and subscription and SaaS	1,387	1,232
Services:		
Software maintenance	1,321	1,245
Professional services	286	257
Total services	1,607	1,502
Total revenue	\$ 2,994	\$ 2,734

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
United States	\$ 1,466	\$ 1,363
International	1,528	1,371
Total	\$ 2,994	\$ 2,734

Revenue by geographic area is based on the ship-to addresses of VMware's customers. No individual country other than the U.S. accounted for 10% or more of revenue during the three months ended April 30, 2021 and May 1, 2020.

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

	April 30, 2021	January 29, 2021
United States	\$ 852	\$ 864
International	244	241
Total	\$ 1,096	\$ 1,105

As of April 30, 2021 and January 29, 2021, the U.S. and India accounted for approximately 80% and 10% of these assets, respectively.

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

The following management's discussion and analysis is provided in addition to the accompanying condensed consolidated financial statements and notes to assist in understanding our results of operations and financial condition. Financial information as of April 30, 2021 should be read in conjunction with our consolidated financial statements for the year ended January 29, 2021 contained in our Annual Report on Form 10-K filed on March 26, 2021.

Period-over-period changes are calculated based upon the respective underlying non-rounded data. We refer to our fiscal years ended January 28, 2022 and January 29, 2021 as "fiscal 2022" and "fiscal 2021," respectively. Unless the context requires otherwise, we are referring to VMware, Inc. and its consolidated subsidiaries when we use the terms "VMware," the "Company," "we," "our" or "us."

Overview

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

Our portfolio supports and addresses the key priorities of our customers including accelerating their cloud journey, migrating and modernizing their applications, empowering digital workspaces, transforming networking and embracing intrinsic security. We enable customers to digitally transform their operations as they ready their applications, infrastructure and employees for constantly evolving business needs.

We sell our solutions using enterprise agreements ("EAs") or as part of our non-EA, or transactional, business. EAs are comprehensive offerings that may include license and subscription and SaaS, 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 resulting in additional sales of both our existing and newer products and solutions.

Our vSphere and vRealize Cloud Management products form the foundation of our customers' private cloud environments and provide the capabilities for our customers to extend their private cloud to the public cloud and to help them run, manage, secure and connect all their applications across all clouds and devices. During the three months ended April 30, 2021, we saw a decline in our on-premises license sales as customers transition to our subscription and SaaS offerings.

During the three months ended April 30, 2021, revenue growth in our subscription and SaaS offerings was primarily driven by our VMware Cloud Provider Program ("VCP"), VMware Workspace ONE ("Workspace ONE"), VMware Carbon Black Cloud, VMware Tanzu and VMware Cloud on AWS. We expect revenue growth derived from our subscription and SaaS offerings to continue. In addition, we expect operating margin to be negatively impacted in fiscal 2022 as a result of our incremental investment in our subscription and SaaS portfolio.

During the three months ended April 30, 2021, we continued to see an increase in the portion of our sales occurring through our subscription and SaaS offerings compared to the portion of our on-premises solutions sold with perpetual licenses. As this trend continues, a greater portion of our revenue will be recognized over time as subscription and SaaS revenue rather than license revenue, which is typically recognized in the fiscal period in which sales occur. As a result, the rate of growth in our license revenue, which has historically been viewed as a leading indicator of our business performance, may be less relevant on a stand-alone basis, and we believe that the overall growth rate of our combined license and subscription and SaaS revenue, as well as the growth in remaining performance obligations, will become better indicators of our future growth prospects.

Dell Go-to-Market Initiatives

We continue joint marketing, sales, branding and product development efforts with Dell Technology Inc. ("Dell") and other Dell companies to enhance the collective value we deliver to our mutual customers. During the three months ended April 30, 2021, revenue from Dell, including purchases of products and services directly from us, as well as through our channel partners, accounted for 35% of our consolidated revenue. These purchases included Dell as an original equipment manufacturer ("OEM"), which accounted for 13% of our revenue from Dell, or 5% of our consolidated revenue, during the three months ended April 30, 2021. The remaining revenue from Dell consisted of Dell acting as a distributor to other non-Dell resellers, reselling products and services as a reseller or purchasing products and services for its own internal use. On certain transactions, Dell Financial Services ("DFS") also provided financing to our end users at our end users' discretion.

COVID-19 Impact

The worldwide spread of COVID-19 resulted in a global slowdown of economic activity while also disrupting sales channels and marketing activities and the COVID-19 pandemic may cause economic disruption and market volatility in future periods. While the COVID-19 pandemic has not had a material adverse financial impact on our operations to date, the future course of the pandemic, the ongoing economic impact and the degree and rate of economic recovery remain highly uncertain and continue to rapidly evolve. Although the pandemic has not had the level of financial impact on our business we initially expected, we did experience negative impacts on our sales and certain of our financial results and there continues to be uncertainty regarding the magnitude and duration of the economic effects of the COVID-19 pandemic and the extent to which it will have a negative impact on our sales and our financial results for the remainder of fiscal 2022. For example, license revenue decreased during fiscal 2021 due in part to the effects of COVID-19 as a number of our customers' business plans were impacted by the pandemic.

We continue to closely monitor the impact of the pandemic on all aspects of our business.

Spin-Off and Special Dividend

On April 14, 2021, we entered into a Separation and Distribution Agreement with Dell, pursuant to which, subject to the satisfaction of all closing conditions, Dell will distribute the shares of Class A Stock and Class B Stock owned by its wholly owned subsidiaries, to the holders of shares of Dell as of a record date determined pursuant to the Separation and Distribution Agreement on a pro rata basis (the "Spin-Off"). Subject to the various conditions, we will pay a cash dividend, pro rata, to each of the holders of Common Stock (including Dell) immediately prior to the Spin-Off in an aggregate amount equal to an amount to be mutually agreed by us and Dell between \$11.5 billion and \$12.0 billion (the "Special Dividend"). We expect to fund the Special Dividend, in part, through the incurrence of new indebtedness. The Spin-Off is expected to close during the fourth quarter of calendar 2021, subject to certain closing conditions, including receipt of a favorable Internal Revenue Service ruling that the distribution of shares to Dell and its stockholders will qualify as generally tax-free for U.S. federal income tax purposes.

Results of Operations

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

Revenue

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

	Three Months Ended		\$ Change	% Change
	April 30, 2021	May 1, 2020		
Revenue:				
License	\$ 646	\$ 660	\$ (15)	(2) %
Subscription and SaaS	741	572	169	29
Total license and subscription and SaaS	1,387	1,232	154	12
Services:				
Software maintenance	1,321	1,245	75	6
Professional services	286	257	30	12
Total services	1,607	1,502	106	7
Total revenue	<u>\$ 2,994</u>	<u>\$ 2,734</u>	<u>\$ 260</u>	<u>9</u>
Revenue:				
United States	\$ 1,466	\$ 1,363	\$ 102	8 %
International	1,528	1,371	157	11
Total revenue	<u>\$ 2,994</u>	<u>\$ 2,734</u>	<u>\$ 260</u>	<u>9</u>

Revenue from our subscription offerings consisted primarily of our VCPP cloud-based offerings that are billed to customers on a consumption basis and revenue from VMware Tanzu and other offerings that are billed on a subscription basis. Revenue from our SaaS offerings consisted primarily of our Unified Endpoint Management mobile solution within Workspace

ONE, VMware Cloud on AWS, CloudHealth by VMware and VMware SD-WAN by VeloCloud offerings, and newer SaaS offerings, such as VMware Carbon Black Cloud.

License revenue relating to the sale of on-premises licenses that are part of a multi-year contract is generally recognized upon delivery of the underlying license, whereas revenue derived from our subscription and SaaS offerings is generally recognized over time as customers consume the services or ratably over the term of the subscription, commencing upon provisioning of the service.

License Revenue

License revenue decreased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020, largely due to a shift in demand from our on-premises solutions sold with perpetual licenses to cloud-based solutions. Additionally, as customers adopt our cloud-based offerings, license revenue may be lower and subject to greater fluctuation in the future, driven by a higher percentage of cloud-based offerings being sold as well as the variability of large deals between fiscal quarters, which deals historically have had a large license revenue impact.

Subscription and SaaS Revenue

Subscription and SaaS revenue increased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020. Revenue growth from our VCPP, Workspace ONE, VMware Carbon Black Cloud, VMware Tanzu and VMware Cloud on AWS offerings continued to contribute to subscription and SaaS revenue growth during the three months ended April 30, 2021 compared to the three months ended May 1, 2020.

Services Revenue

During the three months ended April 30, 2021, software maintenance revenue continued to benefit from maintenance contracts sold in previous periods. In each period presented, customers purchased, on a weighted-average basis, greater than two years of support and maintenance with each new license purchased.

Professional services revenue increased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020. Services we provide through our technical account managers and our continued focus on solution deployments, including our networking, security, cloud management and digital workspace offerings, contributed to the increase in professional services revenue. We continue to also focus on enabling our partners to deliver professional services for our solutions, and as such, our professional services revenue may vary as we continue to leverage our partners. Timing of service engagements will also impact the amount of professional services revenue we recognize during a period.

Unearned Revenue

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

	April 30, 2021	January 29, 2021
Unearned license revenue	\$ 16	\$ 15
Unearned subscription and SaaS revenue	2,064	1,998
Unearned software maintenance revenue	6,957	7,092
Unearned professional services revenue	1,163	1,209
Total unearned revenue	<u>\$ 10,200</u>	<u>\$ 10,314</u>

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

Unearned software maintenance revenue is attributable to our maintenance contracts and is generally recognized ratably over the contract duration. The weighted-average remaining contractual term as of April 30, 2021 was approximately two years. Unearned professional services revenue results primarily from prepaid professional services and is generally recognized as the services are performed.

Remaining Performance Obligations and Backlog

Remaining Performance Obligations

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

As of April 30, 2021, the aggregate transaction price allocated to remaining performance obligations was \$11.0 billion, of which approximately 56% is expected to be recognized as revenue over the next twelve months and the remainder thereafter. As of January 29, 2021, the aggregate transaction price allocated to remaining performance obligations was \$11.3 billion, of which approximately 55% was expected to be recognized as revenue during fiscal 2022, and the remainder thereafter.

Backlog

Backlog is comprised of unfulfilled purchase orders or unfulfilled executed agreements at the end of a given period and is net of related estimated rebates and marketing development funds. Backlog consists of licenses, subscription and SaaS, and services. As of April 30, 2021, our total backlog was \$52 million, and our backlog related to licenses was \$14 million. For our backlog related to licenses, we generally expect to deliver and recognize as revenue during the following quarter. Backlog totaling \$15 million as of April 30, 2021 was excluded from the remaining performance obligations because such contracts are subject to cancellation until fulfillment of the performance obligation occurs.

As of January 29, 2021, our total backlog was \$93 million, and our backlog related to licenses was \$23 million. The amount excluded from the remaining performance obligations because such contracts are subject to cancellation until fulfillment of the performance obligation occurs was \$18 million as of January 29, 2021.

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

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

Our cost of services revenue and operating expenses primarily reflected increasing cash-based employee-related expenses, driven by incremental growth in headcount across most of our income statement expense categories, offset in part by decreased travel-related costs resulting from travel restrictions imposed in response to the COVID-19 pandemic for the three months ended April 30, 2021.

Cost of License Revenue

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

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

	Three Months Ended			
	April 30, 2021	May 1, 2020	\$ Change	% Change
Cost of license revenue	\$ 37	\$ 40	\$ (2)	(6) %
<i>% of License revenue</i>	<i>6 %</i>	<i>6 %</i>		

Cost of license revenue remained relatively consistent during the three months ended April 30, 2021 compared to the three months ended May 1, 2020.

Cost of Subscription and SaaS Revenue

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

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

	Three Months Ended			
	April 30, 2021	May 1, 2020	\$ Change	% Change
Cost of subscription and SaaS revenue	\$ 152	\$ 122	\$ 29	24 %
Stock-based compensation	5	4	2	43
Total expenses	\$ 157	\$ 126	\$ 31	24
<i>% of Subscription and SaaS revenue</i>	<i>21 %</i>	<i>22 %</i>		

Cost of subscription and SaaS revenue increased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020. The increase was primarily driven by increased equipment and depreciation of \$11 million, as well as growth in cash-based employee-related cost of \$11 million, which was primarily driven by incremental growth in headcount.

Cost of Services Revenue

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

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

	Three Months Ended		\$ Change	% Change
	April 30, 2021	May 1, 2020		
Cost of services revenue	\$ 312	\$ 296	\$ 16	6 %
Stock-based compensation	25	22	3	13
Total expenses	\$ 337	\$ 318	\$ 19	6
<i>% of Services revenue</i>	<i>21 %</i>	<i>21 %</i>		

Cost of services revenue increased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020. The increase was primarily due to growth in cash-based employee-related expenses of \$19 million, primarily driven by incremental growth in headcount.

Research and Development Expenses

Research and development expenses include the personnel and related overhead associated with the development of our product software and service offerings. We continue to invest in and focus on expanding our subscription and SaaS offerings.

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

	Three Months Ended		\$ Change	% Change
	April 30, 2021	May 1, 2020		
Research and development	\$ 581	\$ 540	\$ 40	7 %
Stock-based compensation	127	125	3	2
Total expenses	\$ 708	\$ 665	\$ 42	6
<i>% of Total revenue</i>	<i>24 %</i>	<i>24 %</i>		

Research and development expenses increased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020. The increase was primarily due to growth in cash-based employee-related expenses of \$42 million, primarily driven by incremental growth in headcount, as well as increased equipment and depreciation. These increases were partially offset by increased capitalized internal-use software development costs of \$13 million.

Sales and Marketing Expenses

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

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

	Three Months Ended		\$ Change	% Change
	April 30, 2021	May 1, 2020		
Sales and marketing	\$ 884	\$ 845	\$ 39	5 %
Stock-based compensation	75	72	1	2
Total expenses	\$ 959	\$ 917	\$ 40	4
<i>% of Total revenue</i>	<i>32 %</i>	<i>34 %</i>		

Sales and marketing expenses increased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020. The increase was primarily due to growth in cash-based employee-related expenses of \$89 million, primarily driven by incremental growth in headcount, as well as higher commission costs of \$31 million resulting from increased sales

volume. The increase was partially offset by decreased costs incurred for sales enablement-based initiatives of \$26 million, as well as decreased travel-related costs of \$15 million resulting from travel restrictions imposed in response to the COVID-19 pandemic.

General and Administrative Expenses

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

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

	Three Months Ended		\$ Change	% Change
	April 30, 2021	May 1, 2020		
General and administrative	\$ 205	\$ 197	\$ 8	4 %
Stock-based compensation	31	49	(18)	(36)
Total expenses	\$ 236	\$ 246	\$ (9)	(4)
% of Total revenue	8 %	9 %		

General and administrative expenses decreased during the three months ended April 30, 2021 compared to the three months ended May 1, 2020. The decrease was primarily driven by decreased acquisition-related costs of \$18 million, as well as decreased stock-based compensation of \$18 million, which was primarily due to the departure of our former Chief Executive Officer. These decreases were partially offset by an increase in cash-based employee-related expenses of \$27 million, primarily driven by incremental growth in headcount.

Other Income (Expense), net

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

	Three Months Ended		\$ Change	% Change
	April 30, 2021	May 1, 2020		
Other income (expense), net	\$ (23)	\$ (6)	\$ (18)	(288) %
% of Total revenue	(1) %	— %		

Other income (expense), net during the three months ended April 30, 2021 was primarily driven by an unrealized loss of \$33 million recognized on one of our investments in equity securities, which completed its initial public offering during the third quarter of fiscal 2021. The fair value of the publicly traded investment is determined primarily using the quoted market price of its common stock. As a result, any volatility in its publicly traded common stock introduces a degree of variability to our consolidated statements of income.

Income Tax Provision (Benefit)

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Income tax provision (benefit)	\$ 61	\$ (18)
Effective income tax rate	12.6 %	N/M

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

Our quarterly effective income tax rate is based on our estimated annual income tax rate forecast and discrete tax items recognized in the period. The change in our effective income tax rate for the three months ended April 30, 2021 compared to the three months ended May 1, 2020 was primarily driven by a discrete tax benefit of \$59 million recognized as a deferred tax asset due to an intra-group transfer of Pivotal's intellectual property rights to our Irish subsidiary during the three months ended May 1, 2020.

We are included in Dell's consolidated tax group for U.S. federal income tax purposes and will continue to be included in Dell's consolidated tax group for periods in which Dell beneficially owns at least 80% of the total voting power and value of our combined outstanding Class A and Class B common stock as calculated for U.S. federal income tax purposes. The percentage of voting power and value calculated for U.S. federal income tax purposes may differ from the percentage of

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

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

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

Our Relationship with Dell

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

Transactions with Dell

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

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

During the three months ended April 30, 2021 and May 1, 2020, revenue from Dell accounted for 35% and 32% of our consolidated revenue, respectively. During the three months ended April 30, 2021 and May 1, 2020, revenue recognized on transactions where Dell acted as an OEM accounted for 13% and 12% of total revenue from Dell, respectively, or 5% and 4% of our consolidated revenue, respectively.

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

	Revenue and Receipts		Unearned Revenue	
	Three Months Ended		As of	
	April 30, 2021	May 1, 2020	April 30, 2021	January 29, 2021
Reseller revenue	\$ 1,036	\$ 864	\$ 4,928	\$ 4,952
Internal-use revenue	12	18	42	45

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

Receipts from Dell for collaborative technology projects were not material during the three months ended April 30, 2021 and May 1, 2020.

Customer deposits resulting from transactions with Dell were \$209 million and \$214 million as of April 30, 2021 and January 29, 2021, respectively.

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

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

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Purchases and leases of products and purchases of services ⁽¹⁾	\$ 47	\$ 44
Dell subsidiary support and administrative costs	13	27

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

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

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

In connection with and subject to the consummation of the Spin-Off, we and Dell have agreed to enter into a commercial agreement that is intended to preserve and enhance our strategic partnership with Dell to deliver joint customer value and a transition services agreement to facilitate the transactions and the operation of us and Dell following the Spin-Off.

Dell Financial Services

DFS provided financing to certain of our end users at our end users' discretion. Upon acceptance of the financing arrangement by both our end users and DFS, amounts classified as trade accounts receivable are reclassified to due from related parties, net on the condensed consolidated balance sheets. Revenue recognized on transactions financed through DFS was recorded net of financing fees. Financing fees on arrangements accepted by both parties were not significant during the three months ended April 30, 2021 and were \$13 million during the three months ended May 1, 2020.

Tax Agreements with Dell

In connection with the Spin-Off and concurrently with the execution of the Separation and Distribution Agreement, effective as of April 14, 2021, we and Dell entered into a Tax Matters Agreement (the “Tax Matters Agreement”) and agreed to terminate the tax sharing agreement as amended on December 30, 2019 (together, the “Tax Agreements”). The Tax Matters Agreement governs the Company’s and Dell’s respective rights and obligations, both for pre-Spin-Off periods and post-Spin-Off periods, regarding income and other taxes, and related matters, including tax liabilities and benefits, attributes and returns.

Payments received from and made to Dell pursuant to the Tax Agreements were \$45 million and \$12 million, respectively, during the three months ended April 30, 2021 and payments made to Dell pursuant to the Tax Agreements during the three months ended May 1, 2020 were \$25 million.

Payments from us to Dell under the Tax Agreements relate to our portion of federal income taxes on Dell’s consolidated tax return as well as state tax payments for combined states. The timing of the tax payments due to and from related parties is governed by the Tax Agreements. Our portion of the mandatory one-time transition tax on accumulated earnings of foreign subsidiaries (the “Transition Tax”) is governed by a letter agreement between Dell, EMC and us executed on April 1, 2019 (the “Letter Agreement”). 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 our payments to Dell generally are capped at the amount that we would have paid on a separate tax return basis. The difference between the amount of tax calculated on a separate tax return basis and the amount of tax calculated pursuant to the Tax Agreements that was recorded in additional paid-in capital was not significant during each of the three months ended April 30, 2021 and May 1, 2020.

As a result of the activity under the Tax Agreements with Dell, amounts due to Dell were \$523 million and \$451 million as of April 30, 2021 and January 29, 2021, respectively, primarily related to our estimated tax obligation resulting from the Transition Tax. The 2017 Tax Act included a deferral election for an eight-year installment payment method on the Transition Tax. We expect to pay the remainder of our Transition Tax over a period of five years.

Pivotal Tax Sharing Agreement with Dell

During the fourth quarter of fiscal 2020, we completed the acquisition of Pivotal. Pivotal continues to file its separate tax return for U.S. federal income tax purposes as it left the Dell consolidated tax group at the time of Pivotal’s IPO in April 2018. Pivotal continues to be included on Dell’s unitary state tax returns. Pursuant to a tax sharing agreement, Pivotal historically received payments from Dell for tax benefits that Dell realized due to Pivotal’s inclusion on such returns. There were no payments received from Dell during the three months ended April 30, 2021 and May 1, 2020.

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):

	April 30, 2021	January 29, 2021
Due from related parties, current	\$ 848	\$ 1,558
Due to related parties, current ⁽¹⁾	95	120
Due from related parties, net, current	<u>\$ 753</u>	<u>\$ 1,438</u>

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

We also recognized an immaterial amount related to non-current operating lease liabilities due to related parties. This amount has been included in operating lease liabilities on the condensed consolidated balance sheets as of April 30, 2021 and January 29, 2021.

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

Notes Payable to Dell

As of April 30, 2021 and January 29, 2021, we had an outstanding promissory note payable to Dell in the principal amount of \$270 million due December 1, 2022. The note may be prepaid without penalty or premium. Interest is payable quarterly in arrears at the annual rate of 1.75%. During each of the three months ended April 30, 2021 and May 1, 2020, interest expense on the notes payable to Dell was not significant.

Liquidity and Capital Resources

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

	April 30, 2021	January 29, 2021
Cash and cash equivalents	\$ 5,594	\$ 4,692
Short-term investments	120	23
Total cash, cash equivalents and short-term investments	<u>\$ 5,714</u>	<u>\$ 4,715</u>

Cash equivalents primarily consisted of amounts invested in money market funds. We limit the amount of our investments with any single issuer and monitor the diversity of the portfolio and the amount of investments held at any single financial institution, thereby diversifying our credit risk. Short-term investments consisted of marketable equity securities in a company that completed its initial public offering during the third quarter of fiscal 2021.

In the event that conditions for payment of the Special Dividend are satisfied and the Special Dividend is paid, we expect to fund \$2.5 billion to \$3.5 billion of the dividend through our cash reserves and the balance through incremental indebtedness. As a result, if conditions for the Special Dividend are met, we expect our cash and cash equivalents balance to decline. We continue to expect that cash generated by operations will be our primary source of liquidity. We also continue to believe that, despite this potential decline in cash and cash equivalents, existing cash, cash equivalents and our borrowing capacity, together with any cash generated from operations, will be sufficient to fund our operations for at least the next twelve months. While we believe these cash sources will be sufficient to fund our operations, our overall level of cash needs may be affected by capital allocation decisions that may include the number and size of acquisitions and stock repurchases, among other things. We remain committed to maintaining an investment grade profile and credit rating. Following our planned Spin-Off from Dell, we expect to use free cash flow primarily to de-lever debt. In addition, we plan to continue with our balanced capital allocation policy through investing in our product and solution offerings, acquisitions and returning capital to stockholders through share repurchases. Additionally, given the unpredictable nature of our outstanding legal proceedings, an unfavorable resolution of one or more legal proceedings, claims, or investigations could have a negative impact on our overall liquidity.

The 2017 Tax Act imposed a Transition Tax and eliminated U.S. Federal taxes on foreign subsidiary distributions. The Transition Tax was calculated on a separate tax return basis. Our unpaid liabilities related to the Transition Tax as of April 30, 2021 was \$564 million, which we expect to pay over the next five years pursuant to a letter agreement between Dell, EMC and us executed during the first quarter of fiscal 2020. Actual tax payments made to Dell pursuant to the tax sharing agreement may differ materially from our total estimated tax liability calculated on a separate tax return basis. The difference between our estimated liability and the amount paid to Dell is recognized as a component of additional paid-in capital, generally in the period in which the consolidated tax return is filed.

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

	Three Months Ended	
	April 30, 2021	May 1, 2020
Net cash provided by (used in):		
Operating activities	\$ 1,266	\$ 1,374
Investing activities	(72)	(126)
Financing activities	(297)	1,793
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	—	(1)
Net increase in cash, cash equivalents and restricted cash	<u>\$ 897</u>	<u>\$ 3,040</u>

Operating Activities

Cash provided by operating activities decreased by \$108 million during the three months ended April 30, 2021 compared to the three months ended May 1, 2020, primarily due to increased cash payments for employee-related expenses, including salaries, bonuses and commissions, resulting primarily from growth in headcount. The activity was partially offset by an increase in cash collections due to increased sales, lower payments associated with lower travel spending due to the COVID-19 pandemic and a decrease in net cash paid for taxes during the three months ended April 30, 2021.

Investing Activities

Cash used in investing activities decreased by \$54 million during the three months ended April 30, 2021 compared to the three months ended May 1, 2020, primarily driven by a decrease in cash used in business combinations and additions to property and equipment.

Financing Activities

Cash used in financing activities changed by \$2.1 billion during the three months ended April 30, 2021 compared to the three months ended May 1, 2020, primarily due to the absence of the net cash proceeds received from the issuance of long-term debt of \$2.0 billion, as well as an increase of \$190 million in repurchases of shares of our Class A common stock.

Unsecured Senior Notes

The following table summarizes the principal on our two series of unsecured senior notes issued August 21, 2017 and our three series of unsecured senior notes issued April 7, 2020 (collectively, the “Senior Notes”) as of April 30, 2021 (amounts in millions):

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

Interest on the Senior Notes issued on April 7, 2020 is payable semiannually in arrears, on May 15 and November 15 of each year, beginning November 15, 2020. The interest rate on each note issued on April 7, 2020 is subject to adjustment based on certain rating events. Interest on the Senior Notes issued on August 21, 2017 is payable semiannually in arrears, on February 21 and August 21 of each year. During the three months ended April 30, 2021 and May 1, 2020, \$47 million and \$61 million, respectively, was paid for interest related to the Senior Notes.

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

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

Revolving Credit Facility

On September 12, 2017, we entered into an unsecured credit agreement establishing a revolving credit facility with a syndicate of lenders that provides us with a borrowing capacity of up to \$1.0 billion, for general corporate purposes. The credit agreement contains certain representations, warranties and covenants. Commitments under the revolving credit facility are available for a period of five years, which may be extended, subject to the satisfaction of certain conditions, by up to two one-year periods. As of April 30, 2021 and January 29, 2021, there was no outstanding borrowing under the revolving credit facility.

Note Payable to Dell

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

Stock Repurchase Program

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

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

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), we are required to make estimates, assumptions and judgments that affect the amounts reported on our financial statements and the accompanying disclosures. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. We base our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. These estimates may change in future periods and will be recognized in the condensed consolidated financial statements as new events occur and additional information becomes known. Actual results could differ from those estimates and any such differences may be material to our financial statements. We believe that the critical accounting policies and estimates set forth within Part II, Item 7, “Critical Accounting Policies and Estimates” of our Annual Report on Form 10-K filed on March 26, 2021 involve a higher degree of judgment and complexity in their application than our other significant accounting policies. Our senior management has reviewed our critical accounting policies and related disclosures with the Audit Committee of the Board of Directors. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

Forward-Looking Statements

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

Available Information

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

- our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file that material with or furnish it to the Securities and Exchange Commission (“SEC”);
- announcements of investor conferences, speeches and events at which our executives discuss our products, services and competitive strategies;
- webcasts of our quarterly earnings calls and links to webcasts of investor conferences at which our executives appear (archives of these events are also available for a limited time);
- additional information on financial metrics, including reconciliations of non-GAAP financial measures discussed in our presentations to the nearest comparable GAAP measure;
- press releases on quarterly earnings, product and service announcements, legal developments and international news;

- corporate governance information including our certificate of incorporation, bylaws, corporate governance guidelines, board committee charters, business conduct guidelines (which constitutes our code of business conduct and ethics) and other governance-related policies;
- other news, blogs and announcements that we may post from time to time that investors might find useful or interesting; and
- opportunities to sign up for email alerts and RSS feeds to have information pushed in real time.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes to our market risk exposures during the three months ended April 30, 2021. See Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K filed on March 26, 2021 for a detailed discussion of our market risk exposures.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended April 30, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The risk factors that appear below could materially affect our business, financial condition and operating results. The risks and uncertainties described below are not the only risks and uncertainties we face. Our business is also subject to general risks and uncertainties that affect many other companies. Specific risk factors related to our status as a controlled subsidiary of Dell Technologies Inc. (“Dell”) including with respect to the proposed Spin-Off and associated special cash dividend, overlapping business opportunities, Dell’s ability to control certain transactions and resource allocations and related persons transactions with Dell and its other affiliated companies are set forth below under the heading “Risks Related to Our Relationship with Dell.”

Operation of Business and Strategic Risks

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

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

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

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

Additionally, our subscription and SaaS offerings rely upon third-party providers to supply data center space, equipment maintenance and other colocation services and our initiatives to extend our virtualization and container platforms into the public cloud rely upon the ability of our public cloud and VCPP partners to maintain continuous service availability and protect customer data on their services. 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 their contractual obligations. The failure of a third-party provider to prevent service disruptions, data losses or security breaches may require us to issue credits or refunds or indemnify or otherwise be liable to customers or third parties for damages that may occur, and contractual provisions with our third-party providers and public cloud partners may limit our recourse against the third-party provider or public cloud partner responsible for such failure. Additionally, if these third-party providers fail to deliver on their obligations, our reputation could be damaged, our customers could lose confidence in us, and our ability to maintain and expand our subscription and SaaS offerings would be impaired.

Our success depends upon our ability to adapt our business and pricing models to a subscription and SaaS model appropriately.

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

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

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

We face competition from, among others:

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

Providers of enterprise security offerings. With the close of VMware’s acquisition of Carbon Black in October 2019, we launched a new set of enterprise security solutions that includes the Carbon Black endpoint security platform and the intrinsic security elements of our existing NSX virtual networking, Workspace ONE end user and our compute offerings. The cybersecurity market is large, highly competitive, fragmented and subject to rapidly evolving technology, shifting customer needs and the frequent introductions of new solutions. Competitors in the end point security space include legacy antivirus solution providers such as McAfee and NortonLifeLock, established software and infrastructure providers such as Blackberry Limited (after purchasing Cylance, Inc.) and Microsoft as well as next-generation endpoint security providers such as

CrowdStrike. In addition, new startup companies and established companies have entered or are currently attempting to enter the next-generation endpoint security market. While we believe that the intrinsic security elements in our existing offerings coupled with our Carbon Black endpoint security offerings and new combined offerings we expect to develop and introduce in the future will enable us to provide an integrated security offering with significant advantages over our competitors' current offerings, our ability to gain traction and market share as a new entrant into this well-established market segment is uncertain. New trends, such as Secure Access Service Edge (SASE) and Zero Trust Network Access, represent the coalescence of formerly distinct markets, such as identity management, secure web gateway, SD-WAN, network firewall, and cloud access security brokers. These trends may bring existing partners such as Zscaler and Okta into a more competitive position with Carbon Black, VeloCloud and other distributed network security offerings from VMware. If we are unable to successfully adapt our product and service offerings to meet these opportunities and rapidly evolving trends our operating results could be adversely affected.

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

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

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

Our partners and members of our developer and technology partner ecosystem. We face competition from our partners. For example, third parties currently selling our products and services could build and market their own competing products and services or market competing products and services of other vendors. Additionally, as formerly distinct sectors of enterprise IT such as software-based virtualization and hardware-based server, networking and storage solutions converge, we also increasingly compete with companies who are members of our developer and technology partner ecosystem. For example, in

July 2019, one of our important partners and customers, IBM, closed its acquisition of Red Hat, one of our competitors in the cloud native applications space. Consequently, we may find it more difficult to continue to work together productively on other projects, and the advantages we derive from our ecosystem could diminish.

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

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

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

Competition for our highly skilled employees is intense and costly, and our business and growth prospects may suffer if we cannot attract and retain them.

We must continue to attract and retain highly qualified personnel, particularly software and cloud engineers and sales and customer experience personnel, for which competition, particularly against companies with greater resources, startups and emerging growth companies is intense. 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. This competition results in increased costs in the form of cash and stock-based compensation and can have a dilutive impact on our stock. We have experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications, and, if we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could suffer.

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.

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

Developing our products and services is expensive, and developing and launching disruptive technologies requires significant investment often entailing greater risk than incremental investments in existing products and services. Our research and development expenses were approximately 24% of our total revenue during the three months ended April 30, 2021. We plan to continue to significantly invest in our research and development efforts to maintain our competitive position. Our investments in research and development may result in products or services that generate less revenue than we anticipate or may not result in marketable products and services for several years or at all.

Acquisitions and divestitures could materially harm our business and operating results.

We have acquired in the past, and plan to acquire in the future, other businesses, products or technologies. We also sell or divest businesses, products and technologies from time-to-time. Acquisitions and divestitures involve significant risks and uncertainties, including:

- disruptions to our ongoing operations and diverting management from day-to-day responsibilities due to, for example, the need to provide transition services in connection with a disposition or difficulty integrating the operations, technologies, products, customers and personnel of acquired businesses effectively;
- adverse impacts to our business and financial results resulting from increases to our expenses due to, among other things, integrating business operations and on-boarding personnel and the incurrence of amortization expense related to identifiable intangible assets acquired and other accounting consequences of acquisitions;
- reductions to our cash available for operations, stock repurchase programs and other uses, potentially dilutive issuances of equity securities or the incurrence of additional debt;
- uncertainties in achieving the expected benefits of an acquisition or disposition, including with respect to our business strategy, revenue, technology, human resources, cost and operating efficiencies and other synergies, due to, among other things, a lack of experience in new markets, products or technologies; or an initial dependence on unfamiliar distribution partners or vendors;
- unidentified issues that were not discovered during the diligence process, including issues with the acquired or divested business's intellectual property, product quality, security, privacy and accounting practices, regulatory compliance or legal contingencies;
- lawsuits resulting from an acquisition or disposition;
- maintenance or establishment of acceptable standards, controls, procedures or policies with respect to an acquired business; and
- the need to later divest acquired assets at a loss if an acquisition does not meet our expectations.

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

Our future success is highly dependent on our relationships with channel partners, including distributors, resellers, system vendors and systems integrators, which contribute to 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 channel partners, and the contracts that we do have with these channel partners do not prohibit them from offering products or services that compete with ours.

One of our distributors accounted for 10% or more of our consolidated revenue during the three months ended April 30, 2021. Although we believe that we have in place, or would have in place by the date of any such termination, agreements with replacement distributors sufficient to maintain our revenue from distribution, if we were to lose the distribution services of a significant distributor, such loss could have a negative impact on our operating results until such time as we arrange to replace these distribution services with the services of existing or new distributors.

Additionally, sales via our various route-to-market relationships with Dell accounted for 35% of our consolidated revenue during the three months ended April 30, 2021 and transactions where Dell acted as an original equipment manufacturer ("OEM") accounted for 13% of the revenue from Dell, or 5% of our consolidated revenue. Such routes to market include Dell selling joint solutions as an OEM, acting as a distributor to other non-Dell resellers, reselling products and services as a reseller or purchasing products and services for its own internal use. Any disruption or significant change to our relationship with Dell or the terms upon which they sell and distribute our products and services could have a negative impact on our operating results until such time as we arrange to replace these distribution services with the services of existing or new distributors.

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 offerings (including software-defined networking, VCPP-integrated virtual desktop and mobile device, cloud and SaaS) that enable customers to transform their IT systems requires a greater focus on marketing and selling product suites and more holistic solutions, rather than selling on a product-by-product basis. Consequently, we have developed, and must continue to develop, new strategies for marketing and selling our offerings. In addition, marketing and selling new technologies to enterprises requires us to invest significant time and resources to educate customers on the benefits of our offerings. These investments can be costly and educating our sales force can distract from their efforts to sell existing products and services. Additionally, from time to time, we reorganize

our go-to-market teams to increase efficiencies and improve customer coverage, but these reorganizations can cause short-term disruptions that may negatively impact sales over one or more fiscal periods. Further, upon entering into new industry segments, we may choose to go to market with third-party manufactured hardware appliances that are integrated with our software—as we did when we entered into the SD-WAN space through our acquisitions of VeloCloud Networks, Inc. and Nyansa, Inc.—which requires us to rapidly develop, deploy and scale new hardware procurement, supply chain and inventory management processes and product support services and integrate them into our ongoing business systems and controls. Similarly, our launches of managed subscription services, such as VMware Cloud on AWS and VMware Cloud on Dell EMC, require us to implement new methods to deliver and monitor end user services and adjust our model for releasing product upgrades. As our customers increasingly shift from one-time purchases of perpetual software licenses to purchasing our software via more subscription and SaaS-based programs, our go-to-market teams will need to alter their outreach to customers to support ongoing consumption of our offerings, and we will need to appropriately adjust the variable compensation programs we use to incentivize our sales teams. If we fail to successfully adjust, develop and implement effective go-to-market strategies, our financial results may be materially adversely impacted.

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

The industries in which we compete are characterized by rapid, complex and disruptive changes in technology, customer demands and industry standards that could make it difficult for us to effectively compete and cause our existing and future software solutions to become obsolete and unmarketable. Our ability to react quickly to new technology trends—such as cloud computing, which is disrupting the ways businesses consume, manage and provide physical IT resources, applications, data and IT services—and customer requirements is negatively impacted by the length of our development cycle for new and enhanced products and services, which has frequently been longer than we originally anticipated. This is due in part to the increasing complexity of our product offerings as we increase their interoperability and maintain their compatibility with IT resources, such as public clouds, utilized by our customers while sustaining and enhancing product quality. When we release significant new versions of our existing offerings, the complexity of our products may require existing customers to remove and replace prior versions to take full advantage of substantial new capabilities, which may subdue initial demand for the new versions or depress demand for existing versions until the customer is ready to purchase and install the newest release. If we are unable to evolve our solutions and offerings in time to respond to and remain ahead of new technological developments—in applications, networking or security, for example—or in ways that are compelling to customers, our ability to retain or increase market share and revenue could be materially adversely affected. We may also fail to adequately anticipate the commercialization of emerging technologies, such as blockchain, and the development of new markets and applications for our technology, such as edge computing, and thereby fail to take advantage of new market opportunities or fall behind early movers in those markets.

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

A significant portion of our employees, customers and channel partners are located outside the U.S. Our international activities account for a substantial portion of our revenue and profits, and our investment portfolio includes investments in non-U.S. financial instruments and holdings in non-U.S. financial 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 delivering support, training and documentation; enforcing contracts; collecting accounts receivable; transferring funds; maintaining appropriate controls relating to revenue recognition practices; and longer payment cycles in certain countries and especially in emerging markets;
- network security and privacy concerns, which could make foreign customers reluctant to purchase products and services from U.S.-based technology companies;
- 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, such as in China, whose government has adopted a range of laws and regulations relating to the procurement of key network equipment and security products and the storage and processing of data that might cause our business in China to suffer and expose us to civil and criminal penalties;
- localized impacts of the COVID-19 pandemic that persist or flare up in particular regions, such as in India where several of our global support services as well as research and development personnel are located, could cause delays or disruptions in certain of our business operations and product development;
- economic or political instability and uncertainty about or changes in government and trade relationships, policies, and treaties that could adversely affect the ability of U.S.-based companies to conduct business in non-U.S. markets, such as in the U.K. where considerable regulatory uncertainty remains regarding compliance post-Brexit; and
- legal risks, particularly in emerging markets, relating to compliance with U.S. exchange control requirements and international and U.S. anti-corruption laws and associated exposure to significant fines, penalties and reputational harm.

Our failure to manage any of these risks successfully could negatively affect our reputation and materially adversely affect our 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 extend the functionality of various products to work with native public cloud applications, which in some cases requires the cooperation of public cloud vendors. To the extent that hardware, software and public cloud vendors perceive that their products and services compete with ours or those of our controlling stockholder, Dell, they may have an incentive to withhold their cooperation, decline to share access or sell to us their proprietary APIs, protocols or formats, or engage in practices to actively limit the functionality, compatibility and certification of our products. In addition, vendors may fail to certify or support or continue to certify or support our products for their systems. If any of the foregoing occurs, our product development efforts may be delayed or foreclosed and it may be difficult and more costly for us to achieve functionality and service levels that would make our services attractive to end users, any of which could negatively impact our business and operating results.

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.

Financial Risks

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 and renewal rates, sales cycles and pricing levels for our products and services;
- variations in customer choices among our on-premises and subscription and SaaS offerings, which can impact our rates of total revenue and license revenue growth;
- the timing of announcements or releases of new or upgraded products and services by us, our partners or competitors;
- the timing of sales orders processing, which can cause fluctuations in our backlog and impact our bookings and timing of revenue recognition;
- 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, and the timing and amount of internal use software development costs that may be capitalized;
- the credit risks associated with our distributors, who account for a significant portion of our product revenue and accounts receivable, and our customers;
- the timing and size of realignment plans and restructuring charges;
- seasonal factors such as end of fiscal period expenditures by our customers and the timing of holiday and vacation periods;
- unplanned events that could affect market perception of the quality or cost-effectiveness of our products and solutions; and
- fluctuations in the severity and duration of the COVID-19 pandemic and resulting restrictions on business activity which may vary significantly by region.

Adverse economic conditions may harm our business.

Our business success depends in part on worldwide economic conditions. The overall demand for and spend on IT may be viewed by our current and prospective customers as discretionary and, in times of economic uncertainty, customers may delay, decrease, reduce the value and duration, or cancel purchases and upgrades of our products and services. Weak economic conditions or significant uncertainty regarding the stability of financial markets related to stock market volatility, inflation, recession, changes in tariffs, trade agreements or governmental fiscal, monetary and tax policies, among others, could adversely impact our business, financial condition and operating results. General and ongoing tightening in the credit market, lower levels of liquidity, increases in rates of default and bankruptcy and significant volatility in equity and fixed-income markets could all negatively impact our customers' purchasing decisions. Increases in interest rates on credit and debt that would increase the cost of our borrowing could impact our ability to access the capital markets and adversely affect our ability to repay or refinance our outstanding indebtedness, fund future product development and acquisitions or conduct stock buybacks.

For example, the COVID-19 pandemic has depressed economic activity worldwide, and the timing and strength of an economic recovery is highly uncertain and likely to vary significantly by region. While the COVID-19 pandemic has not had a material adverse financial impact on our operations to date, the future course of the pandemic and any resulting economic impact remain highly uncertain and continue to rapidly evolve. We have observed negative impacts on our sales and our financial results from the COVID-19 pandemic and there continues to be significant uncertainty regarding the economic effects of the COVID-19 pandemic. For example, during much of fiscal 2021, we saw delays in customers' large transformative on-premises projects that we believe were largely due to COVID-19, which negatively impacted our product sales. Although pandemic conditions in most regions of the world began easing following the start of fiscal 2022, there remains considerable uncertainty regarding the progress of vaccination programs, the dangers posed by COVID-19 variants and when a return to pre-pandemic conditions can occur. Accordingly, should the pandemic persist for a long period of time, economic conditions globally or in particular regions may fail to recover or even worsen, which could cause material adverse impacts to our earnings and other results of operations. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets, which has and may continue to adversely impact our stock price and our ability to access the equity or debt capital markets on attractive terms or at all for a period of time, which could have an adverse effect on our liquidity position.

Additionally, Brexit and trade tensions between the U.S. and its trading partners, like China, have caused and may continue to cause significant volatility in global financial markets. Amidst sustained economic uncertainty, many national and local governments that are current or prospective customers, including the U.S. federal government, may need to make significant changes in their spending priorities, which could reduce the amount of government spending on IT and the potential demand for our products and services from the government sector.

These adverse economic conditions can arise suddenly, have unpredictable impacts and materially adversely affect our future sales and operating results.

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

We have \$4.8 billion in unsecured notes outstanding, an additional unsecured promissory note with an outstanding principal amount of \$270 million owed to Dell, and a \$1.0 billion unsecured revolving credit facility (the "Credit Facility"), which was undrawn as of April 30, 2021. The terms of our unsecured notes and Credit Facility impose restrictions on us, including in specified and customary covenants, our compliance with which may be affected by events beyond our control, including prevailing economic, financial, and industry conditions. If we breach any of the covenants and do not obtain a waiver from the lenders or note holders, then, subject to applicable cure periods, any outstanding indebtedness may be declared immediately due and payable.

Additionally, on April 13, 2021, in connection with the announced Spin-Off, our Board of Directors declared a conditional special cash dividend, *pro rata*, to holders of Common Stock in an aggregate amount to be mutually agreed by VMware and Dell between \$11.5 billion and \$12.0 billion. We expect to fund \$2.5 billion to \$3.5 billion of the dividend through our cash reserves and the balance through incremental indebtedness. Payment of the dividend is subject to various conditions.

Our current and any future debt may adversely affect our financial condition and future financial results by, among other things, increasing our vulnerability to adverse changes in general economic and industry conditions, necessitating use or dedication of our expected cash flow from operations to service our indebtedness instead of for other purposes, such as capital expenditures and acquisitions, and limiting our flexibility in planning for, or reacting to, business changes.

In addition, any actual or anticipated changes to our credit ratings, including any announcement that our credit ratings are under review by any rating agency, may:

- negatively impact the value and liquidity of our debt and equity securities;

- result in an increase in the interest rate payable by us and the cost of borrowing under our Credit Facility;
- negatively affect the terms of and restrict our ability to obtain financing in the future; and
- upon the occurrence of certain downgrades of the ratings of our unsecured notes, require us to repurchase our unsecured notes at a price equal to 101% of the aggregate principal plus any accrued and unpaid interest.

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

Our operating results may be adversely impacted by exposure to additional tax liabilities and higher than expected tax rates.

We are subject to income taxes as well as non-income-based taxes, such as payroll, sales and property taxes, in many of the jurisdictions in which we operate. Our tax liabilities are dependent on the allocation of revenue and expenses in different jurisdictions and the timing of recognizing revenue and expenses. Significant judgment is required to determine our worldwide provision for income taxes and other tax liabilities. For example, in the ordinary course of our global business, we execute intercompany transactions, including intellectual property transfers, that require us to make tax estimates because the ultimate tax determination is uncertain. We are subject to income and indirect tax examinations and are undergoing audits in various jurisdictions. For instance, the Internal Revenue Service ("IRS") has started its examination of fiscal years 2015 through 2019 for the Dell consolidated group, of which VMware was part beginning in Dell's fiscal year 2017. While we believe we have complied with all applicable income tax laws and made reasonable tax estimates, a governing tax authority could have a different legal interpretation and a final determination of tax audits or disputes may differ from what is reflected in our historical income tax provisions or benefits and accruals and we may be assessed with additional taxes. In addition, regulatory guidance is still forthcoming with respect to the 2017 Tax Cuts and Jobs Act ("2017 Tax Act") and such guidance may adversely impact our tax provision. Any assessment of additional taxes could materially affect our financial condition and operating results.

Our future effective tax rate may be affected by such factors as:

- the expiration of legal statutes of limitation and settlements of audits;
- the impact of accounting for stock-based compensation and for business combinations, such as our acquisition of Pivotal, which was accounted for as a common control transaction;
- the recognition of excess tax benefits or deficiencies within the income tax provision or benefit in the period in which they occur;
- the overall levels and proportion of our income before provision for income taxes earned in the U.S. and in jurisdictions with a tax rate lower than the U.S. statutory rate; and
- changes in tax laws or their interpretations, in our business or statutory rates, and in our corporate structure.

For example, in October 2014, Ireland announced revisions to its tax regulations, that, among other things, would raise tax rates on the foreign earnings of our Ireland-organized subsidiary by which our non-U.S. earnings are primarily earned. For this and other reasons, we proactively made structural changes to mitigate the impact of the changing Irish tax regulations to our future tax rates. Numerous other countries have also recently enacted or are considering enacting changes to tax laws, administrative interpretations, decisions, policies and positions. These and any other significant changes to U.S., Irish or international tax laws could materially adversely affect our effective tax rate, the timing and amount of our tax liabilities and payments, our financial condition and operating results.

Security Risks

Cybersecurity breaches of our systems or the systems of our vendors, partners and suppliers could materially harm our business.

Cyber risks represent a large and growing risk to our business, as we depend upon our IT systems, proprietary software and services, as well as the systems of SaaS providers, to conduct virtually all of our business operations. Some of the factors that contribute to significant cyber risks include:

- We increasingly develop and maintain large data sets and rely on machine learning, artificial intelligence and analytics to provide services to our customers and partners.
- Customers conduct 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.

- Due to the COVID-19 pandemic and the rollout of our “Future of Work” program to work from anywhere, greater numbers of our employees work remotely, making them and us more vulnerable to cyber-attacks, including email phishing and social engineering.
- We rely on third parties and their systems for a number of our business functions and to sell our products and services as distributors, resellers, system vendors and systems integrators.
- Sophisticated hardware, software and applications that we produce or procure from third parties may contain defects that could unexpectedly interfere with our systems and processes.
- Our leadership position in the enterprise security industry makes us and our products a target of computer hackers seeking to compromise product security.

Cyber-attacks, which are increasing in number and technical sophistication, threaten to misappropriate our proprietary information, cause interruptions of our IT services, extract financial gain and commit fraud. We may not be able to anticipate the techniques used in such attacks, as they change frequently and may not be recognized until launched. If unauthorized access or sabotage remains undetected for an extended period of time, the effects of any such breach could be exacerbated.

Unauthorized parties (which may have included nation states and individuals sponsored by them) have penetrated our network security and our website in the past and may do so in the future. Employees or contractors have introduced vulnerabilities in, and enabled the exploitation of, our IT environments in the past and may do so in the future. Additionally, we are increasingly targeted for financial gain and fraud by criminal persons and groups that seek to extort or steal funds from companies and employees. 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 they are restored and secured;
- our ability to process and electronically deliver customer orders could be degraded, and our distribution channels could be disrupted, resulting in delays in revenue recognition;
- defects and security vulnerabilities could be exploited or introduced into our software products or our subscription and SaaS offerings and impair or disrupt them, thereby damaging the reputation and perceived reliability and security of our products and services and potentially making the data systems of our customers and partners vulnerable to further data loss and cyber incidents; and
- personally identifiable information or confidential data of our customers, employees and business partners could be stolen or lost.

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

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

Our products and services are highly technical and complex and, when deployed, have contained and may contain errors, defects or security vulnerabilities, some of which may only be discovered after a product or service has been installed and used by customers. Unanticipated vulnerabilities in user environments, installation errors or misuse can also lead to unintended access to or exploitation of our products. Accordingly, from time to time we have issued security alerts and provided software updates to customers when such issues have been identified. Undiscovered vulnerabilities in our products or services could expose our customers to hackers or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attack our products or services. Further, our use of open-source software in our offerings can make our products and services vulnerable to additional security risks not posed by proprietary products. In the past, VMware has been made aware of public postings by hackers of portions of our source code. It is possible that the released source code could expose unknown security vulnerabilities in our products and services that could be exploited by hackers or others. VMware products and services are also subject to known and unknown security vulnerabilities resulting from integration with products or services of other companies (such as applications, operating systems or semiconductors). Actual or perceived errors, defects or security vulnerabilities in our products or services could harm our reputation and lead some

customers to return products or services, reduce or delay future purchases or use competitive products or services, all of which could materially negatively impact our business, operating results and stock price.

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

We rely on our information systems and those of third parties for fulfilling contractual obligations, including processing customer orders, delivering products and providing services, performing accounting operations and otherwise running our business. If our systems fail, our disaster and data recovery planning and capacity may prove insufficient to enable timely recovery of important functions and business records. Additionally, our information systems may not efficiently support new business models and initiatives, and significant investments could be required in order to upgrade existing or implement new systems. Business requirements may require additional capabilities including implementation of a new information system. For example, during the first quarter of fiscal 2020 we implemented a new lease accounting software to facilitate the preparation of financial information related to the adoption of accounting standard updates. Further, we continuously work to enhance our information systems, such as our enterprise resource planning software, and the implementation of such enhancements is frequently disruptive to the underlying enterprise, which may especially be the case for us due to the size and complexity of our business, and may disrupt internal controls and business processes that could introduce unintended vulnerability to error. Any such disruption to our information systems and those of the third parties upon whom we rely could have a material impact on our business.

Legal and Compliance Risks

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

As described in Note D (Litigation) to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, we are, and may become, involved in various legal and regulatory proceedings, and investigations relating to our business, including with respect to antitrust and competition, breach of contract, class action, commercial, corporate governance, cybersecurity, employment, intellectual property, privacy, securities, and whistleblower matters. Matters such as these may impact our business in different ways. Intellectual property infringement claims, for example, may seek injunctive relief or other court orders that could prevent us from offering our products. As a result, 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, or we may be required to develop non-infringing technology, which could require significant effort and expense and may ultimately not be successful. Because we generally indemnify our customers and partners from intellectual property infringement claims in connection with the use of our products, we may be called on to defend these customers and partners in litigation. From time to time, we also receive inquiries from and have discussions with government entities regarding our compliance with laws and regulations. Such litigation, investigations, regulatory inquiries, and proceedings can be unpredictable and time-consuming, divert management's attention and resources, and cause us to incur significant expenses. Allegations made in connection with these matters may harm our reputation, regardless of their merit and could have a material adverse impact on our business, financial condition, cash flows or results of operations if decided adversely to or settled by us.

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

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

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

Actual or perceived non-compliance with privacy and data protection laws, regulations and standards could adversely impact our business.

Our business is subject to laws and regulations by various federal, state and international legislative and governmental agencies responsible for legislating, monitoring and enforcing privacy and data protection laws ("Data Privacy Laws"). The regulatory framework regarding the collection, protection, use, transfer and disclosure of personal information is rapidly evolving, and Data Privacy Laws are subject to new and changing interpretations and amendments, creating uncertainty and

additional legal obligations for ourselves, our partners, vendors and customers. We expect that there will continue to be newly proposed or changes to interpretations of existing Data Privacy Laws and industry standards, including self-regulatory standards advocated by industry groups, in various jurisdictions globally, and we may not be able to appropriately anticipate or timely respond to the impacts such and similar developments may have on our business or the businesses of our partners, vendors and customers.

We continue to regularly enhance our policies and controls across our business relating to how we and our business partners collect, protect and use customer and employee personal information. Ongoing changes to the regulatory landscape will likely increase the cost and complexity of our business relationships, internal operations and the delivery of our products and services. In addition, this may affect our ability to run promotions and effectively market our offerings and could subsequently impact the demand for our products and services.

Any actual or perceived failure by us or our business partners to comply with Data Privacy Laws, the privacy commitments contained in our contracts, or the privacy notices we have posted on our website could subject us to investigations, sanctions, enforcement actions, negative financial consequences, civil and criminal liability or injunctions. For example, failure to comply with the EU's General Data Protection Regulation requirements may lead to fines of up to €20 million or 4% of the annual global revenues of the infringer, whichever is greater. Additionally, as a technology provider, our customers expect us to demonstrate compliance with current Data Privacy Laws and further make contractual commitments and implement processes to enable the customer to comply with their own obligations under Data Protection Laws, and our actual or perceived inability to do so may adversely impact sales of our products and services, particularly to customers in highly regulated industries. As a result, our reputation and brand may be harmed, we could incur significant costs, and our financial and operating results could be materially adversely affected.

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

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

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

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

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

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

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

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 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, fines and suspension from future government contracting, any of which could adversely affect our business, operating results or financial condition. Further, any negative

publicity related to our government contracts or any proceedings surrounding them, regardless of accuracy, may damage our business and affect our ability to compete for new contracts.

Risks Related to Our Relationship with Dell

The proposed Spin-Off and associated special dividend are subject to various conditions and may not occur.

On April 14, 2021, we and Dell entered into a separation and distribution agreement, pursuant to which, subject to the satisfaction of all conditions to the consummation of the transactions contemplated thereby, Dell will distribute the shares of Class A Stock and Class B Stock owned by its wholly owned subsidiaries, to the holders of shares of Dell as of a record date determined pursuant to the separation and distribution agreement on a pro rata basis (the “Spin-Off”). Immediately following, and automatically as a result of the Spin-Off, and prior to receipt thereof by Dell’s stockholders, each share of Class B Stock will automatically convert into one fully paid and non-assessable share of Class A Stock. Subject to the satisfaction of the conditions to payment described in the separation and distribution agreement, we will also pay a cash dividend, pro rata, to each of the holders of Common Stock (including Dell) immediately prior to the Spin-Off in an aggregate amount equal to an amount to be mutually agreed by VMware and Dell between \$11.5 billion and \$12.0 billion (the “Special Dividend” and, together with the Spin-Off and related transactions (the “Transactions”).

The obligation of each of Dell and VMware to complete the Transactions is subject to a number of conditions, including, among other things: receipt of opinions from independent firms regarding surplus and solvency matters, receipt of certain opinions by Dell concerning the federal income tax treatment of the Transactions, receipt by Dell of a private letter ruling from the Internal Revenue Service (“IRS”) concerning the federal tax treatment of the Transactions, absence of legal restraints that prohibit, enjoin or make illegal the consummation of the Transactions, absence of pending litigation that would reasonably be expected to prohibit, impair or materially delay the ability of VMware or Dell to consummate the Transactions on the terms contemplated by the separation and distribution agreement or that seeks material damages or another material remedy in connection with the separation and distribution agreement or the Transactions, satisfaction of the Additional Dividend Payment Conditions (as defined below), NYSE listing approval, and accuracy of representations and warranties and compliance with covenants, subject to certain materiality standards.

In addition to each of the conditions stated above, the payment of the Special Dividend is further conditioned upon (i) the absence of a VMware Material Adverse Effect (as defined in the separation and distribution agreement) prior to declaration of the Special Dividend, (ii) the Company having an investment grade rating (as further described in the separation and distribution agreement), (iii) the Company’s receipt of an opinion from a nationally recognized and independent firm that as of the date of payment, (x) the Company (on a consolidated basis) has sufficient surplus under Delaware law for the payment of the Special Dividend and (y) following the payment of the Special Dividend, the Company (on a consolidated basis) will be solvent under Delaware law and (iv) such other conditions as are further described in the separation and distribution agreement (together, the “Additional Dividend Payment Conditions”). If any of the conditions to the consummation of the Transactions are not met, such condition(s) may be waived, to the extent permitted by law, by the party or parties in whose favor the condition(s) exist (and, in the event of a waiver by VMware, the VMware special committee of independent and disinterested directors consents to the waiver), and the Transactions may proceed.

We may not be able to complete the proposed Transactions on the terms described above or on other acceptable terms or at all because of a number of factors, including (1) the occurrence of any event, change or other circumstances that could give rise to the termination of the separation and distribution agreement, (2) the failure to obtain adequate financing sources for the Special Dividend, (3) any other failure of VMware or Dell to meet the conditions described above or otherwise waive such conditions, (4) the failure of VMware to satisfy certain rating agency criteria, (5) the effect of the announcement of the Transactions on the ability of the Company to retain and hire key personnel and maintain relationships with its customers, suppliers, operating results and business generally and (6) the other factors described in this “Risk Factors” section.

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

As of April 30, 2021, Dell beneficially owned 30,678,605 shares of our Class A common stock and all 307,221,836 shares of our Class B common stock, representing 80.7% of the total outstanding shares of common stock or 97.5% of the voting power of outstanding common stock held by EMC, and we are considered a “controlled” company under the rules of the New York Stock Exchange (“NYSE”). Accordingly, strategic and business decisions made by Dell can impact our strategic and business decisions and relationships, and public speculation regarding Dell’s strategic direction and prospects, as well as our relationship with Dell, can cause our stock price to fluctuate.

For example, in July 2020, Dell announced that it was exploring its strategic alternatives with respect to its ownership interest in us, including a possible spin-off of its ownership interest to Dell stockholders. Prior to the announcement of the Spin-Off, the stock price of our Class A common stock experienced periods of significant volatility related to public speculation regarding the outcome of Dell’s strategic review and the likelihood of its success. If the Spin-Off fails to occur for any reason, we expect that speculation regarding Dell’s future plans with respect to VMware will lead to continued volatility.

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

- Dell is able to control matters requiring our stockholders' approval, including the election of a majority of our directors as described in the risk factors below.
- Dell could implement changes to our business, including changing our commercial relationship with Dell or taking other corporate actions, such as participating in business combinations, that our other stockholders may not view as beneficial.
- We have arrangements with a number of companies that compete with Dell, and our relationship with Dell could adversely affect our relationships with these companies or other customers, suppliers and partners.
- Since the Dell Acquisition, the portion of our bookings that are realized through Dell sales channels has grown more rapidly than our sales through non-Dell resellers and distributors, and we expect this trend to continue. To the extent that we find ourselves relying more heavily upon Dell for our channel sales, Dell's leverage over our sales and marketing efforts may increase and our ability to negotiate favorable go-to-market arrangements with Dell and with other channel partners may decline. During the three months ended April 30, 2021, revenue from Dell, including purchases of products and services directly from us, as well as through our channel partners, accounted for 35% of our consolidated revenue, which included revenue from Dell selling joint solutions as an OEM, acting as a distributor to other non-Dell resellers, reselling products and services as a reseller or purchasing products and services for its own internal use. On certain transactions, Dell Financial Services also provided financing to our end users at our end users' discretion.
- Dell has a right to approve certain matters under our certificate of incorporation, including acquisitions or investments in excess of \$100 million, and Dell may choose not to consent to matters that our board of directors believes are in the best interests of VMware. If the Spin-Off is consummated, these consent rights will terminate.
- Dell is highly leveraged and commits a substantial portion of its cash flows to servicing its indebtedness. Dell's significant debt could create the perception that Dell may exercise its control over us to limit our growth in favor of its other businesses or cause us to transfer cash to Dell and incur additional indebtedness. In addition, if Dell defaults, or appears in danger of defaulting, on its indebtedness, uncertainty as to the impact of such a default on VMware could disrupt our business.
- Investor perceptions of Dell's performance, future plans and prospects could contribute to volatility in the price of our Class A common stock.
- Some of our products compete directly with products sold or distributed by Dell, which could result in reduced sales.

If the Spin-Off is consummated, we will be subject to a variety of risks.

If the Spin-Off is consummated, we will be subject to a variety of risks, including:

- We expect to incur significant indebtedness to fund the Special Dividend. Although retaining an investment grade credit rating is a condition of paying the Special Dividend, the VMware special committee may agree to waive this condition, and, in any case, we may be unable to retain an investment grade rating in the future. In addition, we expect to dedicate a significant portion of our operating cash flows during the next few fiscal years to reducing indebtedness, which will limit our uses of cash, such as cash acquisitions and stock repurchases. See "Financial Risks—We have outstanding indebtedness in the form of unsecured notes and may incur other debt in the future, which may adversely affect our financial condition and future financial results."
- We expect that sales via our various route-to-market relationships with Dell will continue to constitute a significant percentage of our revenues for the foreseeable future. Although we and Dell have agreed to enter into a commercial agreement that is intended to preserve and enhance our strategic partnership with Dell, our relationship with Dell as a standalone company will be fundamentally different than our current relationship as a majority-owned subsidiary. Following the Spin-Off, Dell will no longer consolidate VMware's revenues, and Dell may not have the same incentives to drive VMware business. If sales through Dell are negatively impacted following the Spin-Off and VMware is unable to shift business to suitable alternative channel partners, our business and operating results would be negatively affected. See "Operation of Business and Strategic Risks—Disruptions to our distribution channels, including our various routes to market through Dell, could harm our business."
- As a result of the Spin-Off, entities affiliated with Michael Dell (the "MSD Stockholders") and entities affiliated with Silver Lake Partners (the "SLP Stockholders"), of which Egon Durban, a VMware director, is a managing partner, will own direct interests in VMware representing 41.1% and 10.7%, respectively, of our outstanding stock, based on the shares outstanding as of May 28, 2021. Through their stock ownership, the MSD Stockholders and the SLP

Stockholders will have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets, for the foreseeable future. We have also entered into an agreement pursuant to which the MSD Stockholders will have the right to nominate up to two members of our Board and the SLP Stockholders will have the right to nominate one member of our Board, subject to maintaining certain ownership thresholds. This concentrated control will negatively impact other stockholders' ability to influence corporate matters. The MSD Stockholders and SLP Stockholders collectively beneficially own 64.3% of Dell's outstanding stock as of May 28, 2021. Accordingly, their interests may not be aligned with other VMware stockholders with respect to actions involving or impacting Dell.

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

As of April 30, 2021, Dell controlled 80.7% of the total outstanding shares of common stock, including all of our outstanding Class B common stock, representing 97.5% of the voting power of our total outstanding common stock. Through its control of the Class B common stock, which is generally entitled to 10 votes per share, Dell controls the vote to elect all of our directors and to approve or disapprove all other matters submitted to a stockholder vote.

Prior to the Spin-Off or, if the Spin-Off fails to close, a subsequent distribution by Dell to its stockholders under Section 355 of the Internal Revenue Code of 1986, as amended (a "355 Distribution"), shares of Class B common stock transferred to any party other than a successor-in-interest or a subsidiary of EMC automatically convert into Class A common stock. Dell's voting control over VMware will continue so long as the shares of Class B common stock it controls continue to represent at least 20% of our outstanding stock. If its ownership falls below 20% of the outstanding shares of our common stock, all outstanding shares of Class B common stock will automatically convert to Class A common stock. If Dell effects a 355 Distribution at a time when it holds shares of Class B common stock, its stockholders will receive Class B common stock. These shares will remain entitled to 10 votes per share, holders of these shares will remain entitled to elect 80% of the total number of directors on our board of directors and the holders of our Class A common stock will continue to have limited ability to influence matters requiring stockholder approval and have limited ability to elect members of our board of directors. Following a 355 Distribution, shares of Class B common stock may convert to Class A common stock if such conversion is approved by VMware stockholders after the 355 Distribution and we have obtained a private letter ruling from the IRS.

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

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

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

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

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

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

As of April 30, 2021, Dell controlled 80.7% of VMware's outstanding common stock, and Dell's percentage ownership of VMware common stock could increase as a result of repurchases by VMware of its Class A common stock or purchases by Dell. Section 253 of the Delaware General Corporation Law permits a parent company, when it owns 90% or more of each class of a subsidiary's stock that generally would be entitled to vote on a merger of that subsidiary with the parent, to unilaterally effect a merger of the subsidiary into the parent without a vote of the subsidiary's board or stockholders. Accordingly, if Dell becomes the holder of at least 90% of VMware's outstanding stock, neither VMware's board of directors nor VMware's stockholders would be entitled to vote on a merger of VMware into Dell (the "short-form merger"). Moreover, a short-form merger is not subject to the stringent "entire fairness" standard and the parent company is not required to negotiate with a special committee of disinterested directors that would serve to approximate arm's length negotiations designed to ensure that a fair price is paid. Rather, a minority stockholder's sole remedy in the context of a short-form merger is to exercise appraisal rights under Delaware law. In such a proceeding, petitioning stockholders may be awarded more or less than the merger price or the amount they would have received in a merger negotiated between the parent and a disinterested special committee advised by independent financial and legal advisors. Pursuant to a letter agreement entered into by VMware and Dell on July 1, 2018, until the ten-year anniversary of the agreement, Dell may not purchase or otherwise acquire any shares of common stock of VMware if such acquisition would cause the common stock of VMware to no longer be publicly traded on a U.S. securities exchange or VMware to no longer be required to file reports under Sections 13 and 15(d) of the Exchange Act, in each case, unless such transaction has been approved in advance by a special committee of the VMware Board of Directors comprised solely of independent and disinterested directors or such acquisition of VMware common stock is required in order for VMware to continue to be a member of the affiliated group of corporations filing a consolidated tax return with Dell.

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

We currently engage in a number of related persons transactions with Dell that include joint product development, go-to-market, branding, sales, customer service activities, real estate and various support services, and we expect to engage in additional related persons transactions with Dell to leverage the benefits of our strategic alignment. For example, in December 2019, we acquired Pivotal, a then majority owned subsidiary of Dell and a company in which we held a significant ownership interest. Following the Spin-Off, transactions with Dell will continue to be considered related persons transactions due to the share ownership in both Dell and VMware of the MSD Stockholders and the SLP Stockholders.

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

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

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

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

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

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

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

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

We have historically been included in EMC's consolidated group for U.S. federal income tax purposes, as well as in certain consolidated, combined or unitary groups that include EMC or certain of its subsidiaries for state and local income tax purposes, and since the Dell Acquisition, we have been included in Dell's consolidated tax group. Following the Spin-Off, we will no longer be a member of 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. Concurrent with the signing of the separation and distribution agreement, we and Dell terminated the existing tax sharing agreement and entered into a new tax matters agreement. Pursuant to our agreement, we and Dell generally will make payments to each other such that, with respect to tax returns for any taxable period in which we or any of our subsidiaries are included in Dell's consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Dell or its subsidiaries, the amount of taxes to be paid by us will be determined, subject to certain consolidated return adjustments, as if we and each of our subsidiaries included in such consolidated, combined or unitary group filed our own consolidated, combined or unitary tax return. Consequently, compared to our historical results as a member of the EMC consolidated tax group, the amount of our tax sharing payment compared to our separate return basis liability may increase, vary more widely from period to period and be less predictable. Additionally, the impact of the 2017 Tax Act upon consolidated groups is highly complex and uncertain and its impact must be further interpreted in the context of the tax sharing agreement to determine VMware's tax sharing payment. In April 2019, VMware, Dell and EMC entered into a letter agreement that governs our portion of the one-time transition tax imposed by the 2017 Tax Act on accumulated earnings of foreign subsidiaries.

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

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

During the fourth quarter of fiscal 2020, we completed the acquisition of Pivotal. Pivotal will continue to file its separate tax return for U.S. federal income tax purposes as it left the Dell consolidated tax group at the time of Pivotal's initial public offering ("IPO") in April 2018. Pivotal continues to be included on Dell's unitary state tax returns. Pursuant to a tax sharing agreement, Pivotal may receive or owe payments from or to Dell for tax benefits or expenses that Dell realized due to Pivotal's inclusion on such returns.

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

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

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

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

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

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

The Chairman of our Board of Directors, Michael Dell, is also Chairman and CEO of Dell and is a significant stockholder of Dell, and one of our directors, Egon Durbin, is member of the Dell board of directors and managing partner of Silver Lake Partners, which is a significant stockholder of Dell. Another of our directors also holds shares of Dell common stock. Dell, through its controlling voting interest in our outstanding common stock, is entitled to elect 8 of our 10 directors and possesses sufficient voting control to elect the remaining directors. Ownership of Dell common stock by our directors and the presence of executive officers or directors of Dell on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and Dell that could have different implications for Dell than they do for us. Our Board has approved resolutions that address corporate opportunities that are presented to our directors that are also directors or officers of Dell. These provisions may not adequately address potential conflicts of interest or ensure that potential conflicts of interest will be resolved in our favor. As a result, we may not be able to take advantage of corporate opportunities presented to individuals who are directors of both us and Dell and we may be precluded from pursuing certain growth initiatives.

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

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

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

While we have voluntarily caused our Compensation and Corporate Governance Committee to currently be composed entirely of independent directors, reflecting the requirements of the NYSE, we are not required to maintain the independent composition of the committee. As a result of our use of the "controlled company" exemptions, holders of our Class A common stock will not have the same protection afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements. Following the Spin-Off, we will no longer be a "controlled company" under the NYSE corporate governance standards.

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

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

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

The financial information covering the periods included in this report does not necessarily reflect what our financial condition, operating results or cash flows would have been had we been a completely independent entity during those periods. In certain geographic regions where we do not have an established legal entity, we contract with Dell subsidiaries for support services and Dell personnel who are managed by us. The costs incurred by Dell on our behalf related to these employees are passed on to us and we are charged a mark-up intended to approximate costs that would have been charged had we contracted for such services with an unrelated third party. These costs are included as expenses on our condensed consolidated statements of income. Additionally, we engage with Dell in related party transactions, including agreements regarding the use of Dell's and our intellectual property and real estate, agreements regarding the sale of goods and services to one another, and agreements for Dell to resell and distribute our products and services to third party customers. If Dell were to distribute its shares of our common stock to its stockholders or otherwise divest itself of all or a significant portion of its VMware shares, there would be numerous implications to us, including the fact that we could lose the benefit of these arrangements with Dell. There can be no assurance that we would be able to renegotiate these arrangements with Dell or replace them on the same or similar terms. Additionally, our business could face significant disruption and uncertainty as we transition from these arrangements with Dell. Moreover, our historical financial information is not necessarily indicative of what our financial condition, operating results or cash flows would be in the future if and when we contract at arm's length with independent third parties for the services we have received and currently receive from Dell. During the three months ended April 30, 2021, we recognized revenue of \$1.0 billion, and as of April 30, 2021, \$5.0 billion of sales were included in unearned revenue from such transactions with Dell. For additional information, refer to "Our Relationship with Dell" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 and Note C to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Risks Related to Owning Our Class A Common Stock

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

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

Dell, which beneficially owned 80.7% of our outstanding stock as of April 30, 2021, is not restricted from selling its shares and is entitled to certain registration rights. If a significant number of shares enters the public trading markets in a short period of time, the market price of our Class A common stock may decline. In addition, if our Class B common stock is distributed to Dell stockholders and remains outstanding, it would trade separately from and potentially at a premium to our Class A common stock, and could thereby contribute additional volatility to the price of our Class A common stock.

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

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.

General Risks

We are exposed to foreign exchange risks.

We conduct a meaningful portion of our business in currencies other than the U.S. dollar, but report our operating results in U.S. dollars. Accordingly, our operating results are subject to fluctuations in currency exchange rates. The realized gain or loss on foreign currency transactions is dependent upon the types of foreign currency transactions into which we enter, the exchange rates associated with these transactions and changes in those rates, the net realized gain or loss on our foreign currency forward contracts, among other factors. Although we hedge a portion of our foreign currency exposure, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies have adversely affected, and may adversely affect in the future, our operating results. For example, the economic uncertainty introduced by Brexit resulted in significant volatility in the value of the British pound and other currencies, and the COVID-19 pandemic may make it more difficult for us to accurately forecast future transactions in foreign currencies and cause us to have to modify hedging positions, thereby adversely impacting the efficacy of our foreign currency hedging strategy and our operating results. Any future weakening of foreign currency exchange rates against the U.S. dollar would likely result in additional adverse impacts on our revenue.

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

We may not realize all the economic benefit from our business acquisitions, which could result in an impairment of goodwill or intangibles. As of April 30, 2021, goodwill and amortizable intangible assets were \$9.6 billion and \$926 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.

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

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

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

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

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

A significant natural disaster, such as an earthquake, fire, flood or other act of God, catastrophic event or pandemic, abrupt political change, terrorist activity and armed conflict, and any similar disruption, as well as any derivative disruption, such as those to services provided through localized physical infrastructure, including utility or telecommunication outages, or any to

the continuity of our, our partners' and our customers' workforce, could have a material adverse impact on our business and operating results. Our worldwide operations are dependent on our network infrastructure, internal technology systems and website, as well as our intellectual property and personnel, significant portions of which, including our corporate headquarters, are located in California, a region known for seismic activity, fires and floods. Disruption to these dependencies may negatively impact our ability to respond to customer requests, process orders, provide services and maintain local and global business continuity. Delays or cancellations of customer orders or the deployment or availability of our products and services, for example, could materially impact our revenue. Furthermore, some of our newer product initiatives, offerings and business functions are hosted or carried out by third parties that may be vulnerable to these same types of disruptions, the response to or resolution of which may be beyond our control. Additionally, any such disruption could cause us to incur significant costs to repair damages to our facilities, equipment, infrastructure and business relationships.

Climate change may have a long-term negative impact on our business.

Risks related to rapid climate change may have an increasingly adverse impact on our business and those of our customers, partners and vendors in the longer term. While we seek to mitigate the business risks associated with climate change for our operations, there are inherent climate-related risks wherever business is conducted. Access to clean water and reliable energy in the communities where we conduct our business, whether for our offices, data centers, vendors, customers or other stakeholders, is a priority. Any of our primary locations may be vulnerable to the adverse effects of climate change and the impacts of extreme weather events, which have caused regional short-term systemic failures in the U.S. and elsewhere. For example, our California headquarters are projected to be vulnerable to future water scarcity due to climate change. While this danger has a low-assessed risk of disrupting normal business operations, it has the potential to impact employees' abilities to commute to work or to work from home and stay connected effectively. Climate-related events, including the increasing frequency of extreme weather events, their impact on critical infrastructure in the U.S. and internationally and their potential to increase political instability in regions where we, our customers, partners and our vendors do business, have the potential to disrupt our business, our third-party suppliers, or the business of our customers and partners, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations.

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

(a) Sales of Unregistered Securities

None.

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

None.

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

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

Purchases of Class A common stock during the three months ended April 30, 2021 were as follows:

	Total Number of Shares Purchased	Average Price Paid Per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs ⁽²⁾
January 30 - February 26, 2021	850,000	\$ 144.04	850,000	\$ 932,793,757
February 27 - March 26, 2021	1,000,000	144.84	1,000,000	787,957,212
March 27 - April 30, 2021	650,000	159.60	650,000	684,218,267
	<u>2,500,000</u>	<u>\$ 148.40</u>	<u>2,500,000</u>	<u>684,218,267</u>

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

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

ITEM 5. OTHER INFORMATION

Disclosure pursuant to Section 13(r) of the Securities Exchange Act of 1934

On March 2, 2021, the U.S. government designated the Russian Federal Security Service (the “FSB”) as a blocked party under Executive Order 13382. On the same day, the U.S. Department of the Treasury’s Office of Foreign Assets Control issued General License No. 1B (the “OFAC General License”), which generally authorizes certain licensing, permitting, certification, notification and related transactions with the FSB as may be required pursuant to Russian encryption product import controls for the importation, distribution or use of information technology products in the Russian Federation.

VMware’s subsidiary, VMware Russia LLC, periodically files notifications with, or applies for import licenses and permits from, the FSB on our behalf in connection with the importation of our products into Russia, as permitted under the OFAC General License. In the quarter ended April 30, 2021, VMware Russia LLC filed notifications with or applied for import licenses and permits from the FSB. There was no gross revenue or net profits of the Company or any subsidiary directly associated with these filing activities. The Company and its subsidiaries do not sell products or provide services to the FSB. The Company and its subsidiaries will continue to file notifications with and apply for import licenses and permits from the FSB to qualify our products for importation and distribution in the Russian Federation to the extent permitted by applicable law.

ITEM 6. EXHIBITS

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

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation	10-Q	001-33622	3.1	6/9/17
3.2	Amended and Restated Bylaws	8-K	001-33622	3.1	2/23/17
10.1	Separation and Distribution Agreement, dated as April 14, 2021, by and between Dell Technologies Inc. and VMware, Inc.	8-K	001-33622	2.1	4/14/21
10.2	Tax Matters Agreement, dated as April 14, 2021, by and between Dell Technologies Inc. and VMware, Inc.	8-K	001-33622	10.1	4/14/21
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*	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.				
101.SCH*	Inline XBRL Taxonomy Extension Schema				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase				
104	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document (included in Exhibit 101)				

+ Indicates management contract or compensatory plan or arrangement

* Filed herewith

‡ Furnished herewith

SIGNATURE

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

Dated: June 7, 2021

VMWARE, INC.

By: _____ /s/ J. Andrew Munk
J. Andrew Munk
Chief Accounting Officer
(Principal Accounting Officer)

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

I, Rangarajan (Raghu) Raghuram, 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:
 - i. 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;
 - ii. 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;
 - iii. 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
 - iv. 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):
 - i. 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
 - ii. 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 7, 2021

By: /s/ Rangarajan (Raghu) Raghuram

Rangarajan (Raghu) Raghuram
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:
 - i. 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;
 - ii. 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;
 - iii. 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
 - iv. 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):
 - i. 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
 - ii. 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 7, 2021

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, Rangarajan (Raghu) Raghuram, 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 April 30, 2021 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 7, 2021

By: /s/ Rangarajan (Raghu) Raghuram

Rangarajan (Raghu) Raghuram
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 April 30, 2021 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 7, 2021

By: /s/ Zane Rowe

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