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 October 29, 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	**94-3292913**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
3401 Hillview Avenue Palo Alto, CA	**94304**
(Address of principal executive offices)	**(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	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 November 26, 2021, the number of shares of Class A common stock, par value $0.01 per share, of the registrant outstanding was 420,365,558.

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

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Revenue[1]:				
License	$ 710	$ 639	$ 2,093	$ 2,019
Subscription and SaaS	820	676	2,336	1,880
Services	1,658	1,549	4,891	4,574
Total revenue	3,188	2,864	9,320	8,473
Operating expenses[2]:				
Cost of license revenue	37	44	111	119
Cost of subscription and SaaS revenue	175	142	502	400
Cost of services revenue	362	330	1,051	969
Research and development	768	714	2,251	2,058
Sales and marketing	1,011	912	2,993	2,727
General and administrative	316	250	808	773
Realignment	—	44	1	47
Operating income	519	428	1,603	1,380
Investment income	—	1	1	7
Interest expense	(74)	(52)	(173)	(156)
Other income (expense), net	12	177	(7)	186
Income before income tax	457	554	1,424	1,417
Income tax provision	59	120	190	150
Net income	$ 398	$ 434	$ 1,234	$ 1,267
Net income per weighted-average share, basic for Classes A and B	$ 0.95	$ 1.03	$ 2.94	$ 3.02
Net income per weighted-average share, diluted for Classes A and B	$ 0.94	$ 1.02	$ 2.92	$ 3.00
Weighted-average shares, basic for Classes A and B	419,456	420,857	419,309	419,758
Weighted-average shares, diluted for Classes A and B	421,763	423,400	422,201	423,093

(1) Includes related party revenue as follows (refer to Note C):				
License	$ 335	$ 289	$ 996	$ 976
Subscription and SaaS	221	136	589	373
Services	644	518	1,838	1,439
(2) Includes stock-based compensation as follows:				
Cost of license revenue	$ —	$ —	$ 1	$ 1
Cost of subscription and SaaS revenue	5	4	16	13
Cost of services revenue	21	25	70	74
Research and development	125	140	402	397
Sales and marketing	74	85	227	243
General and administrative	33	50	97	141

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

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Net income	$ 398	$ 434	$ 1,234	$ 1,267
Other comprehensive income (loss):				
Changes in fair value of effective foreign currency forward contracts:				
Unrealized gains (losses), net of tax provision (benefit) of $—, $—, $— and $—	1	2	1	(1)
Reclassification of (gains) losses realized during the period, net of tax (provision) benefit of $—, $—, $— and $—	(1)	2	1	—
Net change in fair value of effective foreign currency forward contracts	—	4	2	(1)
Total other comprehensive income (loss)	—	4	2	(1)
Comprehensive income, net of taxes	$ 398	$ 438	$ 1,236	$ 1,266

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)

	October 29, 2021	January 29, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,500	$ 4,692
Short-term investments	33	23
Accounts receivable, net of allowance of $8 and $5	1,675	1,929
Due from related parties, net	660	1,438
Other current assets	577	530
Total current assets	15,445	8,612
Property and equipment, net	1,411	1,334
Other assets	2,645	2,697
Deferred tax assets	5,830	5,781
Intangible assets, net	781	993
Goodwill	9,598	9,599
Total assets	$ 35,710	$ 29,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 229	$ 131
Accrued expenses and other	2,273	2,382
Current portion of long-term debt	1,498	—
Unearned revenue	5,808	5,873
Total current liabilities	9,808	8,386
Note payable to Dell	—	270
Long-term debt	9,170	4,717
Unearned revenue	4,425	4,441
Income tax payable	781	805
Operating lease liabilities	885	891
Other liabilities	416	455
Total liabilities	25,485	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 112,441 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	1,923	1,985
Accumulated other comprehensive loss	(3)	(5)
Retained earnings	8,301	7,067
Total stockholders' equity	10,225	9,051
Total liabilities and stockholders' equity	$ 35,710	$ 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)

	Nine Months Ended	
	October 29, 2021	**October 30, 2020**
Operating activities:		
Net income	$ 1,234	$ 1,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	825	757
Stock-based compensation	813	869
Deferred income taxes, net	(92)	(177)
Unrealized (gain) loss on equity securities, net	25	(197)
(Gain) loss on disposition of assets, revaluation and impairment, net	4	22
Loss on extinguishment of debt	—	8
Other	6	—
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	247	102
Other current assets and other assets	(467)	(622)
Due to/from related parties, net	777	785
Accounts payable	87	(4)
Accrued expenses and other liabilities	(181)	393
Income taxes payable	24	(53)
Unearned revenue	(82)	(65)
Net cash provided by operating activities	3,220	3,085
Investing activities:		
Additions to property and equipment	(263)	(247)
Sales of investments in equity securities	68	—
Purchases of strategic investments	(7)	(16)
Proceeds from disposition of assets	5	21
Business combinations, net of cash acquired, and purchases of intangible assets	(15)	(390)
Net cash used in investing activities	(212)	(632)
Financing activities:		
Proceeds from issuance of common stock	267	264
Net proceeds from issuance of long-term debt	5,944	1,979
Repayment of term loan	—	(1,500)
Repayment of current portion of long-term debt	—	(1,257)
Repayment of note payable to Dell	(270)	—
Repurchase of common stock	(872)	(566)
Shares repurchased for tax withholdings on vesting of restricted stock	(291)	(319)
Payment to acquire non-controlling interests	—	(91)
Principal payments on finance lease obligations	(3)	(3)
Net cash provided by (used in) financing activities	4,775	(1,493)
Net increase in cash, cash equivalents and restricted cash	7,783	960
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	$ 12,553	$ 3,991
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 146	$ 142
Cash paid for taxes, net	276	393
Non-cash items:		
Changes in capital additions, accrued but not paid	$ 9	$ (18)

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 October 29, 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, July 30, 2021	112	$ 1	307	$ 3	$ 1,716	$ 7,903	$ (3)	$ 9,620
Proceeds from issuance of common stock	1	—	—	—	128	—	—	128
Repurchase and retirement of common stock	(1)	—	—	—	(143)	—	—	(143)
Issuance of restricted stock	1	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(1)	—	—	—	(42)	—	—	(42)
Stock-based compensation	—	—	—	—	264	—	—	264
Net income	—	—	—	—	—	398	—	398
Balance, October 29, 2021	112	$ 1	307	$ 3	$ 1,923	$ 8,301	$ (3)	$ 10,225

Nine Months Ended October 29, 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	3	—	—	—	267	—	—	267
Repurchase and retirement of common stock	(6)	—	—	—	(872)	—	—	(872)
Issuance of restricted stock	5	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(2)	—	—	—	(284)	—	—	(284)
Stock-based compensation	—	—	—	—	827	—	—	827
Total other comprehensive income (loss)	—	—	—	—	—	—	2	2
Net income	—	—	—	—	—	1,234	—	1,234
Balance, October 29, 2021	112	$ 1	307	$ 3	$ 1,923	$ 8,301	$ (3)	$ 10,225

Three Months Ended October 30, 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, July 31, 2020	113	$ 1	307	$ 3	$ 2,070	$ 5,842	$ (9)	$ 7,907
Proceeds from issuance of common stock	1	—	—	—	122	—	—	122
Repurchase and retirement of common stock	(2)	—	—	—	(255)	—	—	(255)
Issuance of restricted stock	1	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	—	—	—	—	(39)	—	—	(39)
Stock-based compensation	—	—	—	—	303	—	—	303
Total other comprehensive income (loss)	—	—	—	—	—	—	4	4
Net income	—	—	—	—	—	434	—	434
Balance, October 30, 2020	113	$ 1	307	$ 3	$ 2,201	$ 6,276	$ (5)	$ 8,476

Nine Months Ended October 30, 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	3	—	—	—	264	—	—	264
Repurchase and retirement of common stock	(4)	—	—	—	(566)	—	—	(566)
Issuance of restricted stock	6	—	—	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(2)	—	—	—	(315)	—	—	(315)
Stock-based compensation	—	—	—	—	863	—	—	863
Amount due from tax sharing arrangement	—	—	—	—	(45)	—	—	(45)
Total other comprehensive income (loss)	—	—	—	—	—	—	(1)	(1)
Net income	—	—	—	—	—	1,267	—	1,267
Balance, October 30, 2020	113	$ 1	307	$ 3	$ 2,201	$ 6,276	$ (5)	$ 8,476

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, virtual cloud networking, digital workspaces, modern applications and intrinsic security. VMware's software provides a flexible digital foundation to enable customers in their digital transformation.

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 then-parent company, including EMC's majority control of VMware. As of October 29, 2021 (the "Record Date"), Dell controlled 80.5% of VMware's outstanding common stock and 97.4% of the combined voting power of VMware's outstanding common stock, including 31 million shares of VMware's Class A common stock ("Class A Stock") and all of VMware's Class B convertible common stock ("Class B Stock"). On November 1, 2021, VMware's spin-off from Dell (the "Spin-Off") was completed, and VMware paid an $11.5 billion special dividend, pro rata, to each of the holders of Class A and Class B Stock (including Dell) as of the Record Date.

As VMware was a majority-owned and controlled subsidiary of Dell through October 29, 2021, its results of operations and financial position were consolidated with Dell's financial statements.

Refer to Note O for more information regarding the Spin-Off.

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

Principles of Consolidation

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

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 except for the calculation of the year-to-date weighted-average diluted share count, which did not have a material impact on the Company's diluted net income per share for the nine months ended October 29, 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.

New Accounting Pronouncement

In October 2021, the Financial Accounting Standard Board issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. This update requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by an acquirer on the acquisition date in accordance with ASC 606, Revenue from Contracts with Customers. The new standard is effective for interim and annual periods beginning after December 15, 2022, but may be early adopted. The adoption of the ASU will be applied prospectively to business combinations occurring on or after the effective date of the ASU. If the new standard is early adopted in an interim period, it should be applied retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and prospectively to all business combinations that occur on or after the date of initial application. VMware plans to early adopt this standard during the fourth quarter of fiscal 2022. The standard did not have an impact on business combinations occurring during the nine months ended October 29, 2021.

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 $50 million and $43 million as of October 29, 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 October 29, 2021, customer deposits related to customer prepayments and cloud credits of $322 million were included in accrued expenses and other, and $151 million were included in other liabilities on the condensed consolidated balance sheets. 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 October 29, 2021 and January 29, 2021 were $12 million and $31 million, respectively. Deferred commissions included in other assets were $1.2 billion and $1.1 billion as of October 29, 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 $130 million and $383 million during the three and nine months ended October 29, 2021, respectively, and $113 million and $319 million during the three and nine months ended October 30, 2020, respectively.

Unearned Revenue

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

	October 29, 2021	January 29, 2021
Unearned license revenue	$ 17	$ 15
Unearned subscription and SaaS revenue	2,238	1,998
Unearned software maintenance revenue	6,773	7,092
Unearned professional services revenue	1,205	1,209
Total unearned revenue	$ 10,233	$ 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 October 29, 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 October 29, 2021 were $2.0 billion and $2.1 billion, respectively, and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses. Total billings and revenue recognized during the nine months ended October 29, 2021 were $6.0 billion and $6.1 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 and nine months ended October 30, 2020 was $1.9 billion and $5.5 billion, respectively, 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 October 29, 2021, the aggregate transaction price allocated to remaining performance obligations was $11.1 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, 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 and nine months ended October 29, 2021, revenue from Dell accounted for 38% and 37% of VMware's consolidated revenue, respectively. During each of the three and nine months ended October 29, 2021, revenue recognized on transactions where Dell acted as an OEM accounted for 13% of total revenue from Dell, or 5% of VMware's consolidated revenue.

During each of the three and nine months ended October 30, 2020, revenue from Dell accounted for 33% of VMware's consolidated revenue. During the three and nine months ended October 30, 2020, revenue recognized on transactions where Dell acted as an OEM accounted for 13% and 12%, respectively, of total revenue from Dell, or 4% of VMware's consolidated revenue.

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		Nine Months Ended		As of	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020	October 29, 2021	January 29, 2021
Reseller revenue	$ 1,183	$ 927	$ 3,380	$ 2,738	$ 5,008	$ 4,952
Internal-use revenue	17	16	43	50	25	45

Receipts from Dell for collaborative technology projects were not material during the three and nine months ended October 29, 2021 and October 30, 2020.

Customer deposits resulting from transactions with Dell were $225 million and $214 million as of October 29, 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 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.

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Purchases and leases of products and purchases of services[1]	$ 57	$ 49	$ 164	$ 138
Dell subsidiary support and administrative costs	8	12	32	54

[1] Amount includes indirect taxes that were remitted to Dell during the periods presented.

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

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

On November 1, 2021, in connection with the Spin-Off from Dell, VMware and Dell entered into a commercial framework 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. The commercial framework agreement has an initial term of five years, with automatic one-year renewals occurring annually thereafter, subject to certain terms and conditions. Refer to Note O for more information regarding the Spin-Off.

Dell Financial Services ("DFS")

DFS provides 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 October 29, 2021 and were $20 million during the nine months ended October 29, 2021. Financing fees on arrangements accepted by both parties were $12 million and $43 million during the three and nine months ended October 30, 2020, respectively.

Tax Agreements with Dell

Concurrently with the execution of the Separation and Distribution Agreement (the "Separation 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 with the Tax Matters Agreement and the Letter Agreement (as defined below), 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 made to Dell pursuant to the Tax Agreements were $10 million and $96 million during the three and nine months ended October 29, 2021, respectively, and were $54 million and $221 million during the three and nine months ended October 30, 2020, respectively. Refunds received from Dell pursuant to the Tax Agreements were $45 million during the nine months ended October 29, 2021.

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 Dell 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 $45 million during the nine months ended October 30, 2020 and was not significant during the three and nine months ended October 29, 2021 and three months ended October 30, 2020.

As a result of the activity under the Tax Agreements with Dell, amounts due to Dell were $443 million and $451 million as of October 29, 2021 and January 29, 2021, respectively, primarily related to VMware's estimated tax obligation resulting from the Transition Tax. The U.S. Tax Cuts and Jobs Act enacted on December 22, 2017 (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 four years.

Pivotal Tax Sharing Agreement with Dell

During the fourth quarter of fiscal 2020, VMware completed the acquisition of Pivotal. Prior to the Spin-Off, Pivotal filed a 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 continued to be included on Dell's unitary state tax returns until the Spin-Off. 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 and nine months ended October 29, 2021 and October 30, 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):

	October 29, 2021	January 29, 2021
Due from related parties, current	$ 748	$ 1,558
Due to related parties, current[(1)]	88	120
Due from related parties, net, current	$ 660	$ 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 October 29, 2021 and January 29, 2021.

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

Notes Payable to Dell

As of January 29, 2021, VMware had an outstanding promissory note payable to Dell in the principal amount of $270 million due December 1, 2022. VMware repaid the outstanding balance of $270 million during the three months ended October 29, 2021. During the three and nine months ended October 29, 2021 and October 30, 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. 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. The parties are now in the discovery stage of the lawsuit. The trial is currently scheduled to begin on July 6, 2022. 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 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, VMware has filed challenges with the U.S. Patent and Trademark Office against each of the four patents that are the subject of Cirba’s allegations. To date, of the four challenges, two *ex parte* reexams have been granted and one *Inter Partes* Review has been instituted. 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 October 29, 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.

E. Definite-Lived Intangible Assets, Net

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

	October 29, 2021			
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5.3	$ 940	$ (568)	$ 372
Customer relationships and customer lists	11.5	721	(351)	370
Trademarks and tradenames	7.7	131	(92)	39
Total definite-lived intangible assets		$ 1,792	$ (1,011)	$ 781

	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 $75 million and $228 million during the three and nine months ended October 29, 2021, respectively, and $83 million and $244 million during the three and nine months ended October 30, 2020, respectively.

Based on intangible assets recorded as of October 29, 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	$	74
2023		252
2024		200
2025		107
2026		67
Thereafter		81
Total	$	781

F. Realignment

During the third quarter of fiscal 2021, VMware approved a plan to streamline its operations and align resources with its business priorities. As a result of this action, approximately 330 positions were eliminated during the third quarter of fiscal 2021. VMware recognized $44 million and $47 million of severance-related realignment expenses during the three and nine months ended October 30, 2020, respectively, on the condensed consolidated statements of income. Severance payments made under this plan during the three and nine months ended October 30, 2020 were $24 million. Actions associated with this plan were substantially complete by the end of fiscal 2021.

G. 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.

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		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Net income	$ 398	$ 434	$ 1,234	$ 1,267
Weighted-average shares, basic for Classes A and B	419,456	420,857	419,309	419,758
Effect of other dilutive securities	2,307	2,543	2,892	3,335
Weighted-average shares, diluted for Classes A and B	421,763	423,400	422,201	423,093
Net income per weighted-average share, basic for Classes A and B	$ 0.95	$ 1.03	$ 2.94	$ 3.02
Net income per weighted-average share, diluted for Classes A and B	$ 0.94	$ 1.02	$ 2.92	$ 3.00

The following table sets forth the weighted-average common share equivalents of Class A 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		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Anti-dilutive securities:				
Employee stock options	9	140	17	202
Restricted stock units	181	2,968	311	4,696
Total	190	3,108	328	4,898

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

Cash and Cash Equivalents

Cash and cash equivalents totaled $12.5 billion and $4.7 billion as of October 29, 2021 and January 29, 2021, respectively. Cash equivalents were $11.8 billion as of October 29, 2021 and consisted of money-market funds of $11.7 billion and time deposits of $63 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. Subsequent to the third quarter of fiscal 2022, VMware's cash and cash equivalents balance as of October 29, 2021 was used to fund a portion of the special dividend in connection with the Spin-Off from Dell. Refer to Note O for more information regarding the Spin-Off.

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 the periods presented (table in millions):

	October 29, 2021	January 29, 2021
Cash and cash equivalents	$ 12,500	$ 4,692
Restricted cash within other current assets	47	56
Restricted cash within other assets	6	22
Total cash, cash equivalents and restricted cash	$ 12,553	$ 4,770

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.

Short-Term Investments

Short-term investments totaled $33 million and $23 million as of October 29, 2021 and January 29, 2021, respectively, and consisted of marketable equity securities. Short-term investments as of October 29, 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 J for more information regarding the Company's marketable equity securities.

I. Debt

Unsecured Senior Notes

On August 2, 2021, VMware issued five series of unsecured senior notes pursuant to a public debt offering (the "2021 Senior Notes"). The proceeds from the 2021 Senior Notes were $5.9 billion, net of debt discount of $11 million and debt issuance costs of $47 million. The proceeds from the 2021 Senior Notes were used to fund a portion of the special dividend in connection with the Spin-Off. Refer to Note O for more information regarding the Spin-Off.

VMware also has unsecured senior notes issued on April 7, 2020 (the "2020 Senior Notes") and on August 21, 2017 (the "2017 Senior Notes", collectively with the 2020 Senior Notes and 2021 Senior Notes, the "Senior Notes").

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

	October 29, 2021	January 29, 2021	Effective Interest Rate
2017 Senior Notes:			
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%
2020 Senior Notes:			
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%
2021 Senior Notes:			
0.60% Senior Note Due August 15, 2023	1,000	—	0.95%
1.00% Senior Note Due August 15, 2024	1,250	—	1.23%
1.40% Senior Note Due August 15, 2026	1,500	—	1.61%
1.80% Senior Note Due August 15, 2028	750	—	2.01%
2.20% Senior Note Due August 15, 2031	1,500	—	2.32%
Total principal amount	10,750	4,750	
Less: unamortized discount	(16)	(7)	
Less: unamortized debt issuance costs	(66)	(26)	
Net carrying amount included in long-term debt	10,668	4,717	
Current portion of long-term debt	1,498	—	
Long-term debt	$ 9,170	$ 4,717	

Interest on the 2021 Senior Notes is payable semiannually in arrears, on February 15 and August 15 of each year, commencing on February 15, 2022. Interest on the 2020 Senior Notes is payable semiannually in arrears, on May 15 and November 15 of each year, beginning November 15, 2020. The interest rate on the 2020 Senior Notes is subject to adjustment based on certain rating events. Interest on the 2017 Senior Notes is payable semiannually in arrears, on February 21 and August 21 of each year. Interest expense was $72 million and $169 million during the three and nine months ended October 29, 2021, respectively, and $48 million and $135 million during the three and nine months ended October 30, 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 and may be 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 and 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.

The future principal payments for the Senior Notes as of October 29, 2021 were as follows (amounts in millions):

Remainder of 2022	$ —
2023	1,500
2024	1,000
2025	1,250
2026	750
Thereafter	6,250
Total	$ 10,750

Revolving Credit Facility

On September 2, 2021, 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 $1.5 billion for general corporate purposes (the "2021 Revolving Credit Facility"). The 2021 Revolving Credit Facility replaced the Company's existing $1.0 billion revolving credit facility that was undrawn. Commitments under the 2021 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 October 29, 2021, there was no outstanding borrowing under the 2021 Revolving Credit Facility. The credit agreement contains certain representations, warranties and covenants. Commitment fees, interest rates and other terms of borrowing under the 2021 Revolving Credit Facility may vary based on VMware's external credit ratings. The amount incurred in connection with the ongoing commitment fee, which is payable quarterly in arrears, was not significant during the three months ended October 29, 2021.

Senior Unsecured Term Loan Facility

On September 2, 2021, VMware received commitments from financial institutions for a three-year senior unsecured term loan facility and a five-year senior unsecured term loan facility that would provide the Company with an aggregate borrowing capacity of up to $4.0 billion. The Company may borrow once up to the aggregate borrowing capacity of $4.0 billion. The term loan facilities contain certain representations, warranties and covenants.

On November 1, 2021, the Company drew down an aggregate of $4.0 billion with a weighted average interest rate of 0.90%. The drawdown was used to fund a portion of the special dividend in connection with the Spin-Off from Dell. Refer to Note O for more information regarding the Spin-Off.

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

J. 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):

	October 29, 2021		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	$ 11,748	$ —	$ 11,748
Time deposits[1]	—	63	63
Total cash equivalents	$ 11,748	$ 63	$ 11,811
Short-term investments:			
Marketable equity securities	$ 33	$ —	$ 33
Total short-term investments	$ 33	$ —	$ 33

	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 recorded at fair value. The fair value of the note payable to Dell was $276 million as of January 29, 2021. VMware repaid the outstanding balance of $270 million on the note payable to Dell during the three months ended October 29, 2021. The fair value of the Senior Notes was approximately $11.1 billion and $5.3 billion as of October 29, 2021 and January 29, 2021, respectively. Refer to Note I for more information regarding the Company's recent offering of the 2021 Senior Notes. 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 $176 million and $140 million as of October 29, 2021 and January 29, 2021, respectively, and were included in other assets on the condensed consolidated balance sheets. Liabilities associated with this plan were included in accrued expenses and other of $17 million and in other liabilities of $159 million on the condensed consolidated balance sheet as of October 29, 2021. Liabilities associated with this plan of $140 million were included in other liabilities on the condensed consolidated balance sheet as of January 29, 2021.

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 October 29, 2021, the fair value of the investment was $33 million and was included in short-term investments on the condensed consolidated balance sheet.

The carrying value at the time of sale for the investments sold during the three and nine months ended October 29, 2021 was $38 million and $75 million, respectively. Unrealized losses recognized on the investment still held as of October 29, 2021 were $11 million and $30 million during the three and nine months ended October 29, 2021, respectively. An unrealized gain of

$189 million was recognized during each of the three and nine months ended October 30, 2020 to adjust the investment to its fair value. A discrete tax expense of $62 million related to the book and tax basis difference on the investment was also recognized during each of the three and nine months ended October 30, 2020. 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 October 29, 2021 and January 29, 2021, investments in privately held companies, which consisted primarily of equity securities, had a carrying value of $165 million and $129 million, respectively, and were included in other assets on the condensed consolidated balance sheets. Unrealized gains recognized on securities still held as of October 29, 2021 were $21 million and $32 million during the three and nine months ended October 29, 2021, respectively. Unrealized losses recognized during each of the three and nine months ended October 30, 2020 were $15 million. 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.

K. 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 and nine months ended October 29, 2021 and October 30, 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 October 29, 2021 and January 29, 2021, outstanding forward contracts had a total notional value of $132 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 October 29, 2021 and January 29, 2021.

During the three and nine months ended October 29, 2021 and October 30, 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 October 29, 2021 and January 29, 2021, outstanding forward contracts had a total notional value of $687 million and $1.2 billion, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. The fair value of these forward contracts was not significant as of October 29, 2021 and January 29, 2021.

Gains related to the settlement of forward contracts were $11 million and $27 million during the three and nine months ended October 29, 2021, respectively. Losses related to the settlement of forward contracts were not significant and $34 million during the three and nine months ended October 30, 2020, respectively. Gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

The combined gains and losses related to the settlement of forward contracts and the underlying foreign currency denominated assets and liabilities were not significant during the three and nine months ended October 29, 2021. 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 October 30, 2020 and resulted in net gains of $14 million during the nine months ended October 30, 2020. Net gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

L. 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		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Operating lease expense	$ 48	$ 47	$ 144	$ 137
Finance lease expense:				
Amortization of right-of-use (“ROU”) assets	2	2	5	5
Interest on lease liabilities	—	—	1	1
Total finance lease expense	2	2	6	6
Short-term lease expense	—	1	1	2
Variable lease expense	8	7	23	22
Total lease expense	$ 58	$ 57	$ 174	$ 167

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 each of the three months ended October 29, 2021 and October 30, 2020 and was $16 million and $15 million, respectively, during the nine months ended October 29, 2021 and October 30, 2020.

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

	Nine Months Ended	
	October 29, 2021	October 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 129	$ 124
Operating cash flows from finance leases	1	1
Financing cash flows from finance leases	3	3
ROU assets obtained in exchange for lease liabilities:		
Operating leases	$ 124	$ 256
Finance leases	—	1

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

	October 29, 2021	
	Operating Leases	Finance Leases
ROU assets, non-current[(1)]	$ 1,000	$ 48
Lease liabilities, current[(2)]	$ 127	$ 5
Lease liabilities, non-current[(3)]	885	45
Total lease liabilities	$ 1,012	$ 50

	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 insignificant 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 periods presented were as follows:

	October 29, 2021	January 29, 2021
Weighted-average remaining lease term (in years)		
Operating leases	12.1	12.6
Finance leases	7.5	8.3
Weighted-average discount rate		
Operating leases	3.3 %	3.5 %
Finance leases	2.9 %	2.9 %

The following represents VMware's future minimum lease payments under non-cancellable operating and finance leases as of October 29, 2021 (table in millions):

	Operating Leases	Finance Leases
Remainder of 2022	$ 32	$ 2
2023	177	7
2024	153	7
2025	121	6
2026	107	7
Thereafter	690	27
Total future minimum lease payments	1,280	56
Less: Imputed interest	(268)	(6)
Total lease liabilities[(1)]	$ 1,012	$ 50

[(1)] Total lease liabilities as of October 29, 2021 excluded legally binding lease payments for leases signed but not yet commenced of $62 million.

M. 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 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 Stock through January 28, 2022. On October 7, 2021, VMware authorized the termination of the existing stock repurchase program, under which $183 million remained authorized and unpurchased as of October 29, 2021 and authorized a new repurchase program of up to $2.0 billion of Class A Stock through the end of fiscal 2024, in each case, effective upon the consummation of the Spin-Off from Dell on November 1, 2021. Refer to Note O for more information regarding the Spin-Off.

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Aggregate purchase price	$ 143	$ 255	$ 872	$ 566
Class A Stock repurchased	956	1,770	5,699	4,229
Weighted-average price per share	$ 149.61	$ 144.28	$ 153.07	$ 133.83

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 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 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.

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

	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Outstanding, January 29, 2021	17,790	$ 147.46
Granted	8,733	149.10
Vested	(5,258)	139.67
Forfeited	(2,796)	149.00
Outstanding, October 29, 2021	18,469	149.64

The aggregate vesting date fair value of VMware's restricted stock that vested during the nine months ended October 29, 2021 was $822 million. As of October 29, 2021, restricted stock representing 18.5 million shares of VMware's Class A Stock were outstanding, with an aggregate intrinsic value of $2.8 billion based on VMware's closing stock price as of October 29, 2021.

Net Excess Tax Benefits

Net excess tax benefits recognized in connection with stock-based awards are included in income tax provision on the condensed consolidated statements of income. Net excess tax benefits recognized during the three and nine months ended October 29, 2021 were not material and $19 million, respectively, and were not material and $32 million during the three and nine months ended October 30, 2020, respectively.

Accumulated Other Comprehensive Loss

The changes in components of accumulated other comprehensive 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 $—	1	—	1
Amounts reclassified from accumulated other comprehensive loss to the condensed consolidated statements of income, net of tax (provision) benefit of $—, $—, and $—	1	—	1
Other comprehensive income (loss), net	2	—	2
Balance, October 29, 2021	$ 1	$ (4)	$ (3)

	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 $—, $—, and $—	(1)	—	(1)
Other comprehensive income (loss), net	(1)	—	(1)
Balance, October 30, 2020	$ (1)	$ (4)	$ (5)

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.

N. 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		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Revenue:				
License	$ 710	$ 639	$ 2,093	$ 2,019
Subscription and SaaS	820	676	2,336	1,880
Total license and subscription and SaaS	1,530	1,315	4,429	3,899
Services:				
Software maintenance	1,354	1,282	4,011	3,797
Professional services	304	267	880	777
Total services	1,658	1,549	4,891	4,574
Total revenue	$ 3,188	$ 2,864	$ 9,320	$ 8,473

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
United States	$ 1,582	$ 1,466	$ 4,587	$ 4,268
International	1,606	1,398	4,733	4,205
Total	$ 3,188	$ 2,864	$ 9,320	$ 8,473

Revenue by geographic area is based on the ship-to addresses of VMware's customers. No individual country other than the U.S. accounted for 10% or more of revenue during the three and nine months ended October 29, 2021 and October 30, 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):

	October 29, 2021	January 29, 2021
United States	$ 864	$ 864
International	245	241
Total	$ 1,109	$ 1,105

As of October 29, 2021, the U.S. accounted for approximately 80% of these assets. No individual country other than the U.S. accounted for 10% or more of these assets as of October 29, 2021. As of January 29, 2021, the U.S. and India accounted for approximately 80% and 10% of these assets, respectively.

O. Subsequent Event

On April 14, 2021, VMware and Dell entered into the Separation Agreement, pursuant to which, subject to the satisfaction of all closing conditions, Dell would distribute the shares of Class A Stock and Class B Stock (collectively, the “Common Stock”) owned by its wholly owned subsidiaries, to the holders of shares of Dell as of a record date determined pursuant to the Separation Agreement on a pro rata basis. On November 1, 2021, VMware’s Spin-Off from Dell was completed, and, in accordance with the Separation Agreement, upon the satisfaction of all conditions and immediately prior to the Spin-Off, VMware paid an $11.5 billion cash dividend, pro rata, to each of the holders of Common Stock, including Dell (the “Special Dividend”), as of the Record Date. Based upon the number of shares of Common Stock held by Dell as of the Record Date, approximately $9.3 billion in cash was paid to Dell. VMware funded the Special Dividend in part through the $10.0 billion of indebtedness incurred during fiscal 2022, including $6.0 billion in 2021 Senior Notes that VMware issued in August 2021 and $4.0 billion in aggregate drawdowns on its senior unsecured term loan facilities on November 1, 2021. Automatically as a result of the Spin-Off, each share of Class B Stock converted into one fully paid and non-assessable share of Class A Stock. As a result of the Spin-Off, entities affiliated with Michael Dell, VMware’s Chairman of the Board, and who also serves as chairman and chief executive officer of 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, became owners of direct interests in VMware representing 40.3% and 10.0%, respectively, of VMware’s outstanding stock, based on the shares outstanding as of November 26, 2021. Due to the MSD Stockholders’ and SLP Stockholders’ direct ownership in both VMware and Dell, and Mr. Dell’s executive position with Dell, transactions with Dell will continue to be considered related party transactions following the Spin-Off.

Stock awards that were outstanding at the time of the Special Dividend were adjusted pursuant to existing anti-dilution provisions in the Company’s stock plan documents that provide for equitable adjustments to be determined by VMware’s Compensation Committee in the event of an extraordinary cash dividend. A conversion ratio based on the per share dividend amount and VMware’s closing stock price on November 1, 2021 was used to adjust the stock awards outstanding at the time of the Special Dividend. The anti-dilution adjustments to awards proportionately increased the number of outstanding restricted stock units and stock options and reduced the exercise prices of outstanding stock options by a conversion ratio of 1.2191, resulting in an increase of 4.2 million restricted stock units and stock options. The adjustments did not result in incremental stock-based compensation expense as the anti-dilutive adjustments were required by the Company’s equity incentive plan.

Prior to the Spin-Off, VMware’s financial results were included in the Dell consolidated tax return for U.S. federal income tax purposes, but VMware’s income tax provision or benefit was calculated primarily as though VMware was a separate taxpayer, with certain transactions between VMware and Dell being assessed using consolidated tax return rules. As a result of the Spin-Off, VMware is no longer a member of the Dell consolidated tax group and the Company’s U.S. federal income tax will be reported separately from that of the Dell consolidated tax group. VMware and Dell have agreed to indemnify one another, pursuant to the Tax Matters Agreement, for certain tax liabilities relating to periods prior to the Spin-Off and adjustments to these amounts recognized in future periods will be recorded in other income (expense), net on the condensed consolidated statements of income. Additionally, VMware and Dell have agreed to pay one another for VMware’s tax benefits received from the use of certain tax attributes in any pre-Spin-Off period from a post-Spin-Off period. Due to the timing of the Spin-Off and the complexity in determining the income tax provision and related impact to tax assets and liabilities as a result of leaving the Dell consolidated group, which will also require adjustments to VMware’s tax assets and liabilities, the Company cannot reasonably estimate the impact to the tax provision in its consolidated financial statements for the fiscal year ended January 28, 2022 at this time.

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 October 29, 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 nine months ended October 29, 2021, revenue growth in our subscription and SaaS offerings was primarily driven by our VMware Cloud Provider Program ("VCPP"), VMware Workspace ONE ("Workspace ONE"), VMware Tanzu, VMware Carbon Black Cloud, vRealize Cloud Management 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 nine months ended October 29, 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, which negatively impacted our operating margin. 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 Technologies Inc. ("Dell") and its subsidiaries to enhance the collective value we deliver to our mutual customers. During the three and nine months ended October 29, 2021, revenue from Dell, including purchases of products and services directly from us, as well as through our channel partners, accounted for 38% and 37% of our consolidated revenue, respectively. During each of the three and nine months ended October 29, 2021, revenue recognized on transactions where Dell acted as an original equipment manufacturer ("OEM") accounted for 13% of total revenue from Dell, or 5% of our consolidated revenue. 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.

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 (the "Separation Agreement"), pursuant to which, subject to the satisfaction of all closing conditions, Dell would distribute the shares of Class A common stock ("Class A Stock") and Class B common stock ("Class B Stock" and, collectively, the "Common Stock") owned by its wholly owned subsidiaries, to the holders of shares of Dell as of a record date determined pursuant to the Separation Agreement on a pro rata basis (the "Spin-Off"). On November 1, 2021, the Spin-Off from Dell was completed, and, in accordance with the Separation Agreement, upon the satisfaction of all conditions and immediately prior to the Spin-Off, we paid an $11.5 billion cash dividend, pro rata, to each of the holders of Common Stock, including Dell (the "Special Dividend"), as of the close of business on October 29, 2021 (the "Record Date"). Based upon the number of shares of Common Stock held by Dell as of the Record Date, approximately $9.3 billion in cash was paid to Dell. We funded the Special Dividend in part through the $10.0 billion of indebtedness incurred during fiscal 2022, including $6.0 billion in senior notes that we issued in August 2021 and $4.0 billion in aggregate drawdowns on our senior unsecured term loan facilities on November 1, 2021. Refer to Note O to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding the Spin-Off and Special Dividend.

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				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Revenue:								
License	$ 710	$ 639	$ 70	11 %	$ 2,093	$ 2,019	$ 75	4 %
Subscription and SaaS	820	676	144	21	2,336	1,880	456	24
Total license and subscription and SaaS	1,530	1,315	214	16	4,429	3,899	531	14
Services:								
Software maintenance	1,354	1,282	72	6	4,011	3,797	213	6
Professional services	304	267	37	14	880	777	102	13
Total services	1,658	1,549	110	7	4,891	4,574	315	7
Total revenue	$ 3,188	$ 2,864	$ 324	11	$ 9,320	$ 8,473	$ 847	10
Revenue:								
United States	$ 1,582	$ 1,466	$ 116	8 %	$ 4,587	$ 4,268	$ 319	7 %
International	1,606	1,398	208	15	4,733	4,205	528	13
Total revenue	$ 3,188	$ 2,864	$ 324	11	$ 9,320	$ 8,473	$ 847	10

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, VMware SD-WAN by VeloCloud and 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 increased during the three and nine months ended October 29, 2021 compared to the three and nine months ended October 30, 2020. 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 and nine months ended October 29, 2021 compared to the three and nine months ended October 30, 2020. Revenue growth primarily from our VCPP, Workspace ONE, VMware Tanzu, VMware Carbon Black Cloud, vRealize Cloud Management and VMware Cloud on AWS offerings continued to contribute to subscription and SaaS revenue growth during the three and nine months ended October 29, 2021 compared to the three and nine months ended October 30, 2020.

Services Revenue

During the three and nine months ended October 29, 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 and nine months ended October 29, 2021 compared to the three and nine months ended October 30, 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. The timing of services rendered 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):

	October 29, 2021	January 29, 2021
Unearned license revenue	$ 17	$ 15
Unearned subscription and SaaS revenue	2,238	1,998
Unearned software maintenance revenue	6,773	7,092
Unearned professional services revenue	1,205	1,209
Total unearned revenue	$ 10,233	$ 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 our maintenance contracts and is generally recognized ratably over the contract duration. The weighted-average remaining contractual term as of October 29, 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 October 29, 2021, the aggregate transaction price allocated to remaining performance obligations was $11.1 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 October 29, 2021, our total backlog was $124 million, and our backlog related to licenses was $34 million. For our backlog related to licenses, we generally expect to deliver and recognize as revenue during the following quarter. Backlog totaling $17 million as of October 29, 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

Collectively, our cost of license revenue, cost of subscription and SaaS revenue, cost of services revenue and operating expenses primarily reflected increasing cash-based employee-related expenses, driven by incremental growth in headcount and salaries across most of our income statement expense categories for the three and nine months ended October 29, 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				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Cost of license revenue	$ 37	$ 44	$ (8)	(17) %	$ 110	$ 118	$ (7)	(6) %
Stock-based compensation	—	—	—	(28)	1	1	—	(9)
Total expenses	$ 37	$ 44	$ (8)	(17)	$ 111	$ 119	$ (7)	(6)
% of License revenue	*5 %*	*7 %*			*5 %*	*6 %*		

Cost of license revenue remained relatively consistent during the three and nine months ended October 29, 2021 compared to the three and nine months ended October 30, 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				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Cost of subscription and SaaS revenue	$ 170	$ 138	$ 32	23 %	$ 486	$ 387	$ 99	26 %
Stock-based compensation	5	4	—	9	16	13	3	21
Total expenses	$ 175	$ 142	$ 33	23	$ 502	$ 400	$ 102	25
% of Subscription and SaaS revenue	*21 %*	*21 %*			*21 %*	*21 %*		

Cost of subscription and SaaS revenue increased during the three months ended October 29, 2021 compared to the three months ended October 30, 2020. The increase was primarily driven by growth in costs associated with hosted services to support our SaaS offerings of $12 million and increased equipment and depreciation of $11 million. The increase was also driven by growth in cash-based employee-related cost of $10 million, which was primarily driven by incremental growth in headcount.

Cost of subscription and SaaS revenue increased during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020. The increase was primarily driven by growth in costs associated with hosted services to support our SaaS offerings of $38 million and increased equipment and depreciation of $34 million. The increase was also driven by growth in cash-based employee-related cost of $34 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				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Cost of services revenue	$ 341	$ 305	$ 36	12 %	$ 981	$ 895	$ 85	9 %
Stock-based compensation	21	25	(4)	(16)	70	74	(3)	(5)
Total expenses	$ 362	$ 330	$ 32	10	$ 1,051	$ 969	$ 82	8
% of Services revenue	*22 %*	*21 %*			*21 %*	*21 %*		

Cost of services revenue increased during the three months ended October 29, 2021 compared to the three months ended October 30, 2020. The increase was primarily driven by growth in cash-based employee-related cost of $33 million, which was primarily driven by incremental growth in headcount and salaries.

Cost of services revenue increased during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020. The increase was primarily due to growth in cash-based employee-related expenses of $87 million, primarily driven by incremental growth in headcount and salaries. The increase was also driven by increased third-party professional services costs of $18 million. These increases were partially offset by decreased equipment and depreciation of $22 million.

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				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Research and development	$ 643	$ 574	$ 69	12 %	$ 1,849	$ 1,661	$ 187	11 %
Stock-based compensation	125	140	(15)	(11)	402	397	6	1
Total expenses	$ 768	$ 714	$ 54	8	$ 2,251	$ 2,058	$ 192	9
% of Total revenue	*24 %*	*25 %*			*24 %*	*24 %*		

Research and development expenses increased during the three months ended October 29, 2021 compared to the three months ended October 30, 2020. The increase was primarily due to growth in cash-based employee-related expenses of $64 million, primarily driven by incremental growth in headcount and salaries, as well as increased equipment and depreciation of $13 million. These increases were partially offset by increased capitalized internal-use software development costs of $19 million and decreased stock-based compensation of $15 million, primarily due to departure of certain executives.

Research and development expenses increased during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020. The increase was primarily due to growth in cash-based employee-related expenses of $181 million, primarily driven by incremental growth in headcount and salaries, as well as increased equipment and depreciation of $34 million and increased third-party professional service cost of $11 million. These increases were partially offset by increased capitalized internal-use software development costs of $47 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				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Sales and marketing	$ 937	$ 827	$ 109	13 %	$ 2,766	$ 2,484	$ 283	11 %
Stock-based compensation	74	85	(10)	(12)	227	243	(17)	(7)
Total expenses	$ 1,011	$ 912	$ 99	11	$ 2,993	$ 2,727	$ 266	10
% of Total revenue	*32 %*	*32 %*			*32 %*	*32 %*		

Sales and marketing expenses increased during the three months ended October 29, 2021 compared to the three months ended October 30, 2020. The increase was primarily due to growth in cash-based employee-related expenses of $78 million, primarily driven by incremental growth in headcount and salaries, as well as higher commission costs of $21 million resulting from increased sales volume. These increases were partially offset by decreased stock-based compensation of $10 million, primarily due to the vesting of awards associated with prior acquisitions.

Sales and marketing expenses increased during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020. The increase was primarily due to growth in cash-based employee-related expenses of $217 million, primarily driven by incremental growth in headcount and salaries, as well as higher commission costs of $84 million resulting from increased sales volume. These increases were partially offset by decreased stock-based compensation of $17 million, primarily due to the vesting of awards associated with prior acquisitions, offset in part by an increase in restricted stock unit awards granted to our employees. Additionally, these increases were partially offset by decreased costs incurred for sales enablement-based initiatives of $16 million.

General and Administrative Expenses

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

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

	Three Months Ended				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
General and administrative	$ 283	$ 200	$ 83	41 %	$ 711	$ 632	$ 79	13 %
Stock-based compensation	33	50	(17)	(34)	97	141	(44)	(31)
Total expenses	$ 316	$ 250	$ 66	27	$ 808	$ 773	$ 35	5
% of Total revenue	*10 %*	*9 %*			*9 %*	*9 %*		

General and administrative expenses increased during the three months ended October 29, 2021 compared to the three months ended October 30, 2020. The increase was primarily driven by certain costs incurred related to the Spin-Off, such as legal and advisory fees, of $66 million, offset in part by a decrease in acquisition-related costs $11 million. In addition, cash-based employee-related expenses increased $20 million, primarily driven by incremental growth in headcount and salaries. The increases were partially offset by decreased stock-based compensation of $17 million, primarily due to departure of certain executives.

General and administrative expenses increased during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020. The increase was primarily driven by certain costs incurred related to the Spin-Off, such as legal and advisory fees, of $72 million, offset in part by a decrease in acquisition-related costs of $49 million. In addition, cash-based employee-related expenses increased $56 million, primarily driven by incremental growth in headcount and salaries. These increases were partially offset by decreased stock-based compensation of $44 million, which was primarily due to the vesting of awards associated with prior acquisitions.

Realignment

Realignment expenses during the periods presented were as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Realignment	$ —	$ 44	$ (44)	(100) %	$ 1	$ 47	$ (46)	(98) %
% of Total revenue	*— %*	*2 %*			*— %*	*1 %*		

During the third quarter of fiscal 2021, we approved a plan to streamline our operations and align resources with our business priorities. As a result of this action, approximately 330 positions were eliminated during the third quarter of fiscal 2021. We recognized $44 million and $47 million of severance-related realignment expenses during the three and nine months ended October 30, 2020, respectively, on the condensed consolidated statements of income. Actions associated with this plan were substantially complete by the end of fiscal 2021.

Interest expense

Interest expense during the periods presented was as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Interest expense	$ 74	$ 52	$ 22	41 %	$ 173	$ 156	$ 17	11 %
% of Total revenue	*2 %*	*2 %*			*2 %*	*2 %*		

Interest expense increased during the three and nine months ended October 29, 2021 compared to three and nine months ended October 30, 2020. The increase was primarily driven by the five series of unsecured senior notes issued during the third quarter of fiscal 2022 in the aggregate amount of $6.0 billion. We expect the annual interest expense associated with these senior notes to be approximately $100 million.

Other Income (Expense), net

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

	Three Months Ended				Nine Months Ended			
	October 29, 2021	October 30, 2020	$ Change	% Change	October 29, 2021	October 30, 2020	$ Change	% Change
Other income (expense), net	$ 12	$ 177	$ (166)	(94) %	$ (7)	$ 186	$ (194)	(105) %
% of Total revenue	*— %*	*6 %*			*— %*	*2 %*		

Other income (expense), net decreased during the three and nine months ended October 29, 2021 compared to the three and nine months ended October 30, 2020, primarily driven by gains and losses, whether realized or unrealized, on our investments in equity securities. During the three and nine months ended October 29, 2021, net gains on our investments in equity securities decreased by $166 million and $209 million, respectively, primarily due to a gain of $189 million recognized on one of our investments in equity securities, which completed its initial public offering during the third quarter of fiscal 2021, during each of the three and nine months ended October 30, 2020.

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.

Pursuant to a tax matters agreement entered into with Dell effective April 14, 2021 (the "Tax Matters Agreement"), we have agreed to indemnify Dell for certain tax liabilities relating to periods prior to the Spin-Off and adjustments to these amounts recognized in future periods will be recorded in other income (expense), net on the condensed consolidated statements of income. We cannot reasonably predict the amount that we may receive or pay in future periods and it introduces a degree of variability to our consolidated statements of income.

Income Tax Provision

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

	Three Months Ended		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Income tax provision	$ 59	$ 120	$ 190	$ 150
Effective income tax rate	12.9 %	21.6 %	13.3 %	10.6 %

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 increase in our effective income tax rate for the nine months ended October 29, 2021 compared to the nine months ended October 30, 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 nine months ended October 30, 2020. The increase was also driven by a decrease in excess tax benefits recognized, which were $19 million during the nine months ended October 29, 2021 compared to $32 million during the nine months ended October 30, 2020. The decrease in our effective income tax rate for the three months ended October 29, 2021 compared to the three months ended October 30, 2020 was mainly driven by a discrete tax benefit of $11 million related to our book and tax basis difference on our investment in equity securities recognized during the third quarter of fiscal 2022 as compared to a discrete tax expense of $62 million recognized during the third quarter of fiscal 2021.

Prior to the Spin-Off, our financial results were included in the Dell consolidated tax return for U.S. federal income tax purposes, but our income tax provision or benefit was calculated primarily as though we were a separate taxpayer, with certain transactions between us and Dell being assessed using consolidated tax return rules. As a result of the Spin-Off, we are no longer a member of the Dell consolidated tax group and our U.S. federal income tax will be reported separately from that of the Dell consolidated tax group. We and Dell have agreed to indemnify one another, pursuant to the Tax Matters Agreement, for certain tax liabilities relating to periods prior to the Spin-Off and adjustments to these amounts recognized in future periods will be recorded in other income (expense), net on the condensed consolidated statements of income.

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 and nine months ended October 29, 2021, revenue from Dell accounted for 38% and 37% of our consolidated revenue, respectively. During each of the three and nine months ended October 29, 2021, revenue recognized on transactions where Dell acted as an OEM accounted for 13% of total revenue from Dell, or 5% of our consolidated revenue.

During each of the three and nine months ended October 30, 2020, revenue from Dell accounted for 33% of our consolidated revenue. During the three and nine months ended October 30, 2020, revenue recognized on transactions where Dell acted as an OEM accounted for 13% and 12%, respectively, of total revenue from Dell, or 4% of our consolidated revenue.

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		Nine Months Ended		As of	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020	October 29, 2021	January 29, 2021
Reseller revenue	$ 1,183	$ 927	$ 3,380	$ 2,738	$ 5,008	$ 4,952
Internal-use revenue	17	16	43	50	25	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 and nine months ended October 29, 2021 and October 30, 2020.

Customer deposits resulting from transactions with Dell were $225 million and $214 million as of October 29, 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		Nine Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Purchases and leases of products and purchases of services[(1)]	$ 57	$ 49	$ 164	$ 138
Dell subsidiary support and administrative costs	8	12	32	54

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

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

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

On November 1, 2021, in connection with the Spin-Off from Dell, we and Dell entered into a commercial framework 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. The commercial framework agreement has an initial term of five years, with automatic one-year renewals occurring annually thereafter, subject to certain terms and conditions. Refer to Note O to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding the Spin-Off.

Dell Financial Services

DFS provides 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 October 29, 2021 and were $20 million during the nine months ended October 29, 2021. Financing fees on arrangements accepted by both parties were $12 million and $43 million during the three and nine months ended October 30, 2020, respectively.

Tax Agreements with Dell

Concurrently with the execution of the Separation Agreement, effective as of April 14, 2021, we and Dell entered into the Tax Matters Agreement and agreed to terminate the tax sharing agreement as amended on December 30, 2019 (together with the Tax Matters Agreement and the Letter Agreement (as defined below), the "Tax Agreements"). The Tax Matters Agreement governs our 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 made to Dell pursuant to the Tax Agreements were $10 million and $96 million during the three and nine months ended October 29, 2021, respectively, and were $54 million and $221 million during the three and nine months ended October 30, 2020, respectively. Refunds received from Dell pursuant to the Tax Agreements were $45 million during the nine months ended October 29, 2021.

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 Dell 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 $45 million during the nine months ended October 30, 2020 and was not significant during the three and nine months ended October 29, 2021 and three months ended October 30, 2020.

As a result of the activity under the Tax Agreements with Dell, amounts due to Dell were $443 million and $451 million as of October 29, 2021 and January 29, 2021, respectively, primarily related to our estimated tax obligation resulting from the Transition Tax. The U.S. Tax Cuts and Jobs Act enacted on December 22, 2017 (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 four years.

Pivotal Tax Sharing Agreement with Dell

During the fourth quarter of fiscal 2020, we completed the acquisition of Pivotal. Prior to the Spin-Off, Pivotal filed a 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 continued to be included on Dell's unitary state tax returns until the Spin-Off. 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 and nine months ended October 29, 2021 and October 30, 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):

	October 29, 2021	January 29, 2021
Due from related parties, current	$ 748	$ 1,558
Due to related parties, current[(1)]	88	120
Due from related parties, net, current	$ 660	$ 1,438

[(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 October 29, 2021 and January 29, 2021.

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

Notes Payable to Dell

As of January 29, 2021, we had an outstanding promissory note payable to Dell in the principal amount of $270 million due December 1, 2022. We repaid the outstanding balance of $270 million during the three months ended October 29, 2021. During the three and nine months ended October 29, 2021 and October 30, 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):

	October 29, 2021	January 29, 2021
Cash and cash equivalents	$ 12,500	$ 4,692
Short-term investments	33	23
Total cash, cash equivalents and short-term investments	$ 12,533	$ 4,715

Subsequent to the third quarter of fiscal 2022, our cash and cash equivalents declined significantly as a result of the payment of the Special Dividend on November 1, 2021. We funded the Special Dividend in part through the $10.0 billion of indebtedness incurred during fiscal 2022, including $6.0 billion in senior notes that we issued in August 2021 and $4.0 billion in aggregate drawdowns on our senior unsecured term loan facilities on November 1, 2021. Refer to Note O to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding the Spin-Off and Special Dividend.

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.

We continue to expect that cash generated by operations will be our primary source of liquidity. We also continue to believe that, despite the 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 the Spin-Off from Dell, we expect to use free cash flow primarily to repay our outstanding indebtedness. 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 liability related to the Transition Tax as of October 29, 2021 was $504 million, which we expect to pay over the next four 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):

	Nine Months Ended	
	October 29, 2021	October 30, 2020
Net cash provided by (used in):		
Operating activities	$ 3,220	$ 3,085
Investing activities	(212)	(632)
Financing activities	4,775	(1,493)
Net increase in cash, cash equivalents and restricted cash	$ 7,783	$ 960

Operating Activities

Cash provided by operating activities increased by $135 million during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020, primarily driven by increased cash collections due to increased sales, as well as decreased tax payments. These activities were partially offset by an increase in cash payments for employee-related expenses, including salaries, bonuses and commissions, resulting primarily from growth in headcount and salaries during the nine months ended October 29, 2021.

Investing Activities

Cash used in investing activities decreased by $420 million during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020, primarily driven by a decrease in cash used in business combinations, as well as an increase in proceeds from sales of our investments in equity securities.

Financing Activities

Cash provided by financing activities changed by $6.3 billion during the nine months ended October 29, 2021 compared to the nine months ended October 30, 2020, primarily driven by the net cash proceeds received from the issuance of long-term debt of $6.0 billion, offset in part by the repayment of the note payable to Dell of $270 million and an increase of $306 million in repurchases of shares of our Class A Stock during the nine months ended October 29, 2021. The change was also due to the absence of the net cash proceeds received from the issuance of long-term debt of $2.0 billion, the redemption of the $1.3 billion unsecured senior note due August 21, 2020 and the repayment of the $1.5 billion senior unsecured term loan facility during the nine months ended October 30, 2020.

Unsecured Senior Notes

The following table summarizes the principal on our two series of unsecured senior notes issued August 21, 2017 (the "2017 Senior Notes"), three series of unsecured senior notes issued April 7, 2020 (the"2020 Senior Notes") and five series of unsecured senior notes issued August 2, 2021 (the "2021 Senior Notes", collectively with the 2017 Senior Notes and 2020 Senior Notes, the "Senior Notes") as of October 29, 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
Senior Notes issued August 2, 2021:		
0.60% Senior Note Due August 15, 2023		1,000
1.00% Senior Note Due August 15, 2024		1,250
1.40% Senior Note Due August 15, 2026		1,500
1.80% Senior Note Due August 15, 2028		750
2.20% Senior Note Due August 15, 2031		1,500
Total principal amount	$	10,750

Interest on the 2021 Senior Notes is payable semiannually in arrears, on February 15 and August 15 of each year, commencing on February 15, 2022. Interest on the 2020 Senior Notes is payable semiannually in arrears, on May 15 and November 15 of each year, beginning November 15, 2020. The interest rate on the 2020 Senior Notes is subject to adjustment based on certain rating events. Interest on the 2017 Senior Notes is payable semiannually in arrears, on February 21 and August 21 of each year. During the nine months ended October 29, 2021 and October 30, 2020, $139 million and $107 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.

Revolving Credit Facility

On September 2, 2021, 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 $1.5 billion for general corporate purposes (the "2021 Revolving Credit Facility"). The 2021 Revolving Credit Facility replaced our existing $1.0 billion revolving credit facility that was undrawn. Commitments under the 2021 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. The 2021 Revolving Credit Facility contains certain representations, warranties and covenants. As of October 29, 2021, there was no outstanding borrowing under the 2021 Revolving Credit Facility.

Senior Unsecured Term Loan Facility

On September 2, 2021, we received commitments from financial institutions for a three-year senior unsecured term loan facility and a five-year senior unsecured term loan facility that would provide us with an aggregate borrowing capacity of up to $4.0 billion. We may borrow once up to the aggregate borrowing capacity of $4.0 billion. The term loan facilities contain certain representations, warranties and covenants.

On November 1, 2021, we drew down an aggregate of $4.0 billion with a weighted average interest rate of 0.90%. The drawdown was used to fund a portion of the Special Dividend in connection with the Spin-Off from Dell. Refer to Note O to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding the Spin-Off.

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 M 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; our expectations regarding the timing of tax payments and the impacts of changes in our 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, capital-raising activities, 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; our commercial relationship with Dell following completion of the Spin-Off and the related payment of the Special Dividend; our plans to repay our outstanding indebtedness, including the indebtedness incurred to pay a portion of the Special Dividend; our commitment and ability to maintain an investment-grade credit rating; the sufficiency of our cash sources to fund our operations; 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 vmware.com, and our investor relations website is located at 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;
- ESG (environmental, social and governance) information;
- 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 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 nine months ended October 29, 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 October 29, 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.

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, as well as our software maintenance revenue and deferred revenue may 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. In addition, the transition from selling support and maintenance with perpetual licenses to selling subscription and SaaS offerings may negatively affect our profitability, as the cost associated with software maintenance renewals is generally lower than the cost associated with selling new subscription and SaaS offerings. 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 and distributed 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 (“VCPP”) 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, which are increasingly integrated with on-premises solutions. 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, and, in fiscal 2019, we extended our collaboration with AWS to include AWS Outposts. 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, many of these public cloud providers are delivering hybrid cloud hardware solutions with their distributed cloud management. To the extent customers choose to operate native cloud 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 Inc. (“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 commercial relationship with Dell could adversely impact our business, stock price, market share and ability to build and maintain other strategic relationships.

Our commercial relationship with Dell is significant and complex. During the time in which we were a majority-owned subsidiary of Dell, the portion of our sales that were realized through the Dell sales channel grew more rapidly than our sales through non-Dell resellers and distributors. As a standalone company following the Spin-Off, we expect to continue to transact a significant amount of business with Dell pursuant to the commercial framework agreement between us and Dell that became effective upon the Spin-Off, which involves various risks such as:

Reliance on our relationship with Dell. During the nine months ended October 29, 2021, revenue from Dell, including purchases of products and services directly from us, as well as through our channel partners, accounted for 37% 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 and purchasing products and services for its own internal use. On certain transactions, Dell Financial Services also provides financing to our end users and channel partners at our end users' and channel partners' discretion. Our reliance on the Dell sales channel could negatively impact our ability to negotiate favorable go-to-market arrangements with Dell and our relationships with other channel partners.

Dell's arrangements with our competitors. Dell maintains significant partnerships with certain of our competitors, including Microsoft, and may enter into more such partnerships in the future. Further, Dell may choose to partner with our competitors instead of with us. These partnerships may adversely impact our relationship with Dell, impede our standalone competitive success and result in declines in our stock price or market share. Additionally, our potential strategic relationships may be negatively affected by our relationship with Dell, as companies may favor or choose to partner with our competitors because of those competitors' relationship with Dell or due to our relationship with Dell.

Overlaps in areas in which we and Dell compete. We and Dell compete across the IT infrastructure industry 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**.** Some of our products compete directly with products sold or distributed by Dell, which could result in declines in VMware sales. Additionally, 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 arrangements with Dell's competitors. We partner and have arrangements with a number of companies that compete with Dell, including certain of our significant channel, technology and other marketing partners, such as IBM and Hewlett-Packard. Our relationship with Dell could adversely affect our relationships with these companies or other customers, suppliers and partners. Further, our relationships with these companies could adversely impact our relationship with Dell.

Additionally, though we, as a standalone company, now have more flexibility in our strategic partnerships with cloud and on-premises infrastructure companies, for example, such companies may not choose to partner with us to the full extent or at all due to our historical and on-going commercial relationship with Dell. As a result, we may be unable to capitalize, either strategically or commercially, on our new flexibility, and our business, stock price, market share and relationships may suffer.

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, 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.

In addition, we are subject to President Biden’s recent Executive Order 14042, which mandates COVID-19 vaccinations for all U.S.-based employees of businesses servicing federal contracts by January 18, 2022, except for employees who qualify for medical or religious exemptions. In light of this vaccine mandate, we are requiring all our U.S.-based employees to be fully vaccinated for COVID-19, except for employees who qualify for medical or religious exemptions. It is currently not possible to predict with any certainty the impact the vaccine mandate will have on our workforce. Our implementation of these requirements may result in employee attrition, including attrition of highly skilled employees, and difficulty attracting new employees.

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 nine months ended October 29, 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.

Sales via our various route-to-market relationships with Dell accounted for 37% of our consolidated revenue during the nine months ended October 29, 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. Although we and Dell entered into a commercial agreement effective upon the Spin-Off that is intended to preserve and enhance our strategic partnership, as a standalone company, our relationship with Dell is fundamentally different from the relationship that we had with Dell when we were its majority-owned subsidiary. Following the Spin-Off, Dell will no longer consolidate VMware's revenues, and Dell may not be sufficiently incentivized to drive VMware business through our various route-to-market relationships. If sales through Dell decline and VMware is unable to shift business to suitable alternative channel partners, our business and operating results will be negatively affected. Additionally, 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.

Other than Dell, none of our distributors accounted for 10% or more of our consolidated revenue during the nine months ended October 29, 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.

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, have in the past and in the future 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, 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 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. There remains considerable uncertainty regarding the progress of vaccination programs and the impact of vaccine mandates, the dangers posed by COVID-19 variants and the extent to which there is a return to pre-pandemic conditions. Accordingly, should the pandemic persist for an extended 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. Further, concerns over the economic impact of COVID-19 have caused volatility in financial and other capital markets, which has and may continue to adversely impact our stock price and may in the future impact 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, 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 substantial indebtedness, and we may incur other debt in the future, which may adversely affect our financial condition and future financial results.

As of November 1, 2021, we had an aggregate of $14.8 billion of outstanding indebtedness, including $6.0 billion in unsecured notes issued in August 2021 and $4.0 billion in aggregate drawdowns on two unsecured term loan facilities (the "Term Loan") which were used to fund a portion of the special cash dividend paid on November 1, 2021 to holders of our Class A Stock and Class B Stock as of the close of business on October 29, 2021 in connection with the Spin-Off. Additionally, we have entered into a $1.5 billion unsecured revolving credit facility (the "2021 Revolving Credit Facility"), which is undrawn.

The terms of our unsecured notes, Term Loan and 2021 Revolving 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 fail to satisfy any of the terms or 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 or, with respect to the unsecured notes, we may be required to repurchase our unsecured notes at a price equal to 101% of the aggregate principal plus any accrued and unpaid interest.

We intend to reduce our indebtedness during the next fiscal years. While we believe our remaining cash balances and cash generated by our business operations will be sufficient to fund our operations and pursue our existing stock repurchase program and strategic plans, if our business operations do not generate the cash flows we expect, then our ability to fund future stock repurchases, invest in our business and pursue strategic alternatives, including business acquisitions, will be reduced, which could reduce our ability to manage dilution of our stock and limit our future growth. If in the future we are unable to generate sufficient operating cash flows to service our debt, we may be required to, among other things, seek additional financing in the debt or equity markets, refinance or restructure all or a portion of our indebtedness, sell selected assets or reduce or delay planned expenditures. Even so, such measures may not be sufficient to enable us to service our debt.

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, impairing our ability to obtain additional financing for working capital, capital expenditures, acquisitions or other purposes, 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 2021 Revolving 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.

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.

We have potential tax liabilities as a result of our former controlling ownership by Dell, which could have an adverse effect on our operating results and financial condition.

Membership in a consolidated tax group. We were 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, from the time of our acquisition by EMC in 2004 through the acquisition of EMC by Dell effective September 7, 2016 (the “Dell Acquisition”), when we became included in Dell’s consolidated tax group. 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 such group. Accordingly, for any period in which we were included in the Dell consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Dell and its subsidiaries, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of any such group. Additionally, the impact of the 2017 Tax Cuts and Jobs Act (the “2017 Tax Act”) upon consolidated groups is highly complex and uncertain and its impact must be further interpreted in the context of various tax-related agreements we have agreed to with EMC and Dell (the “Tax Agreements”) to determine VMware’s related payment. As a result of the Spin-Off, we are no longer a member of Dell’s consolidated tax group, however, we are still subject to potential tax liabilities for the periods prior to the Spin-Off.

Tax Agreements. We have agreed to Tax Agreements that govern, among other things, our potential liabilities for other members of the consolidated tax groups of which we are considered members. Pursuant to the Tax Agreements, 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. Although the Tax Agreements provide 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 Agreements. In April 2019, we expanded the Tax Agreements by entering into a letter agreement with Dell and EMC that governs our portion of the one-time transition tax imposed by the 2017 Tax Act on accumulated earnings of foreign subsidiaries. Additionally, in December 2019, we amended the Tax Agreements to, subject to certain exceptions, generally limit VMware’s maximum annual tax liability to Dell to the amount VMware would owe on a separate tax return basis. Concurrent with the signing of the Separation and Distribution Agreement in April 2021, we and Dell entered into a new tax matters agreement and terminated a preceding tax sharing agreement. A substantial lack of alignment or disagreement between us and Dell regarding the applicability or interpretation of the Tax Agreements, or any unanticipated material tax liability arising pursuant to the Tax Agreements, could adversely impact our financial condition and operating results.

Pivotal. Prior to the Spin-Off, Pivotal filed a 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 in April 2018. Pivotal continued to be included on Dell’s unitary state tax returns until the Spin-Off. Pursuant to a tax agreement between Pivotal and Dell, 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.

Tracking Stock. Pursuant to the Tax Agreements, 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.

Spin-Off. If the Spin-Off is later determined to not be tax-free for any reason, we could be liable for all or a portion of the tax liability. Additionally, under the Tax Agreements, we are prohibited from taking or failing to take any action that prevents the Spin-Off from being tax-free for U.S. federal income tax purposes. We would be responsible for any taxes imposed on Dell or any of its affiliates as a result of the failure of the Spin-Off to qualify for favorable treatment under the Code if such failure is attributable to certain actions taken after the Spin-Off by or in respect of us, which could have a material adverse effect on our operating results and financial condition. Further, during the two-year period following the Spin-Off, without obtaining the consent of Dell, a private letter ruling from the IRS or an unqualified opinion of a nationally recognized law firm, we may be prohibited from taking certain specified actions that could impact the treatment of the Spin-Off, such as significant equity transactions that shift more than a significant portion of the value or total combined voting power of all outstanding shares of our stock. These restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business. These obligations may also discourage, delay or prevent a change of control of our company.

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 a member beginning in Dell's fiscal year 2017. As a result of the Spin-Off, VMware is no longer a member of the Dell consolidated group. However, we are still subject to examination by the IRS for the periods in which we were a member of the Dell consolidated group. 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. Further, the Tax Agreements between us and Dell provide that, when we become subject to federal income tax audits as a member of Dell's consolidated group, Dell has authority to control the audit and represent Dell and our interests to the IRS. Accordingly, if we and Dell 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, regulatory guidance is still forthcoming with respect to the 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. In addition, the Organization for Economic, Co-operation and Development ("OECD"), an international association of countries, including the U.S., has made changes and is contemplating additional changes to numerous long-standing tax principles. 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 have in the past and will in the future contain defects or vulnerabilities that could 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.
- We are considered an essential supplier in the digital supply chain for the United States government and others, which makes us and our products a target for those seeking to threaten the confidentiality, availability and integrity of critical infrastructure globally.

Cyber-attacks, which are increasing in number and technical sophistication, threaten to misappropriate our proprietary information, cause interruptions of our IT services, introduce vulnerabilities, 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. In addition, employees or contractors have introduced vulnerabilities in, and enabled the exploitation of, our IT environments, our software products (and correspondingly our customers' environments), and our subscription and SaaS offerings in the past and may do so in the future. These vulnerabilities have and will continue to have a corresponding impact on our customers' environments that use our affected software products, and delays by customers in taking appropriate security measures in their environments increase the potential severity of the impact. 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. Significant and increasing investments of time, resources and management's attention have been, and will continue to be, required to anticipate and address cyber-related challenges. 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. Security 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, result in litigation or regulatory actions or lead some customers to return products or services, reduce or delay future purchases or use competitive products or services, any 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, supporting our employees, managing employee data 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. In particular, our systems and operations were built to support a perpetual software licensing model, and significant enhancements are required to support our transition to subscription and SaaS products and services. 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.

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

We currently, and in the future expect to continue to, engage in transactions with Dell that are considered related persons transactions due to the share ownership in both Dell and VMware held by the 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. These transactions relate to areas of joint product development, go-to-market, branding, sales, customer service, real estate, support services and where we are strategically aligned. 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 for the benefit of our customers and stockholders while enabling us to compete more effectively with our larger competitors. 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 to also view us as their competitors.

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 (including cybersecurity-related requirements and President Biden's recent executive order mandating COVID-19 vaccinations for all U.S.-based employees of federal contractors and subcontractors) 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.

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 Durban, is member of the Dell board of directors and managing partner of Silver Lake Partners, a significant stockholder of Dell. Another one of our directors also holds shares of Dell common stock. 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 Messrs. Dell and Durban. 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.

Risks Related to Owning Our Class A Common Stock

The MSD Stockholders and the SLP Stockholders have significant influence over us, and their interests may conflict with our interests and the interests of our other stockholders.

As a result of the Spin-Off, the MSD Stockholders and SLP Stockholders became direct beneficial holders of VMware with interests representing 40.3% and 10.0%, respectively, of our outstanding stock, based on the number of shares outstanding as of November 26, 2021. As a result, the MSD Stockholders and the SLP Stockholders 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. The interests of the MSD Stockholders or the SLP Stockholders could conflict with or differ from our interests or the interests of our other stockholders. For example, the concentration of voting power held by the MSD Stockholders and SLP Stockholders could delay, defer or prevent a change of control of us or impede a merger, takeover or other business combination which we or others of our stockholders may view favorably. Effective upon the consummation of the Spin-Off, we entered into a stockholders agreement pursuant to which the MSD Stockholders have the right to nominate up to two members of our Board and the SLP Stockholders have the right to nominate one member of our Board, subject to maintaining certain ownership thresholds. Michael Dell, the Chairman of our Board, is the first MSD Stockholders nominee; the MSD Stockholders have the right to nominate a second member of the Board. Egon Durban is the SLP Stockholders' nominee. This concentrated control may negatively impact other stockholders' ability to influence corporate matters and may also adversely affect our stock price. The MSD Stockholders and SLP Stockholders collectively beneficially own 62.8% of Dell's outstanding stock as of November 26, 2021. Accordingly, their interests may not be aligned with other VMware stockholders with respect to actions involving or impacting Dell.

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, and stockholders' investments in our stock could lose some or all of their value. The stock market in general and technology companies in particular have often experienced extreme price and volume fluctuations. Neither the MSD Stockholders nor the SLP Stockholders are restricted from selling their respective shares, and each is entitled to certain registration rights. If a significant number of these shares enters the public trading markets in a short period of time, the market price of our Class A common stock may decline. Broad market and industry factors may also decrease the market price of our Class A common stock, regardless of our actual operating performance. Additionally, fluctuations and declines in our stock price have been, and in the future may be, due to, among other reasons, the factors discussed in this Risk Factors section and elsewhere in this report, as well as:

- our ability to meet or exceed the forward-looking guidance we have given, to give forward-looking guidance consistent with past practice and any changes to or withdrawal of previous guidance or long-range targets;
- trading activity by directors, executive officers, significant stockholders or a limited number of stockholders who together beneficially own a significant portion of our outstanding common stock, or the market's perception that such holders intend to sell;
- the inclusion or exclusion of our stock from any trading indices, such as the S&P 500 Index;
- speculation in the press and on social media; and
- changes in recommendations regarding our stock or more favorable relative recommendations about our competitors by the industry or securities analysts who cover and publish about us, our business, our competitors, or the markets in which we compete.

In addition, to direct value lost, volatility or declines in our stock price may adversely affect our ability to retain key employees, most of whom are compensated, in part, based on the performance of our stock price. 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.

Certain provisions in our certificate of incorporation and bylaws may 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;

- that any director may only be removed for cause and only by the affirmative vote of holders of at least a majority of the votes entitled to be cast to elect any such director;
- the right of the board of directors to elect a director to fill a vacancy created by the expansion of the board of directors;
- 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
- stockholders may not act by written consent and may not call special meetings of the stockholders.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company and could reduce the price that investors may be willing to pay for shares of our common stock. Section 203 imposes certain restrictions on merger, business combinations and other transactions between us and large stockholders, in particular those owning 15% or more of our outstanding voting 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 October 29, 2021, goodwill and amortizable intangible assets were $9.6 billion and $781 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.

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 October 29, 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)]
July 31 - August 27, 2021	387,000	$ 156.55	387,000	$ 265,394,392
August 28 - September 24, 2021	430,820	144.10	430,820	203,311,541
September 25 - October 29, 2021	137,928	147.20	137,928	183,008,541
	955,748	$ 149.59	955,748	183,008,541

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

(2) Represents the cumulative amount remaining for stock repurchases under the July 2020 authorization as of October 29, 2021. On October 7, 2021, VMware authorized the termination of the July 2020 authorization and authorized a new repurchase program of up to $2.0 billion of Class A common stock through the end of fiscal 2024, in each case, effective upon the consummation of the Spin-Off from Dell on November 1, 2021. Refer to Note M 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

VMware's affiliate, Dell Technologies Inc. and its subsidiaries, included the following disclosure in their quarterly report for the period ended October 29, 2021:

> "Set forth below is a description of matters reported by us pursuant to Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 and Section 13(r) of the Exchange Act. Concurrently with the filing of this quarterly report, we are filing a notice pursuant to Section 13(r) of the Exchange Act that such matters have been disclosed in this quarterly report.
>
> 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 U.S. companies to engage in certain licensing, permitting, certification, notification and related transactions with the FSB to the extent such activities are required for the importation, distribution or use of information technology products in the Russian Federation.
>
> As permitted under the OFAC General License, our subsidiary Dell LLC and other subsidiaries periodically file notifications with the FSB in connection with the importation and distribution of our products in the Russian Federation. During our fiscal quarter ended October 29, 2021, Dell LLC filed notifications with the FSB. No payments were issued or received, and no gross revenue or net profits were generated, in connection with these filing activities. Dell Technologies and its subsidiaries do not sell products or provide services to the FSB. To the extent permitted by applicable law, including by the OFAC General License, we expect to continue to file notifications with the FSB to qualify our products for importation and distribution in the Russian Federation."

ITEM 6. EXHIBITS

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

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation	8-K	001-33622	3.1	11/1/21
3.2	Amended and Restated Bylaws	8-K	001-33622	3.2	11/1/21
4.9	Seventh Supplemental Indenture, by and between VMware and The Bank of New York Mellon Trust Company, N.A., as trustee, dated August 2, 2021	8-K	001-33622	4.2	8/2/21
4.10	Eighth Supplemental Indenture, by and between VMware and The Bank of New York Mellon Trust Company, N.A., as trustee, dated August 2, 2021	8-K	001-33622	4.3	8/2/21
4.11	Ninth Supplemental Indenture, by and between VMware and The Bank of New York Mellon Trust Company, N.A., as trustee, dated August 2, 2021	8-K	001-33622	4.4	8/2/21
4.12	Tenth Supplemental Indenture, by and between VMware and The Bank of New York Mellon Trust Company, N.A., as trustee, dated August 2, 2021	8-K	001-33622	4.5	8/2/21
4.13	Eleventh Supplemental Indenture, by and between VMware and The Bank of New York Mellon Trust Company, N.A., as trustee, dated August 2, 2021	8-K	001-33622	4.6	8/2/21
10.1	Term Loan Credit Agreement, dated as of September 2, 2021, among VMware, Inc., the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, J.P. Morgan Securities LLC, BofA Securities, Inc., Barclays Bank PLC and Citibank, N.A., as Joint Lead Arrangers and Joint Bookrunners, Bank of America, N.A., as Syndication Agent and Barclays Bank PLC and Citibank, N.A., as Co-Documentation Agents	10-Q	001-33622	10.3	9/3/21
10.2	Letter Agreement, dated as of October 7, 2021, by and between VMware, Inc. and Dell Technologies Inc.	8-K	001-33622	2.1	10/7/21
10.3*+	Form of TSR Performance Stock Unit Agreement dated October 2021				
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				
32.1ǂ	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				
32.2ǂ	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

ǂ 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.

	VMWARE, INC.	
Dated: December 3, 2021	By:	/s/ J. Andrew Munk
		J. Andrew Munk **Chief Accounting Officer** **(Principal Accounting Officer)**

Exhibit 10.3

VMWARE, INC.

2007 EQUITY AND INCENTIVE PLAN

PERFORMANCE STOCK UNIT AGREEMENT

I. NOTICE OF GRANT

Unless otherwise defined in this notice of grant ("**Notice of Grant**") and Performance Stock Unit Agreement ("**Agreement**"), the capitalized terms used herein have the meanings set forth in the VMware, Inc. 2007 Amended and Restated Equity and Incentive Plan in effect on the Date of Grant Approval unless otherwise determined by the Administrator (the "**Plan**").

Name: [NAME] **("Participant")**

The Participant has been granted an award (the "**Award**") of Performance Stock Units (the "**PSUs**"), subject to the terms and conditions of this Notice of Grant, the Plan and this Agreement, including the schedule attached as **Exhibit A** to this Agreement (the "**Performance Schedule**"). Except as set forth in Sections 2 and 4 of the Agreement, the number of shares earned pursuant to the Award will equal the number of shares subject to the PSUs set forth below multiplied by the conversion ratio determined by the Administrator (the "**Conversion Ratio**") in accordance with the Performance Schedule.

Date of Grant Approval:

Number of PSUs:

Award Performance Period:

Vesting Schedule:

PSUs will be eligible to vest in accordance with the Performance Schedule.

II. AGREEMENT

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

2. Vesting of PSUs.

(a) Subject to Sections 2(b) and 4 below, the Participant will vest in the PSUs in accordance with the vesting schedule set forth in the Notice of Grant, except that if the Participant incurs a termination of employment for any reason other than due to Participant's death or termination by the Company or Subsidiary due to "disability" (as defined under the applicable long-term disability plan of the Company or Subsidiary, or, if there is no such plan, as determined by the Board or the Committee (each, the "**Administrator**")), such that the Participant is no longer employed by the Company or any Subsidiary, the Participant's right to vest in the PSUs and to receive the Stock related thereto will terminate effective as of the date that Participant ceases to be so employed (the "**Termination Date**") and thereafter, the Participant will have no further rights to such unvested PSUs or the related Stock. In such case, any unvested PSUs held by the Participant immediately following such termination of employment will be deemed forfeited.

(b) If the Participant's employment is terminated by reason of death or by the Company due to disability prior to a Change-in-Control, then, this award will vest on a pro-rata basis as set forth in the Performance Schedule. Notwithstanding anything to the contrary set forth in the Performance Schedule, **"Change in Control"** has the meaning set forth in the Change-in-Control Retention Plan of the Company in effect with respect to the Participant at the time of the applicable Change in Control event.

(c) This award is not eligible for acceleration under the Company's Executive Severance Plan.

3. Issuance of Stock. No Stock will be issued to the Participant prior to the dates on which the PSUs vest. After any PSUs vest and subject to the terms of this Agreement, including without limitation Section 7 hereof, the Company will cause to be issued (either in book-entry form or otherwise) to the Participant or the Participant's beneficiaries, as the case may be, that number of shares of Stock corresponding to the number of such vested PSUs as soon as administratively practicable following vesting, but in no event will the issuance of such shares be made subsequent to March 15th of the year following the year in which the shares vested. No fractional shares of Stock will be issued under this Agreement. Notwithstanding any provision in the Plan to the contrary and subject only to changes in Stock, as set forth in Section 8 hereof, the PSUs will be settled only in shares of Stock.

4. Change in Control.

(a) Change in Control during Award Performance Period. In the event of a Change in Control during the Award Performance Period, this award will continue to vest and the number of shares issuable will be determined in accordance with the Performance Schedule

(b) Termination Due to Death or Disability Following Change in Control. If, following a Change in Control the Participant's employment terminates due to death or by the Company due to disability, vesting in this Award will accelerate on a pro-rata basis based on the proportion of the Award Performance Period that has elapsed as of the date of Participant's termination of employment. The number of PSUs that will accelerate will be determined by applying the "Stock Price Appreciation Hurdle" (as defined in the Performance Schedule**)** and "Relative TSR Modifier" (as defined in the Performance Schedule**)** calculations as of the effective date of the Change in Control. The shares that are accelerated will not be subject to the "Holding Period Requirement" (as defined in the Performance Schedule). Any PSUs that are not accelerated will be forfeited.

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

6. Leave of Absence; Reduction in Service Level. In accordance with the provisions of the Plan regarding the effect of a leave of absence or a reduction in service level on an outstanding Award, the Committee may determine, in its sole discretion (i) whether, and the extent to which, a leave of absence will cause a reduction or other change in this Award, (ii) whether, and the extent to which, a reduction in service level (for example, from full-time to part-time employment), will cause a reduction, or other change, in an Award, and (iii) whether a leave of absence or reduction in service level will be deemed a termination of employment for the purpose of this Award. Any changes to this Award pursuant to the Plan and this Section 7 of the Agreement will not result in an increase in the amount of the Award or otherwise accelerate its payment. The Committee will also determine all other matters relating to whether the employment or service of Participant is continuous for purposes of this Award.

7. Taxes.

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

(b) Payment of Withholding Taxes. Notwithstanding any contrary provision of this Agreement, no Stock will be issued to the Participant, unless and until satisfactory arrangements (as determined by the Administrator) have been made by the Participant with respect to the payment of any taxes that the Company determines must be withheld with respect to the PSUs. The Administrator, in its sole discretion and pursuant to such procedures as it may specify from time to time, may satisfy such tax withholding obligations, in whole or in part, by withholding otherwise deliverable Stock having an aggregate Fair Market Value sufficient to satisfy (but, unless otherwise consented to by the Participant, not exceeding) the minimum amount required to be withheld or by the sale of shares of Stock to generate sufficient cash proceeds to satisfy any such tax withholding obligation, except that if Participant is an officer subject to Section 16 of the Exchange Act, only such minimum amount will be withheld and such amount will be satisfied by withholding otherwise-deliverable Stock, unless otherwise approved by the Committee. Upon any such withholding, any and all rights of Participant to such withheld Stock will be deemed to be forfeited to the Company. The Participant hereby authorizes the Administrator to take any steps as may be necessary to effect any such sale and agrees to pay any costs associated therewith, including without limitation any applicable broker's fees. In addition, and to the maximum extent permitted by law, the Company may exercise the right to retain, without notice, from salary or other amounts payable to the Participant, cash having a value sufficient to satisfy any tax withholding obligations that cannot be satisfied by the withholding or sale of otherwise deliverable shares of Stock.

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

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

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

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

12. Restricted Trading Periods. The Participant acknowledges that, to the extent the vesting of any PSUs occurs during a "restricted trading" period wherein certain employees, including the Participant, are precluded from selling Stock, the Administrator retains the right, in its sole discretion, to defer the delivery of the Stock pursuant to the PSUs, except that the Administrator may not exercise its right to defer the Participant's receipt of such Stock if such shares of Stock are specifically covered by a trading plan of the Participant that conforms to the requirements of Rule 10b5-1 of the Exchange Act and the Company's policies and procedures with respect to Rule 10b5-1 trading plans and such trading plan causes such shares to be exempt from any applicable restricted trading period then in effect. If the receipt of any shares of Stock is deferred hereunder due to the existence of a regularly scheduled restricted trading period, such shares will be issued to the Participant on the first business day following the termination of such regularly scheduled restricted trading period, except that in no event will the issuance of such shares be deferred subsequent to March 15th of the year following the year in which such shares vest. If the receipt of any shares of Stock is deferred hereunder due to the existence of a special restricted trading period, such shares will be issued to the Participant on the first business day following the termination of such special restricted trading period as determined by the Company's General Counsel or his or her delegate, except that in no event will the issuance of such shares be deferred subsequent to March 15th of the year following the year in which such shares vest. Notwithstanding the foregoing, any deferred shares of Stock will be issued promptly to the Participant prior to the termination of the restricted trading period in the event the Participant ceases to be subject to the restricted trading period. The Participant hereby represents that he or she accepts the effect of any such deferral under relevant federal, state and local tax laws or otherwise.

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

14. Data Privacy. The Participant hereby explicitly and unambiguously consents to the collection, use and disclosure, in electronic or other form, of his or her personal information ("**Data**") by and among, as applicable, the Employer, the Company and any Subsidiary or Affiliate for the purpose of implementing, administering and managing the Participant's participation in the Plan as described in this Agreement and any other PSU grant materials, or as reasonably necessary to comply with applicable laws and regulations or to respond to lawful requests for information, such as subpoenas and court orders.

The Participant understands that the Company and the Employer may collect, store, process, and disclose certain personal information about the Participant, including, but not limited to, the Participant's name, home address and telephone number, date of birth, Social Security number or other identification number, salary, nationality, job title, any shares of Stock or directorships held in the Company, details of all PSUs or any entitlement to shares of Stock awarded, canceled, exercised, vested, unvested or outstanding in the Participant's favor, for the purpose of implementing, administering and managing the Plan, or as reasonably necessary to comply with applicable laws and regulations or to respond to lawful requests for information, such as subpoenas and court orders.

The Participant understands that Data may be transferred to any third parties assisting in the implementation, administration and management of the Plan, that these recipients may be located in the Participant's country or elsewhere, and that the recipients' countries may have data privacy laws and protections that differ from those in the Participant's country. The Participant authorizes the recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a third party. Further, the Participant understands that the Participant is providing the consents herein on a purely voluntary basis. If the Participant does not consent, or if the Participant later seeks to revoke his or her consent, his or her employment status or service and career with the Employer will not be adversely affected; the only adverse consequence of refusing or withdrawing his or her consent is that the Company would not be able to grant the Participant PSUs or other equity awards or administer or maintain such awards. Therefore, the Participant understands that refusing or withdrawing his or her consent may affect the Participant's ability to participate in the Plan.

The Participant understands that Participant can obtain additional information about Company's collection, storage, use, and disclosure of personal information in association with the implementation, administration, and management of the Plan, including information regarding rights that Participant may have with regard to such personal information, by consulting with Participant's local human resources representative.

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

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

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

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

19. Administrator Authority. Participant acknowledges that determination of the number of shares of Stock earned under this Award is subject to determination by the Administrator of achievement of the performance targets set forth on the Performance Schedule. The Administrator has the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Participant, the Company, the Employer and all other interested persons. No member of the Administrator is personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

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

21. Cancellation, Rescission and Recoupment of Award. Participant hereby acknowledges that this Award and any shares of Stock issued pursuant to this Award are subject to cancellation, rescission, clawback, repayment or other action at the discretion of the Board or the Committee as set forth in the provisions of the Plan regarding the clawback or recoupment of Awards in accordance with any clawback policy adopted by the Company pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law, in the event of a restatement of incorrect financial results or if Participant is terminated for Cause. In addition, the Administrator has the discretion to require Participant to reimburse the Company for all or any portion of the Stock issued pursuant to this Award, or the value thereof, if:

(a) the payment was predicated upon the achievement of certain financial results that were subsequently the subject of a material financial restatement;

(b) in the view of the Board or the Committee, the Participant engaged in fraud or misconduct that caused or partially caused the need for a material financial restatement by the Company or any substantial affiliate; and

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

In each such instance, upon the determination of the Committee to require recoupment of a previously issued number of shares of Stock under this Agreement, the Company will, to the extent practicable and allowable under applicable laws, require reimbursement of any number of shares of Stock, or the value thereof, issued for the relevant period that exceeded the lower number of shares of Stock that would have been issued based on the restated financial results, except that the Company may not seek to recover shares of Stock issued more than three years prior to the date the applicable restatement is disclosed.

22. Section 409A Exemption. It is intended that the Award satisfy, to the greatest extent possible, the exemption from the application of Section 409A of the Code provided under Treasury Regulation Section 1.409A-1(b)(4) ("**Section 409A**") and comply with Section 409A, and the Award will be so interpreted and administered. Notwithstanding the foregoing, if the Company determines that the Award may not either be exempt from or compliant with Section 409A, the Company may, without the Participant's prior written consent, adopt such amendments to this Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Company determines are necessary or appropriate to (i) exempt the Award from Section 409A and preserve the intended tax treatment of the Award, or (ii) comply with the requirements of Section 409A, it being understood that the Company has no obligation to adopt any such amendment, policy or procedure or take any such other action, and in any event, no such action will reduce the amount of compensation that is owed to the Participant under this Award without the Participant's prior written consent.

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

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

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

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

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

The Participant's signature below indicates the Participant's agreement and understanding that this Award is subject to and governed by the terms and conditions of the Plan and this Agreement including, without limitation, Section 21 above. The Participant acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, which are incorporated herein by reference. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Agreement.

PARTICIPANT

Signature

Print Name

Date

Exhibit 31.1

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 Rules13a-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: December 3, 2021

By: /s/ Rangarajan (Raghu) Raghuram

Rangarajan (Raghu) Raghuram
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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 Rules13a-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:	December 3, 2021	By:	/s/ Zane Rowe
			Zane Rowe **Chief Financial Officer and Executive Vice President** **(Principal Financial Officer)**

Exhibit 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

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 October 29, 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:	December 3, 2021	By:	/s/ Rangarajan (Raghu) Raghuram
			Rangarajan (Raghu) Raghuram **Chief Executive Officer** **(Principal Executive Officer)**

Exhibit 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

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 October 29, 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:	December 3, 2021	By:	/s/ Zane Rowe
			Zane Rowe **Chief Financial Officer and Executive Vice President** **(Principal Financial Officer)**