UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended May 5, 2023

OR

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

For the transition period from to

Commission File Number 001-33622

VMWARE, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**94-3292913** **(I.R.S. Employer Identification Number)**
3401 Hillview Avenue **Palo Alto, CA** **(Address of principal executive offices)**	**94304** **(Zip Code)**

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

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

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

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

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

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

Large accelerated filer	☑	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 June 2, 2023, the number of shares of Class A common stock, par value $0.01 per share, of the registrant outstanding was 430,355,614.

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VMware, Pivotal, Tanzu, Workspace ONE, Aria, Carbon Black, vSphere, NSX, vRealize, CloudHealth, VeloCloud, Nyansa and ESXi 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	
	May 5, 2023	April 29, 2022
Revenue[1]:		
License	$ 517	$ 572
Subscription and SaaS	1,217	899
Services	1,543	1,617
Total revenue	3,277	3,088
Operating expenses[2]:		
Cost of license revenue	39	35
Cost of subscription and SaaS revenue	208	192
Cost of services revenue	397	375
Research and development	847	774
Sales and marketing	1,104	1,053
General and administrative	373	251
Operating income	309	408
Investment income	64	1
Interest expense	(80)	(71)
Other income (expense), net	6	(10)
Income before income tax	299	328
Income tax provision	75	86
Net income	$ 224	$ 242
Net income per weighted-average share, basic	$ 0.52	$ 0.58
Net income per weighted-average share, diluted	$ 0.52	$ 0.57
Weighted-average shares, basic	428,185	420,586
Weighted-average shares, diluted	431,583	422,987

[1] Includes related party revenue as follows (refer to Note C):		
License	$ 187	$ 254
Subscription and SaaS	377	255
Services	605	641
[2] Includes stock-based compensation as follows:		
Cost of subscription and SaaS revenue	$ 6	$ 5
Cost of services revenue	22	23
Research and development	146	132
Sales and marketing	82	83
General and administrative	34	40

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	
	May 5, 2023	April 29, 2022
Net income	$ 224	$ 242
Other comprehensive income (loss):		
Changes in fair value of effective foreign currency forward contracts:		
Unrealized gains (losses), net of tax provision (benefit) of $— for all periods	—	(4)
Net change in fair value of effective foreign currency forward contracts	—	(4)
Total other comprehensive income (loss)	—	(4)
Comprehensive income, net of taxes	$ 224	$ 238

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

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

	May 5, 2023	February 3, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,548	$ 5,100
Accounts receivable, net of allowance of $9 and $9	1,833	2,510
Due from related parties	661	2,078
Other current assets	556	543
Total current assets	9,598	10,231
Property and equipment, net	1,636	1,623
Deferred tax assets	6,247	6,157
Intangible assets, net	427	478
Goodwill	9,598	9,598
Due from related parties	206	208
Other assets	2,862	2,942
Total assets	$ 30,574	$ 31,237
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 225	$ 267
Accrued expenses and other	2,108	2,568
Customer deposits	1,155	1,087
Current portion of long-term debt	1,000	1,000
Unearned revenue	6,806	7,079
Due to related parties	379	390
Total current liabilities	11,673	12,391
Long-term debt	9,445	9,440
Unearned revenue	5,399	5,664
Income tax payable	295	287
Operating lease liabilities	819	845
Due to related parties	648	648
Other liabilities	428	428
Total liabilities	28,707	29,703
Contingencies (refer to Note D)		
Stockholders' equity:		
Class A common stock, par value $0.01; authorized 2,500,000 shares; issued and outstanding 429,707 and 426,741 shares	4	4
Additional paid-in capital	1,204	1,095
Accumulated other comprehensive loss	(4)	(4)
Retained earnings	663	439
Total stockholders' equity	1,867	1,534
Total liabilities and stockholders' equity	$ 30,574	$ 31,237

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

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

	Three Months Ended	
	May 5, 2023	April 29, 2022
Operating activities:		
Net income	$ 224	$ 242
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	331	288
Stock-based compensation	290	283
Deferred income taxes, net	(87)	(43)
(Gain) loss on equity securities and disposition of assets, net	1	(9)
Other	5	3
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	672	675
Other current assets and other assets	(106)	(244)
Due from related parties	1,419	801
Accounts payable	(40)	(28)
Accrued expenses, customer deposits and other liabilities	(517)	(665)
Income taxes payable	106	74
Unearned revenue	(538)	(357)
Due to related parties	(10)	(15)
Net cash provided by operating activities	1,750	1,005
Investing activities:		
Additions to property and equipment	(105)	(106)
Sales of investments in equity securities	—	20
Purchases of strategic investments	—	(8)
Proceeds from disposition of assets	—	6
Business combinations, net of cash acquired, and purchases of intangible assets	(8)	(3)
Net cash used in investing activities	(113)	(91)
Financing activities:		
Proceeds from issuance of common stock	2	119
Repayment of term loan	—	(750)
Repurchase of common stock	—	(89)
Shares repurchased for tax withholdings on vesting of restricted stock	(190)	(94)
Principal payments on finance lease obligations	(1)	(1)
Net cash used in financing activities	(189)	(815)
Net increase in cash, cash equivalents and restricted cash	1,448	99
Cash, cash equivalents and restricted cash at beginning of the period	5,127	3,663
Cash, cash equivalents and restricted cash at end of the period	$ 6,575	$ 3,762
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 86	$ 80
Cash paid for taxes, net	63	69
Non-cash items:		
Changes in capital additions, accrued but not paid	$ (9)	$ (7)

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

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

	Three Months Ended May 5, 2023					
	Class A Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Stockholders’ Equity
	Shares	Par Value				
Balance, February 3, 2023	427	$ 4	$ 1,095	$ 439	$ (4)	$ 1,534
Proceeds from issuance of common stock	—	—	2	—	—	2
Issuance of restricted stock	5	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	(2)	—	(190)	—	—	(190)
Stock-based compensation	—	—	297	—	—	297
Net income	—	—	—	224	—	224
Balance, May 5, 2023	430	$ 4	$ 1,204	$ 663	$ (4)	$ 1,867

	Three Months Ended April 29, 2022					
	Class A Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders’ Deficit
	Shares	Par Value				
Balance, January 28, 2022	419	$ 4	$ —	$ (875)	$ (5)	$ (876)
Proceeds from issuance of common stock	1	—	119	—	—	119
Repurchase and retirement of common stock	(1)	—	(89)	—	—	(89)
Issuance of restricted stock	2	—	—	—	—	—
Shares withheld for tax withholdings on vesting of restricted stock	—	—	(93)	—	—	(93)
Stock-based compensation	—	—	290	—	—	290
Total other comprehensive loss	—	—	—	—	(4)	(4)
Net income	—	—	—	242	—	242
Balance, April 29, 2022	421	$ 4	$ 227	$ (633)	$ (9)	$ (411)

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, and then evolved to become the private cloud and mobility management leader. Building upon that leadership, VMware is focused on becoming the multi-cloud leader. Information technology ("IT") driven innovation continues to disrupt markets and industries. Technologies emerge faster than organizations can absorb, creating increasingly complex environments. Organizations' IT departments and corporate divisions are working at an accelerated pace to harness new technologies, platforms and cloud models, ultimately guiding businesses and their product teams through a digital transformation. To take on these challenges, the Company is helping customers drive their multi-cloud strategy by providing the multi-cloud platform for all applications, enabling digital innovation and enterprise control.

Basis of Presentation

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

The fiscal year for VMware is the 52 or 53 weeks ending on the Friday nearest to January 31 of each year. Fiscal 2024 is a 52-week fiscal year and fiscal 2023 was a 53-week fiscal year, in which the fourth quarter had 14 weeks.

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 2024. 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 28, 2023.

On November 1, 2021, VMware's spin-off from Dell Technologies Inc. ("Dell") was completed (the "Spin-Off"). As a result of the Spin-Off, VMware became a standalone company and entities affiliated with Michael Dell (the "MSD Stockholders"), who serves as VMware's Chairman of the Board and chairman and chief executive officer of Dell, 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 39.4% and 9.8%, respectively, of VMware's outstanding stock, based on the shares outstanding as of May 5, 2023. Due to the MSD Stockholders' and SLP Stockholders' direct ownership in both VMware and Dell, as well as Mr. Dell's executive position with Dell, transactions with Dell continue to be considered related party transactions following 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.

Broadcom Merger Agreement

On May 26, 2022, VMware entered into an Agreement and Plan of Merger (the "Merger Agreement") with Broadcom Inc. ("Broadcom"). Under the terms of the Merger Agreement, each share of Class A common stock, par value $0.01 per share, of the Company ("Common Stock") issued and outstanding immediately prior to the effective time of the transaction will be indirectly converted into the right to receive, at the election of the holder of such share of Common Stock, and subject to proration in accordance with the Merger Agreement as described below: (i) $142.50 per share in cash, without interest (the "Cash Consideration"), or (ii) 0.25200 (the "Exchange Ratio") shares of common stock, par value $0.001 per share, of

Broadcom ("Broadcom Common Stock," and such consideration, the "Stock Consideration"). The stockholder election will be subject to a proration mechanism, such that the total number of shares of Common Stock entitled to receive the Cash Consideration and the total number of shares of Common Stock entitled to receive the Stock Consideration will, in each case, be equal to 50% of the aggregate number of shares of Common Stock issued and outstanding immediately prior to the consummation of the transaction. Holders of Common Stock that do not make an election will be treated as having elected to receive the Cash Consideration or the Stock Consideration in accordance with the proration methodology in the Merger Agreement.

The Merger Agreement contains customary representations, warranties and covenants. The Merger Agreement also contains termination rights for either or each of Broadcom and the Company. On May 19, 2023, in accordance with the Merger Agreement, the Company and Broadcom each delivered to the other a mutual notice to extend the Outside Date (as defined in the Merger Agreement) to August 26, 2023. If the Closing Effective Date (as defined in the Merger Agreement) has not occurred, a similar three-month extension could be noticed by either party (or mutually) five business days prior to August 26, 2023.

The transaction, which is expected to be consummated in Broadcom's fiscal year 2023, was approved by VMware shareholders at a special meeting held on November 4, 2022 but remains subject to the receipt of regulatory approvals and other customary closing conditions. If the transaction is consummated, the Common Stock will be delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934, as amended.

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 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.

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. As of May 5, 2023 and February 3, 2023, contract assets were each $33 million. 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, such as termination for convenience. If customers do not exercise their cancellation rights, amounts in customer deposits will be recognized as revenue over time, in accordance with the performance obligations of the contracts and transfer of control of these obligations. Unredeemed, prepaid credits eligible for consumption of VMware's hosted services ("cloud credits") are also included in customer deposits. Upon customers' redemption of cloud credits, the net value of the consumed credits is classified as unearned revenue and recognized as revenue over time, in accordance with the Company's transfer of control of the hosted services.

As of May 5, 2023, customer deposits of $1.2 billion were included in current liabilities on the condensed consolidated balance sheets and primarily consisted of customer prepayments received for contracts that include certain cancellation rights, such as termination for convenience, of $766 million and cloud credits of $387 million. In addition, customer deposits of $175 million were included in other liabilities on the condensed consolidated balance sheets and primarily consisted of cloud credits.

As of February 3, 2023, customer deposits of $1.1 billion were included in current liabilities on the condensed consolidated balance sheets and primarily consisted of customer prepayments received for contracts that include certain cancellation rights, such as termination for convenience, of $681 million and cloud credits of $405 million. In addition, customer deposits of $182 million were included in other liabilities on the condensed consolidated balance sheets and primarily consisted of cloud credits.

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 May 5, 2023 and February 3, 2023 were not material. Deferred commissions included in other assets were $1.5 billion as of May 5, 2023 and February 3, 2023.

Amortization expense for deferred commissions was included in sales and marketing on the condensed consolidated statements of income and was $179 million and $143 million during the three months ended May 5, 2023 and April 29, 2022, respectively.

Unearned Revenue

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

	May 5, 2023	February 3, 2023
Unearned license revenue	$ 17	$ 21
Unearned subscription and Software as a Service (“SaaS”) revenue	4,386	4,401
Unearned software maintenance revenue	6,348	6,805
Unearned professional services revenue	1,454	1,516
Total unearned revenue	$ 12,205	$ 12,743

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 May 5, 2023 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 May 5, 2023 were $1.8 billion and $2.3 billion, respectively, and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses.

Revenue recognized during the three months ended April 29, 2022 was $2.1 billion and did not include amounts for performance obligations that were fully satisfied upon delivery, such as on-premises licenses.

Remaining Performance Obligations

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

As of May 5, 2023 the aggregate transaction price allocated to remaining performance obligations was $13.0 billion, of which approximately 54% was expected to be recognized as revenue over the next twelve months and the remainder thereafter. As of February 3, 2023, the aggregate transaction price allocated to remaining performance obligations was $13.6 billion, of which approximately 54% was expected to be recognized as revenue during fiscal 2024, and the remainder thereafter.

C. Related Parties

Transactions with Dell continue to be considered related party transactions following the Spin-Off due to the MSD Stockholders' and SLP Stockholders' direct ownership in both VMware and Dell, as well as Mr. Dell's executive position with Dell.

On November 1, 2021, in connection with the Spin-Off, VMware and Dell entered into the Commercial Framework Agreement to provide a framework under which the Company and Dell will continue their strategic commercial relationship, particularly with respect to projects mutually agreed by the parties as having the potential to accelerate the growth of an industry, product, service or platform that may provide the parties with a strategic market opportunity. 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.

The information provided below includes a summary of transactions with 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, in connection with which Dell pays VMware for services or reimburses VMware for costs incurred by VMware.

During the three months ended May 5, 2023 and April 29, 2022, revenue from Dell accounted for 36% and 37% of VMware's consolidated revenue, respectively. During the three months ended May 5, 2023 and April 29, 2022, revenue recognized on transactions where Dell acted as an OEM accounted for 13% and 14% of total revenue from Dell, and 5% and 5% of VMware's consolidated revenue, respectively.

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

	Revenue		Unearned Revenue	
	Three Months Ended		As of	
	May 5, 2023	April 29, 2022	May 5, 2023	February 3, 2023
Reseller revenue	$ 1,156	$ 1,137	$ 5,786	$ 6,145
Internal-use revenue	13	13	47	19

Customer deposits resulting from transactions with Dell were $750 million and $766 million as of May 5, 2023 and February 3, 2023, 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, in connection with which VMware pays Dell for services provided to VMware by Dell.
- Through the end of fiscal 2023, in certain geographic regions where VMware did not have an established legal entity, VMware contracted with Dell subsidiaries for support services and support from Dell personnel who were managed by VMware. The costs incurred by Dell on VMware's behalf related to these employees were 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 were included as expenses on VMware's condensed consolidated statements of

income and primarily include salaries, benefits, travel and occupancy expenses. Payments for Dell subsidiary support and administrative costs were not material during the three months ended April 29, 2022.

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

	Three Months Ended	
	May 5, 2023	**April 29, 2022**
Purchases and leases of products and purchases of services	$ 38	$ 42

VMware also purchases Dell products through Dell's channel partners, however such amounts were not material 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.

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 the current portion of due from related parties 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 material during the three months ended May 5, 2023 and April 29, 2022.

Tax Agreement with Dell

Pursuant to the Tax Matters Agreement, effective April 14, 2021 (the "Tax Matters Agreement"), VMware and Dell have agreed to indemnify one another for certain tax liabilities or tax benefits relating to periods prior to the Spin-Off. Certain adjustments to these amounts that will be recognized in future periods will be recorded with an offset to other income (expense), net on the condensed consolidated statements of income. The actual amount that VMware may receive from or pay to Dell could vary depending on the outcome of tax matters arising from Dell's future tax audits, which may not be resolved for several years.

As of the periods presented, amounts due to and due from Dell pursuant to the Tax Matters Agreement consisted of the following (table in millions):

	May 5, 2023	**February 3, 2023**
Due from related parties:		
Current	$ —	$ 1
Non-current	206	208
Due to related parties:		
Current	$ 305	$ 306
Non-current	648	648

Amounts due to Dell pursuant to the Tax Matters Agreement primarily related to VMware's estimated tax obligation resulting from the mandatory, one-time transition tax on accumulated earnings of foreign subsidiaries ("Transition Tax") of $445 million as of May 5, 2023 and February 3, 2023, respectively. 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 as of May 5, 2023 over a period of three years. In addition, amounts due to Dell included uncertain tax positions of $288 million and $285 million as of May 5, 2023 and February 3, 2023, respectively.

During each of the three months ended May 5, 2023 and April 29, 2022, payments received from Dell pursuant to the Tax Matters Agreement were not material, and no payments were made to Dell.

Payments from VMware to Dell under the Tax Matters Agreement relate to VMware's portion of federal income taxes on Dell's consolidated tax return, state tax payments for combined states and the estimated tax obligation resulting from the Transition Tax. The timing of the tax payments due to and from Dell is governed by the Tax Matters Agreement. VMware's portion of the Transition Tax is governed by a letter agreement between Dell, EMC and VMware executed on April 1, 2019 (the "Letter Agreement").

D. Commitments and Contingencies

Litigation

On June 2, 2020, WSOU Investments LLC (doing business as Brazos Licensing & Development) ("WSOU") filed four patent infringement lawsuits against VMware (also naming Dell and EMC) in the United States District Court for the Western District of Texas (the "Texas Court"), asserting one patent in each lawsuit. The Texas Court consolidated the four lawsuits for all purposes. During the course of the lawsuit, WSOU dropped one of the asserted patents and on February 21, 2023, trial began for the remaining three patents, with WSOU seeking certain damages. On the first day of trial, the Texas Court granted summary judgment of non-infringement as to two patents, leaving one patent to continue to trial. At the conclusion of the plaintiff's case, the Texas Court granted VMware's motion for a directed verdict on the remaining patent. The parties are in the post-trial motion stage and the Texas Court's rulings are subject to appeal. In the event of an appeal, the Company intends to vigorously defend against this matter.

On March 31, 2020, a securities class action lawsuit was filed against VMware and certain present and former officers of the Company in the United States District Court for the Northern District of California (the "California Court"). On September 18, 2020, the plaintiff filed a consolidated amended complaint alleging that the Company's statements about backlog and the related internal controls during the period from August 2018 through February 2020 were materially misleading. The defendants filed a motion to dismiss, which was granted with leave to amend on September 10, 2021. On October 8, 2021, the plaintiffs filed their Second Amended Consolidated Complaint based on the same alleged disclosure deficiencies. The defendants' motion to dismiss the Second Amended Consolidated Complaint was filed on November 5, 2021. On April 2, 2023, the California court denied the defendants' motion to dismiss, finding that the plaintiffs had adequately stated claims under Sections 10 and 20A of the Exchange Act. The parties are currently in the discovery stage of the proceedings. 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 against this matter.

On March 5, 2020, two purported Pivotal stockholders filed a petition for appraisal in the Delaware Court of Chancery (the "Chancery Court") seeking a judicial determination of the fair value of an aggregate total of 10,000,100 Pivotal shares (the "Appraisal Action"). 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. A trial in the Appraisal Action took place in July 2022. Thereafter, the parties completed a post-trial briefing, and a post-trial hearing was held on December 13, 2022. The parties are awaiting the Chancery Court's decision. The Company is unable at this time to assess whether or to what extent it may be found liable in the Appraisal Action and, if found liable, what the damages may be and believes a loss is not probable and not 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") asserting two patent infringement claims and three trademark claims. A first jury trial was held on these claims in January 2020, following which, in December 2020, the Delaware Court ordered a new trial. During the proceedings, VMware counter-asserted eight patent infringement claims against Cirba, and Cirba asserted an additional two patent infringement claims against VMware. VMware filed invalidity challenges in the United States Patent and Trademark Office against all four patents asserted by Cirba. In those proceedings, one patent ("367 patent") survived an ex parte reexamination and one patent ("687 patent") remains under review in an ex parte reexamination. In addition, the Patent Trial and Appeal Board found one patent invalid ("492 patent") pursuant to an inter partes review and one patent invalid ("459 patent") pursuant to a post-grant review. Cirba severed and stayed the 492 patent and 459 patent claims from the Delaware Court proceedings and appealed both decisions to the Federal Circuit. Of the eight patents asserted by VMware, one was held invalid pursuant to a Section 101 challenge and four were voluntarily dismissed. The remaining three patents were severed and stayed. Prior to the second jury trial, the Delaware Court granted VMware's summary judgment motion on Cirba's three trademark claims. Beginning on April 24, 2023, the second jury trial was held on Cirba's 367 patent and 687 patent claims. On May 1, 2023, the jury returned a verdict finding that VMware infringed both patents. Specifically, the jury's verdict found that VMware willfully infringed one patent and that one of Cirba's patents that VMware asserted invalidity against was valid. The jury awarded damages to Cirba of $85 million. The parties are now in the post-trial motion stage. VMware accrued a total of $85 million as of May 5, 2023, which reflects the estimated losses that are considered both probable and reasonably estimable at this time. The amount accrued for this matter was included in accrued expenses and other on the condensed consolidated balance sheets as of May 5, 2023, and the charge was included in general and administrative expense on the condensed consolidated statements of income during the three months ended May 5, 2023. The Company is unable at this time to assess whether, or to what extent, the jury verdict will stand following post-trial motions and appeals. The Company intends to continue to vigorously defend against this matter.

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

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

VMware is also subject to other legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business or in connection with business mergers and acquisitions, including claims with respect to commercial, contracting and sales practices, product liability, intellectual property, employment, corporate and securities law, class action, whistleblower and other matters. From time to time, VMware also receives inquiries from and has discussions with government entities and stockholders on various matters. As of May 5, 2023, 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 condensed 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):

	May 5, 2023			
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5.4	$ 799	$ (633)	$ 166
Customer relationships and customer lists	11.9	632	(389)	243
Trademarks and tradenames	6.8	69	(51)	18
Total definite-lived intangible assets		$ 1,500	$ (1,073)	$ 427

	February 3, 2023			
	Weighted-Average Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5.3	$ 819	$ (623)	$ 196
Customer relationships and customer lists	11.9	632	(371)	261
Trademarks and tradenames	6.8	69	(48)	21
Total definite-lived intangible assets		$ 1,520	$ (1,042)	$ 478

Amortization expense on definite-lived intangible assets was $59 million and $66 million during the three months ended May 5, 2023 and April 29, 2022, respectively.

Based on intangible assets recorded as of May 5, 2023 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 2024	$ 147
2025	114
2026	73
2027	43
2028	16
Thereafter	34
Total	$ 427

F. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding and potentially dilutive securities outstanding during the period, using the treasury stock method. Potentially dilutive securities primarily include unvested restricted stock, which includes restricted stock unit ("RSU") and 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.

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	
	May 5, 2023	April 29, 2022
Net income	$ 224	$ 242
Weighted-average shares, basic	428,185	420,586
Effect of other dilutive securities	3,398	2,401
Weighted-average shares, diluted	431,583	422,987
Net income per weighted-average share, basic	$ 0.52	$ 0.58
Net income per weighted-average share, diluted	$ 0.52	$ 0.57

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

	Three Months Ended	
	May 5, 2023	April 29, 2022
Anti-dilutive securities:		
Employee stock options	—	94
RSUs	2,507	481
Total	2,507	575

G. Cash, Cash Equivalents and Restricted Cash

Cash and Cash Equivalents

Cash and cash equivalents totaled $6.5 billion and $5.1 billion as of May 5, 2023 and February 3, 2023, respectively. Cash equivalents were $5.9 billion as of May 5, 2023 and primarily consisted of money-market funds of $5.8 billion. Cash equivalents were $4.3 billion as of February 3, 2023 and consisted of money-market funds of $4.2 billion and time deposits of $19 million.

Restricted Cash

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

	May 5, 2023	February 3, 2023
Cash and cash equivalents	$ 6,548	$ 5,100
Restricted cash within other current assets	24	24
Restricted cash within other assets	3	3
Total cash, cash equivalents and restricted cash	$ 6,575	$ 5,127

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.

H. 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.

VMware also issued unsecured senior notes 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):

	May 5, 2023	February 3, 2023	Effective Interest Rate
2017 Senior Notes:			
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	1,000	0.95%
1.00% Senior Note Due August 15, 2024	1,250	1,250	1.23%
1.40% Senior Note Due August 15, 2026	1,500	1,500	1.61%
1.80% Senior Note Due August 15, 2028	750	750	2.01%
2.20% Senior Note Due August 15, 2031	1,500	1,500	2.32%
Total principal amount	9,250	9,250	
Less: unamortized discount	(11)	(12)	
Less: unamortized debt issuance costs	(43)	(46)	
Net carrying amount	$ 9,196	$ 9,192	
Current portion of long-term debt	$ 1,000	$ 1,000	
Long-term debt	8,196	8,192	

Beginning on February 15, 2022, interest on the 2021 Senior Notes became payable semiannually in arrears, on February 15 and August 15 of each year. Beginning on November 15, 2020, interest on the 2020 Senior Notes became payable semiannually in arrears, on May 15 and November 15 of each year. The interest rate on the 2020 Senior Notes is subject to adjustment based on certain rating events. Beginning on February 21, 2018, interest on the 2017 Senior Notes became payable semiannually in arrears, on February 21 and August 21 of each year. Interest expense was $62 million during each of the three months ended May 5, 2023 and April 29, 2022. 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 next five fiscal years and thereafter for the Senior Notes as of May 5, 2023 were as follows (amounts in millions):

Remainder of 2024	$ 1,000
2025	1,250
2026	750
2027	1,500
2028	1,750
Thereafter	3,000
Total	$ 9,250

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 provided the Company with a one-time aggregate borrowing capacity of up to $4.0 billion (the "2021 Term Loan"). The Company drew down an aggregate of $4 billion on November 1, 2021 and has since repaid $2.8 billion, of which $750 million was repaid during the three months ended April 29, 2022. As of May 5, 2023 and February 3, 2023, the outstanding balance on the 2021 Term Loan of $1.2 billion, net of unamortized debt issuance costs, was included in long-term debt on the condensed consolidated balance sheets. As of May 5, 2023, the weighted-average interest rate on the outstanding 2021 Term Loan was 5.83%.

The 2021 Term Loan contains certain representations, warranties and covenants. Interest expense for the 2021 Term Loan, including amortization of issuance costs, was $18 million and not significant during the three months ended May 5, 2023 and April 29, 2022, respectively.

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"). 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 May 5, 2023 and February 3, 2023, there was no outstanding borrowing under the 2021 Revolving Credit Facility. The 2021 Revolving Credit Facility 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 May 5, 2023 and April 29, 2022, respectively.

I. Fair Value Measurements

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

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

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

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

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

	May 5, 2023		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	$ 5,843	$ —	$ 5,843
Time deposits[1]	—	8	8
Total cash equivalents	$ 5,843	$ 8	$ 5,851

	February 3, 2023		
	Level 1	Level 2	Total
Cash equivalents:			
Money-market funds	$ 4,250	$ —	$ 4,250
Time deposits[1]	—	19	19
Total cash equivalents	$ 4,250	$ 19	$ 4,269

[1] Time deposits were valued at amortized cost, which approximated fair value.

The Senior Notes and the 2021 Term Loan were not recorded at fair value. The fair value of the Senior Notes was approximately $8.5 billion as of May 5, 2023 and February 3, 2023. The fair value of the 2021 Term Loan approximated its carrying value as of May 5, 2023 and February 3, 2023. Fair value for each of the Senior Notes and the 2021 Term Loan was estimated primarily based on observable market interest rates (Level 2 inputs).

VMware offers a non-qualified deferred compensation plan (the "NQDC Program") for eligible employees, which allows participants to defer payment of part or all of their compensation. There is no net impact to the condensed consolidated statements of income under the NQDC Program 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 the NQDC Program have not been included in the above tables. Assets associated with the NQDC Program were the same as the liabilities at $174 million and $166 million as of May 5, 2023 and February 3, 2023, respectively, and were included in other assets on the condensed consolidated balance sheets. Liabilities associated with the NQDC Program included in accrued expenses and other on the condensed consolidated balance sheets were $16 million each as of May 5, 2023 and February 3, 2023. Liabilities associated with the NQDC Program included in other liabilities on the condensed consolidated balance sheets were $158 million and $150 million as of May 5, 2023 and February 3, 2023, respectively.

Equity Securities Without a Readily Determinable Fair Value

VMware's equity securities include investments in privately held companies, which do not have a readily determinable fair value. As of May 5, 2023 and February 3, 2023, investments in privately held companies, which consisted primarily of equity securities, had a carrying value of $86 million and $87 million, respectively, and were included in other assets on the condensed consolidated balance sheets.

All gains and losses on these securities, whether realized or unrealized, were not significant for the periods presented and were recognized in other income (expense), net on the condensed consolidated statements of income.

J. Derivatives and Hedging Activities

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

Cash Flow Hedges

To mitigate its exposure to foreign currency fluctuations resulting from certain operating expenses denominated in certain foreign currencies, VMware enters into forward contracts that are designated as cash flow hedging instruments as the accounting criteria for such designation are met. Therefore, the effective portion of gains or losses resulting from changes in the fair value of these instruments is initially reported in accumulated other comprehensive loss on the condensed consolidated balance sheets and is subsequently reclassified to the related operating expense line item on the condensed consolidated statements of income in the same period that the underlying expenses are incurred. During the three months ended May 5, 2023 and April 29, 2022, the effective portion of gains or losses reclassified to the condensed consolidated statements of income was not significant to each of the individual functional line items, as well as in aggregate. 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 maturities of fourteen months or less, and as of May 5, 2023 and February 3, 2023, outstanding forward contracts had a total notional value of $519 million and $677 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 May 5, 2023 and February 3, 2023.

During the three months ended May 5, 2023 and April 29, 2022, 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 maturity of one month, and as of May 5, 2023 and February 3, 2023, outstanding forward contracts had a total notional value of $1.1 billion and $1.7 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 May 5, 2023 and February 3, 2023.

Gains related to the settlement of forward contracts were $18 million and $44 million during the three months ended May 5, 2023 and April 29, 2022, 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 each of the three months ended May 5, 2023 and April 29, 2022. Net gains and losses are recorded in other income (expense), net on the condensed consolidated statements of income.

K. Leases

VMware has operating and finance leases primarily related to office facilities and equipment, which have remaining lease terms of one month to 23 years.

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

	Three Months Ended	
	May 5, 2023	April 29, 2022
Operating lease expense	$ 48	$ 50
Finance lease expense:		
Amortization of right-of-use ("ROU") assets	2	2
Variable lease expense	10	8
Total lease expense	$ 60	$ 60

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 May 5, 2023 and April 29, 2022.

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

	Three Months Ended	
	May 5, 2023	April 29, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 47	$ 43
Operating cash flows from finance leases	1	—
Financing cash flows from finance leases	1	1
ROU assets obtained in exchange for lease liabilities:		
Operating leases	$ 10	$ 51

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

	May 5, 2023	
	Operating Leases	Finance Leases
ROU assets, non-current[(1)]	$ 945	$ 45
Lease liabilities, current[(2)]	$ 141	$ 9
Lease liabilities, non-current[(3)]	819	37
Total lease liabilities	$ 960	$ 46

	February 3, 2023	
	Operating Leases	Finance Leases
ROU assets, non-current[(1)]	$ 974	$ 47
Lease liabilities, current[(2)]	$ 144	$ 9
Lease liabilities, non-current[(3)]	845	39
Total lease liabilities	$ 989	$ 48

(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.

(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:

	May 5, 2023	February 3, 2023
Weighted-average remaining lease term (in years)		
Operating leases	11.8	11.8
Finance leases	5.5	5.7
Weighted-average discount rate		
Operating leases	3.6 %	3.5 %
Finance leases	3.2 %	3.2 %

The following represents VMware's future minimum lease payments under non-cancellable operating and finance leases as of May 5, 2023 (table in millions):

	Operating Leases	Finance Leases
Remainder of 2024	$ 131	$ 8
2025	137	9
2026	129	9
2027	113	7
2028	98	7
Thereafter	605	10
Total future minimum lease payments	1,213	50
Less: Imputed interest	(253)	(4)
Total lease liabilities[1]	$ 960	$ 46

[1] Total lease liabilities as of May 5, 2023 excluded legally binding lease payments for leases signed but not yet commenced of $19 million.

The amount of the future operating lease commitments after fiscal 2028 is primarily for the ground leases on VMware's Palo Alto, California headquarter facilities, which expire in fiscal 2047. As several of VMware's operating leases are payable in foreign currencies, the operating lease payments may fluctuate in response to changes in the exchange rate between the U.S. dollar and the foreign currencies in which the commitments are payable.

L. Stockholders' Equity

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. All shares repurchased under VMware's stock repurchase programs are retired.

As of May 5, 2023, the cumulative authorized amount remaining for stock repurchases under the October 2021 authorized repurchase program was $1.6 billion. In connection with its entry into the Merger Agreement, VMware suspended its stock repurchase program during the second quarter of fiscal 2023.

The following table summarizes stock repurchase activity during the three months ended April 29, 2022 (aggregate purchase price in millions, shares in thousands):

	Three Months Ended April 29, 2022
Aggregate purchase price	$ 89
Class A common stock repurchased	803
Weighted-average price per share	$ 111.33

Restricted Stock

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

Restricted stock also includes PSU awards granted to certain VMware executives and employees. PSU awards have performance conditions and a service-based vesting component. Upon vesting, PSU awards convert into Class A common stock at various ratios ranging from 0.1 to 2.0 shares per PSU, depending upon the degree of achievement of the performance-based targets designated by each award. If minimum performance thresholds are not achieved, then no shares are issued.

The following table summarizes restricted stock activity since February 3, 2023 (units in thousands):

	Number of Units	Weighted-Average Grant Date Fair Value (per unit)
Outstanding, February 3, 2023	23,522	$ 117.73
Granted	764	127.83
Vested	(4,543)	119.81
Forfeited	(530)	120.24
Outstanding, May 5, 2023	19,213	117.57

The aggregate vesting date fair value of restricted stock that vested during the three months ended May 5, 2023 was $531 million. As of May 5, 2023, restricted stock representing 19.2 million shares of VMware's Class A common stock were outstanding, with an aggregate intrinsic value of $2.4 billion based on VMware's closing stock price as of May 5, 2023.

Net Excess Tax Benefits (Tax Deficiencies)

Net excess tax benefits or tax deficiencies recognized in connection with stock-based awards are included in income tax provision on the condensed consolidated statements of income and were not material during the three months ended May 5, 2023 and April 29, 2022.

M. Segment Information

VMware operates in one reportable operating segment; thus, all required financial segment information is included in the condensed consolidated financial statements. An operating segment is defined as the component 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	
	May 5, 2023	April 29, 2022
Revenue:		
License	$ 517	$ 572
Subscription and SaaS	1,217	899
Services:		
Software maintenance	1,234	1,310
Professional services	309	307
Total services	1,543	1,617
Total revenue	$ 3,277	$ 3,088

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

	Three Months Ended	
	May 5, 2023	April 29, 2022
United States	$ 1,555	$ 1,518
International	1,722	1,570
Total	$ 3,277	$ 3,088

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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 each of the three months ended May 5, 2023 and April 29, 2022.

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

	May 5, 2023	February 3, 2023
United States	$ 826	$ 840
International	247	261
Total	$ 1,072	$ 1,101

As of May 5, 2023 and February 3, 2023, the U.S. and India each accounted for more than 10% of these assets, with India accounting for 13% of these assets.

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 May 5, 2023 should be read in conjunction with our consolidated financial statements for the year ended February 3, 2023 contained in our Annual Report on Form 10-K filed on March 28, 2023.

Our fiscal year is the 52 or 53 weeks ending on the Friday nearest to January 31 of each year. We refer to our fiscal year ending February 2, 2024 and fiscal year ended February 3, 2023 as "fiscal 2024" and "fiscal 2023," respectively. The first quarter of fiscal 2024 and fiscal 2023 were each 13-week fiscal quarters.

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

Overview

We originally pioneered the development and application of virtualization technologies with x86 server-based computing, separating application software from the underlying hardware, and then evolved to become the private cloud and mobility management leader. Building upon that leadership, we are focused on becoming the multi-cloud leader. Information technology ("IT") driven innovation continues to disrupt markets and industries. Technologies emerge faster than organizations can absorb, creating increasingly complex environments. Organizations' IT departments and corporate divisions are working at an accelerated pace to harness new technologies, platforms and cloud models, ultimately guiding businesses and their product teams through a digital transformation. To take on these challenges, we are helping customers drive their multi-cloud strategy by providing the multi-cloud platform for all applications, enabling digital innovation and enterprise control.

Our portfolio supports and addresses our customers' key priorities, including modernizing their applications, managing multi-cloud environments, accelerating their cloud journey, modernizing the network using commodity hardware, embracing zero-trust security and empowering anywhere workspaces. We enable digital transformation of customers' applications, infrastructure and operations for their constantly evolving business and employee needs.

End users can purchase the full breadth of our subscription, software-as-a-service ("SaaS"), license and services portfolio through discrete purchases or through enterprise agreements ("EAs"). EAs are sold to our direct customers and through channel partners and can include our license, multi-year maintenance and support, subscription and SaaS offerings.

During the three months ended May 5, 2023, 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 as perpetual licenses. As this trend continues, we expect a greater portion of our revenue to 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. In addition, the rate of growth in our license revenue has and will likely continue to be less relevant on a standalone basis, and we believe that the overall growth rate of our subscription and SaaS revenue and annual recurring revenue for subscription and SaaS, as well as the growth of our remaining performance obligations, are becoming better indicators of our future growth prospects. In addition, our operating margin was negatively impacted during the three months ended May 5, 2023, and will continue to be impacted in fiscal 2024, as a result of our incremental investment in our subscription and SaaS portfolio.

Broadcom Merger Agreement

On May 26, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Broadcom Inc. ("Broadcom"). Under the terms of the Merger Agreement, each share of our Class A common stock ("Common Stock"), par value $0.01 per share, issued and outstanding immediately prior to the effective time of the transaction will be indirectly converted into the right to receive, at the election of the holder of such share of Common Stock, and subject to proration in accordance with the Merger Agreement as described below: (i) $142.50 per share in cash, without interest (the "Cash Consideration"), or (ii) 0.25200 (the "Exchange Ratio") shares of common stock, par value $0.001 per share, of Broadcom ("Broadcom Common Stock," and such consideration, the "Stock Consideration"). The stockholder election will be subject to a proration mechanism, such that the total number of shares of Common Stock entitled to receive the Cash Consideration, and the total number of shares of Common Stock entitled to receive the Stock Consideration, will, in each case, be equal to 50% of the aggregate number of shares of Common Stock issued and outstanding immediately prior to the consummation of the transaction. Holders of Common Stock that do not make an election will be treated as having elected to receive the Cash Consideration or the Stock Consideration in accordance with the proration methodology in the Merger Agreement.

The transaction, which is expected to be consummated in Broadcom's fiscal year 2023, was approved by our shareholders at a special meeting held on November 4, 2022 but remains subject to the receipt of regulatory approvals and other customary closing conditions. On May 19, 2023, in accordance with the Merger Agreement, we and Broadcom each delivered to the other a mutual notice to extend the Outside Date (as defined in the Merger Agreement) to August 26, 2023. If the Closing Effective Date (as defined in the Merger Agreement) has not occurred, a similar three-month extension could be noticed by either party (or mutually) five business days prior to August 26, 2023. If the transaction is consummated, the Common Stock will be delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934, as amended.

Results of Operations

Approximately 70% of our sales are denominated in the 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			
	May 5, 2023	April 29, 2022	$ Change	% Change
Revenue:				
License	$ 517	$ 572	$ (55)	(10)%
Subscription and SaaS	1,217	899	318	35
Services:				
Software maintenance	1,234	1,310	(75)	(6)
Professional services	309	307	2	1
Total services	1,543	1,617	(74)	(5)
Total revenue	$ 3,277	$ 3,088	$ 189	6
Revenue:				
United States	$ 1,555	$ 1,518	$ 37	2 %
International	1,722	1,570	152	10
Total revenue	$ 3,277	$ 3,088	$ 189	6

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. Our subscription offerings consisted primarily of our VMware Cloud Provider Program ("VCPP") and VMware Tanzu offerings, and our SaaS offerings consisted primarily of our Workspace ONE, VMware Aria, VMware Carbon Black Cloud and VMware Cloud on AWS offerings. Subscription and SaaS offerings generally have a duration of one month, one-year, or three-years and are invoiced to the customers either upfront, annually, quarterly or monthly.

As customers adopt our subscription and SaaS offerings, license and software maintenance revenue has been, and may continue to be, lower and subject to greater fluctuation in the future, driven by a higher proportion of our sales occurring through our subscription and SaaS offerings as well as the variability of large deals between fiscal quarters, which deals historically have had a large license revenue impact.

Furthermore, revenue from term-based license offerings in certain EAs subject to termination for convenience ("TFC") clauses is recognized ratably as subscription and SaaS revenue, rather than as license revenue, due to the requirement to refund any unused, pre-paid fees upon termination. Any concentration of such sales in any given future period could have a material negative impact on our license revenue in such future periods.

License Revenue

License revenue decreased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022, largely due to increased sales of our subscription and SaaS offerings relative to the portion of our on-premises solutions sold as perpetual licenses, as we continue to transition our portfolio from a perpetual license to a subscription and SaaS model.

Subscription and SaaS Revenue

Subscription and SaaS revenue, which includes revenue from term-based license offerings in certain EAs subject to TFC clauses, increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022, primarily due to increased sales of our VMware Aria, VCPP, Workspace ONE and VMware Tanzu offerings.

Annual recurring revenue ("ARR") represents the annualized value of our committed customer subscription and SaaS contracts as of the end of the reporting period, assuming any contract that expires during the next 12 months is renewed on its existing terms and any applicable TFC rights are not exercised, except that, for consumption-based subscription and SaaS offerings, ARR represents the annualized quarterly revenue based on revenue recognized for the current reporting period. ARR is an operating measure we use to assess the strength of our subscription and SaaS offerings. ARR is a performance metric and should be viewed independently of, and not as a substitute for or combined with, revenue and unearned revenue. ARR was $4.8 billion as of May 5, 2023 and $3.7 billion as of April 29, 2022.

Services Revenue

Software maintenance revenue decreased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022, largely due to the continued shift in demand from our on-premises licenses sold with the associated software maintenance to subscription and SaaS offerings. In each period presented, customers purchased, on a weighted-average basis, greater than three years of support and maintenance with each new license purchased.

Professional services revenue increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022. Services we provide through our consultants and technical account managers, and our continued focus on solution deployments, including our networking, security, cloud management and anywhere workspace offerings, contributed to the increase in professional services revenue. Our professional services revenue may vary, as we continue to enable our partners to deliver professional services for our solutions. Further, 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):

	May 5, 2023	February 3, 2023
Unearned license revenue	$ 17	$ 21
Unearned subscription and SaaS revenue	4,386	4,401
Unearned software maintenance revenue	6,348	6,805
Unearned professional services revenue	1,454	1,516
Total unearned revenue	$ 12,205	$ 12,743

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 May 5, 2023 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 May 5, 2023, the aggregate transaction price allocated to remaining performance obligations was $13.0 billion, of which approximately 54% was expected to be recognized as revenue over the next twelve months and the remainder thereafter. As of February 3, 2023, the aggregate transaction price allocated to remaining performance obligations was $13.6 billion, of which approximately 54% was expected to be recognized as revenue during fiscal 2024 and the remainder thereafter.

Remaining performance obligations do not include customer prepayments received for contracts that include certain cancellation rights, such as termination for convenience, which are included in customer deposits on the condensed consolidated balance sheets and were $766 million as of May 5, 2023.

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 May 5, 2023 and February 3, 2023, our total backlog was $28 million and $72 million, respectively, substantially all of which consisted of orders received on the last day of the quarter that were not shipped or provisioned to customers, and orders held due to our export control process. Backlog related to licenses was not material as of May 5, 2023 and February 3, 2023. Backlog associated with contracts subject to cancellation until the fulfillment of the performance obligation was excluded from remaining performance obligations, and these amounts were not material as of May 5, 2023 and February 3, 2023.

The amount and composition of backlog will fluctuate period to period. 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 revenues and operating expenses primarily reflected increasing cash-based employee-related expenses, driven by an increase in salaries during the three months ended May 5, 2023.

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			
	May 5, 2023	**April 29, 2022**	**$ Change**	**% Change**
Cost of license revenue	$ 39	$ 35	$ 5	14 %
% of License revenue	*8 %*	*6 %*		

Cost of license revenue remained relatively flat during the three months ended May 5, 2023 compared to the three months ended April 29, 2022.

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			
	May 5, 2023	**April 29, 2022**	**$ Change**	**% Change**
Cost of subscription and SaaS revenue	$ 202	$ 187	$ 15	8 %
Stock-based compensation	6	5	1	17
Total expenses	$ 208	$ 192	$ 16	8
% of Subscription and SaaS revenue	*17 %*	*21 %*		

Cost of subscription and SaaS revenue increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022. The increase was primarily due to growth in cash-based employee-related expenses, largely driven by an increase in headcount and salaries.

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			
	May 5, 2023	**April 29, 2022**	**$ Change**	**% Change**
Cost of services revenue	$ 375	$ 352	$ 23	7 %
Stock-based compensation	22	23	(1)	(5)
Total expenses	$ 397	$ 375	$ 22	6
% of Services revenue	*26 %*	*23 %*		

Cost of services revenue increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022. The increase was primarily driven by growth in cash-based employee-related expenses of $29 million, largely driven by incremental growth in headcount and salaries.

Research and Development Expenses

Research and development expenses include personnel and related overhead costs associated with the development of our products and services 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			
	May 5, 2023	**April 29, 2022**	**$ Change**	**% Change**
Research and development	$ 701	$ 642	$ 58	9 %
Stock-based compensation	146	132	14	11
Total expenses	$ 847	$ 774	$ 72	9
% of Total revenue	*26 %*	*25 %*		

Research and development expenses increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022. The increase was primarily due to growth in cash-based employee-related expenses of $56 million, largely driven by incremental growth in salaries.

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			
	May 5, 2023	**April 29, 2022**	**$ Change**	**% Change**
Sales and marketing	$ 1,022	$ 970	$ 52	5 %
Stock-based compensation	82	83	(1)	(2)
Total expenses	$ 1,104	$ 1,053	$ 50	5
% of Total revenue	*34 %*	*34 %*		

Sales and marketing expenses increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022. The increase was primarily due to higher commission costs of $30 million, resulting from increased sales volume, as well as merger-related costs incurred related to our pending acquisition by Broadcom (“Merger-Related Costs”), including retention compensation incurred to preserve our business organization through the consummation of the merger (“Retention Compensation”) during the three months ended May 5, 2023.

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			
	May 5, 2023	April 29, 2022	$ Change	% Change
General and administrative	$ 339	$ 211	$ 128	61 %
Stock-based compensation	34	40	(6)	(14)
Total expenses	$ 373	$ 251	$ 122	49
% of Total revenue	*11 %*	*8 %*		

General and administrative expenses increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022. The increase was primarily due to an accrual of $85 million recognized for the Cirba Inc. patent lawsuit against VMware, as well as Merger-Related Costs of $33 million and Retention Compensation of $19 million during the three months ended May 5, 2023.

Investment Income

Investment income during the periods presented was as follows (dollars in millions):

	Three Months Ended			
	May 5, 2023	April 29, 2022	$ Change	% Change
Investment income	$ 64	$ 1	$ 63	N/M
% of Total revenue	*2 %*	*— %*		

N/M - Change in percentage is not considered meaningful.

Investment income increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022, primarily driven by higher investment yields on our cash equivalents.

Interest Expense

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

	Three Months Ended			
	May 5, 2023	April 29, 2022	$ Change	% Change
Interest expense	$ 80	$ 71	$ 9	13 %
% of Total revenue	*2 %*	*2 %*		

Interest expense increased during the three months ended May 5, 2023 compared to the three months ended April 29, 2022. The increase was primarily driven by higher interest rates on our senior unsecured term loan facility. Interest expense on the term loan facility was $18 million during the three months ended May 5, 2023, and was not material during the three months ended April 29, 2022.

Refer to Note H to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding our outstanding indebtedness.

Other Income (Expense), net

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

	Three Months Ended			
	May 5, 2023	April 29, 2022	$ Change	% Change
Other income (expense), net	$ 6	$ (10)	$ 16	148 %
% of Total revenue	*— %*	*— %*		

The change in other income (expense), net during the three months ended May 5, 2023 compared to the three months ended April 29, 2022 was primarily driven by changes in gains and losses, whether realized or unrealized, on our investments in equity securities, as well as changes in gains and losses on foreign currency exchange.

Pursuant to a tax matters agreement entered into with Dell effective April 14, 2021 (the "Tax Matters Agreement"), we have agreed to indemnify one another for certain tax liabilities or tax benefits relating to periods prior to our spin-off from Dell on November 1, 2021 and certain adjustments to these amounts that will be recognized in future periods will be recorded in other income (expense), net on the consolidated statements of income. While the adjustments recognized have not been material, we cannot reasonably predict the amount that we may receive or pay in future periods, which could introduce significant risk 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	
	May 5, 2023	April 29, 2022
Income tax provision	$ 75	$ 86
Effective income tax rate	25.0 %	26.1 %

Our quarterly effective income tax rate is based on our estimated annual income tax rate forecast and discrete tax items recognized in the period, and remained relatively flat during the three months ended May 5, 2023 compared to the three months ended April 29, 2022.

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 U.S. and non-U.S. jurisdictions. Our future effective tax rate may be affected by such factors as: changes in our business; changes in tax laws or statutory rates; changing interpretation of existing laws or regulations; the impact of accounting for stock-based compensation; 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; shifts in the amount of earnings in the U.S. compared with other regions in the world; overall levels of income before tax; changes in our international organization; the expiration of statute of limitations; and settlements of audits.

The Inflation Reduction Act (the "IRA") was enacted in August 2022, and became effective for us commencing with our fiscal 2024. The key tax provisions of the IRA relate to a new 15% corporate alternative minimum tax on adjusted financial statement income for companies with profits greater than $1.0 billion and a 1% excise tax on stock repurchases by publicly traded companies. The IRA did not have an impact on our income tax provision during the three months ended May 5, 2023. We will continue to evaluate the impact of these tax law changes in future periods.

Our Relationship with Dell

Transactions with Dell continue to be considered related party transactions following the Spin-Off due to the MSD Stockholders' and SLP Stockholders' direct ownership in both VMware and Dell, as well as Mr. Dell's executive position with Dell.

On November 1, 2021, in connection with the Spin-Off, we entered into the Commercial Framework Agreement with Dell to provide a framework under which our strategic commercial relationship will continue, particularly with respect to projects mutually agreed by the parties as having the potential to accelerate the growth of an industry, product, service, or platform that may provide the parties with a strategic market opportunity. 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.

The information provided below includes a summary of transactions with 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 original equipment manufacturer ("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, in connection with which Dell pays us for services or reimburses us for costs incurred.

During the three months ended May 5, 2023 and April 29, 2022, revenue from Dell accounted for 36% and 37% of our consolidated revenue, respectively. During the three months ended May 5, 2023 and April 29, 2022, revenue recognized on transactions where Dell acted as an OEM accounted for 13% and 14% of total revenue from Dell, and 5% and 5% of our consolidated revenue, respectively.

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

	Revenue		Unearned Revenue	
	Three Months Ended		As of	
	May 5, 2023	April 29, 2022	May 5, 2023	February 3, 2023
Reseller revenue	$ 1,156	$ 1,137	$ 5,786	$ 6,145
Internal-use revenue	13	13	47	19

Sales through Dell as a distributor, which is included in reseller revenue, comprise the largest route-to-market for our sales.

Customer deposits resulting from transactions with Dell were $750 million and $766 million as of May 5, 2023 and February 3, 2023, 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, in connection with which we pay Dell for services it provides to us.
- Through the end of fiscal 2023, in certain geographic regions where we did not have an established legal entity, we contracted with Dell subsidiaries for support services and support from Dell personnel who were managed by us. The costs incurred by Dell on our behalf related to these employees were 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 were included as expenses on our condensed consolidated statements of income and primarily include salaries, benefits, travel and occupancy expenses. Payments for Dell subsidiary support and administrative costs were not material during the three months ended April 29, 2022.

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

	Three Months Ended	
	May 5, 2023	April 29, 2022
Purchases and leases of products and purchases of services	$ 38	$ 42

We also purchase Dell products through Dell's channel partners, however such amounts were not material 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.

Dell Financial Services ("DFS")

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 the current portion of due from related parties 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 material during the three months ended May 5, 2023 and April 29, 2022.

Liquidity and Capital Resources

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

	May 5, 2023	February 3, 2023
Cash and cash equivalents	$ 6,548	$ 5,100

Cash equivalents primarily consisted of amounts invested in money market funds. To manage our credit risk, we monitor the diversity and concentration of our portfolio and limit the amount of investments from any issuer or fund.

We continue to expect that cash generated by operations will be our primary source of liquidity. We also continue to believe that 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, debt repayments and stock repurchases, among other things. In addition, we plan to continue with our balanced capital allocation policy through investing in our product and solution offerings, and acquisitions. 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 one-time transition tax on accumulated earnings of foreign subsidiaries (“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 May 5, 2023 was $445 million, which we expect to pay over the next three 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 Agreements, as defined in Note C to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q, may differ materially from our total estimated tax liability calculated on a separate tax return basis. Pursuant to the Tax Matters Agreement with Dell, we have agreed to indemnify one another for certain tax liabilities or tax benefits relating to periods prior to the Spin-Off and certain adjustments to these amounts that will be recognized in future periods will be recorded in other income (expense), net on the consolidated statements of income. In addition, changes to Section 174 enacted as part of the 2017 Tax Act require companies to capitalize and amortize research and development expenditures for tax purposes. This provision became effective for us beginning in fiscal 2023. If this provision is not deferred, repealed or modified, our cash taxes may fluctuate significantly in the future.

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

	Three Months Ended	
	May 5, 2023	April 29, 2022
Net cash provided by (used in):		
Operating activities	$ 1,750	$ 1,005
Investing activities	(113)	(91)
Financing activities	(189)	(815)
Net increase in cash, cash equivalents and restricted cash	$ 1,448	$ 99

Operating Activities

Cash provided by operating activities increased by $744 million during the three months ended May 5, 2023 compared to the three months ended April 29, 2022, primarily driven by increased cash collections and lower cash outflows related to operating expenses, offset in part by increased cash payments for employee-related expenses, including salaries, bonuses and commissions.

Investing Activities

Cash used in investing activities increased by $23 million during the three months ended May 5, 2023 compared to the three months ended April 29, 2022, primarily due to the absence of proceeds from sales of investments in equity securities during the three months ended May 5, 2023.

Financing Activities

Cash used in financing activities decreased by $628 million during the three months ended May 5, 2023 compared to the three months ended April 29, 2022, primarily driven by the absence of the repayment against the senior unsecured term loan facility of $750 million, as well as the suspension on our stock repurchase program and employee stock purchase plan in connection with our entry into the Merger Agreement during the second quarter of fiscal 2023. These decreases were offset in part by an increase of $94 million in shares repurchased for tax withholdings on the vesting of restricted stock during the three months ended May 5, 2023.

Debt

Unsecured Senior Notes

We have unsecured senior notes (“Senior Notes”) outstanding with an aggregate net carrying value of $9.2 billion as of May 5, 2023. The Senior Notes mature between August 2023 and August 2031 and 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. During the three months ended May 5, 2023 and April 29, 2022, interest paid for the Senior Notes was $67 million and $70 million, respectively.

Senior Unsecured Term Loan Facility

We have senior unsecured term loan facilities that provided us with a one-time aggregate borrowing capacity of up to $4.0 billion (the “2021 Term Loan”). As of May 5, 2023, the outstanding balance was $1.2 billion. Interest paid for the 2021 Term Loan was $17 million during the three months ended May 5, 2023, and was not material during the three months ended April 29, 2022.

Refer to Note H to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding our outstanding indebtedness.

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. All shares repurchased under our stock repurchase programs are retired.

In connection with our entry into the Merger Agreement, we suspended our stock repurchase program, and we did not repurchase Common Stock subsequent to the first quarter of fiscal 2023. Refer to Note L to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for stock repurchase authorizations approved by our board of directors during the periods presented.

Critical Accounting 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 estimates set forth within Part II, Item 7, “Critical Accounting Estimates” of our Annual Report on Form 10-K filed on March 28, 2023 involve a higher degree of judgment and complexity in their application than our other accounting estimates. Our senior management has reviewed our critical accounting estimates and related disclosures with the Audit Committee of the Board of Directors. Historically, our assumptions and judgments relative to our critical accounting estimates 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; the expected timing and completion of the proposed transaction with Broadcom; 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; our ESG-related programs including the objectives of our 2030 Agenda and our programs to further diversity, equity and inclusion; 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; our plans to repay our outstanding indebtedness; 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 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 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 three months ended May 5, 2023. See Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our Annual Report on Form 10-K filed on March 28, 2023 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 May 5, 2023 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.

Risks Related to Our Pending Acquisition by Broadcom

The pendency of our acquisition by Broadcom may have an adverse effect on our business, results of operations, cash flows and financial position.

On May 26, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Broadcom Inc. ("Broadcom"), pursuant to which Broadcom agreed to acquire us subject to the terms and conditions set forth therein. Our pending acquisition by Broadcom may have an adverse effect on our operating results in the near term if our customers delay, defer, or cancel purchases pending completion of the transaction. In addition, the pendency of the transaction may cause reluctance by customers to begin or continue to do business with us due to potential uncertainty about the direction of our products and solutions following consummation of the transaction.

We are subject to additional risks in connection with the pendency of the proposed transaction, including:

- Parties with which we do business may be uncertain as to the effects the transaction may have on them, including with respect to current or future business relationships with us, and these relationships may be subject to disruption as channel partners, customers, suppliers and other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to terminate, change or renegotiate their relationships with us, as applicable, or consider entering into business relationships with parties other than us. The risk, and adverse effect, of any disruption could be exacerbated by a delay in the consummation of the transaction or termination of the Merger Agreement;
- The restrictions imposed on our business and operations pursuant to certain covenants set forth in the Merger Agreement obligates us to generally conduct our business in a commercially reasonable manner and in all material respects in the ordinary course of business consistent with past practice and may prevent us from pursuing certain opportunities, entering into certain contracts with customers, resellers and suppliers, or taking certain other actions without Broadcom's approval;
- The Merger Agreement limits our ability to pursue alternatives to the transaction and may discourage other companies from trying to acquire us;
- We may be unable to attract, recruit, retain and motivate current and prospective employees who may be uncertain about their future roles following completion of the proposed transaction, and our operations, including our ability to execute our strategy and our cybersecurity and other risk management programs, could suffer due to employee attrition or a reduction in employee productivity as a result of this uncertainty;
- The pendency and outcome of legal proceedings that have been and may in the future be instituted against us, our directors, executive officers and others relating to the proposed transaction; and
- The pursuit of the transaction and planning for the integration has placed and may continue to place a significant burden on management and other internal resources, and the diversion of management's attention away from day-to-day business concerns and other opportunities that may have been beneficial to us could adversely affect our business, financial condition and operating results.

In addition, since the merger consideration our stockholders will receive in the transaction will be in the form of both cash and common stock of Broadcom, our stock price will be impacted by changes in Broadcom's stock price. Changes to Broadcom's stock price may result from a variety of factors, such as changes in its business operations and outlook, changes in general market and economic conditions and regulatory considerations. These factors are beyond our control.

Completion of the transaction is subject to the conditions contained in the Merger Agreement, including regulatory approvals, which may not be received, may take longer than expected or may impose conditions that are not presently anticipated or that cannot be met, and if these conditions are not satisfied or waived, the transaction will not be completed.

Before the transaction may be completed, various consents, clearances, approvals, authorizations and declarations of non-objection, or expiration of waiting periods (or extensions thereof), must be obtained from certain regulatory and governmental authorities in the U.S., in the European Union and in certain other jurisdictions. In addition, the transaction may be reviewed under antitrust statutes or foreign direct investment regimes of other governmental authorities, including U.S. state laws.

In deciding whether to grant the required regulatory approval, consent or clearance, the relevant governmental entities will consider the effect of the transaction on competition within their relevant jurisdiction. Regulatory and governmental entities may impose conditions on their respective approvals, in which case lengthy negotiations may ensue among such regulatory or governmental entities, Broadcom and us. Such conditions, any such negotiations and the process of obtaining regulatory approvals could have the effect of delaying or preventing consummation of the transaction.

Subject to the terms of the Merger Agreement, we have agreed to use our reasonable best efforts to take all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws to consummate the transaction as promptly as practicable. Nonetheless, many of the closing conditions are not within our control. For example, we cannot be certain that these regulatory clearances and approvals will be obtained in a timely manner or at all, or that the granting of these regulatory clearances and approvals will not involve the imposition of regulatory remedies on the completion of the transaction.

If any of these conditions are not satisfied or waived prior to August 26, 2023, which deadline may be extended to November 26, 2023 under certain circumstances, it is possible that the Merger Agreement will be terminated.

Lawsuits have been and may in the future be filed against us and our directors challenging the transaction, and an adverse ruling in any such lawsuit may delay or prevent the consummation of the transaction and result in substantial costs to us.

In connection with the transaction, litigation was previously filed against VMware and its board of directors and has now been dismissed.

However, it is possible that additional litigation against us or our directors may be filed in the future as securities class action lawsuits and derivative lawsuits are often brought against public companies that have entered into acquisition, merger or other business combination agreements like the Merger Agreement. Even if such a lawsuit is without merit, defending against these claims can result in substantial costs and divert management time and resources. An adverse judgment could result in monetary damages, which could have a negative impact on our liquidity and financial condition. The outcome of any litigation is uncertain, and any such lawsuits could delay or prevent the consummation of the transaction and result in substantial costs to us. Any such actions may create uncertainty relating to the transaction and may be costly and distracting to management.

Further, one of the conditions to the completion of the transaction is that no injunction or law by any governmental entity of competent jurisdiction will be in effect that has the effect of restraining, enjoining or otherwise prohibiting the consummation of the transaction. As such, if an injunction prohibiting the consummation of the transaction is obtained, that injunction may prevent the transactions from becoming effective or from becoming effective within the expected timeframe.

The failure to complete the planned acquisition of us by Broadcom could have a material and adverse effect on our business, results of operations, financial condition, cash flows, and stock price.

The transaction, which is expected to close in Broadcom's fiscal year 2023, is subject to the satisfaction or waiver of customary closing conditions, and there is no assurance that all of the various conditions will be satisfied, or that the transaction will be completed on the proposed terms, within the expected timeframe or at all. The closing of the transaction may be delayed, and the transaction may ultimately not be completed, due to a number of factors, including as a result of the failure to obtain necessary government or regulatory approval or to satisfy any other requisite closing condition as described in the Merger Agreement and current and potential future stockholder litigation and other legal and regulatory proceedings, among others.

If the transaction does not close, we may suffer consequences that could adversely affect our ongoing and future business, financial condition, operating results, cash flows and stock price, and our stockholders would be exposed to additional risks, including for example:

- To the extent that the current market price of our stock reflects an assumption that the transaction will be completed, the price of our common stock could decrease;
- Investor confidence in us could decline, additional stockholder litigation could be brought against us, relationships with existing and prospective customers and other business partners may be adversely impacted, we may be unable to

hire or retain key personnel, and we may not be able to shift or overcome negative reactions from analysts and other media professionals in a timely manner or at all;

- Any disruptions to our business resulting from the announcement and pendency of the transaction, including adverse changes in our relationships with employees, customers and other business partners, may continue or intensify;
- We have incurred significant costs, including professional services fees and other transaction costs, in connection with the proposed transaction that we would be unable to recover, and devoted substantial commitments of time and resources by our management, which could have otherwise been devoted to day-to-day operations and other opportunities that could have been beneficial to us as an independent company; and
- If certain circumstances that give rise to a termination of the Merger Agreement occur, we may be required to pay Broadcom a termination fee of $1.5 billion.

There can be no assurance that our business, relationships with other parties, liquidity or financial condition will not be adversely affected, as compared to the condition prior to the announcement of the transaction, if the transaction is delayed or not consummated.

Operation of Business and Strategic Risks

A significant decrease in demand for our data center 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 data center 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 SDDC, network virtualization and 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 (including as a result of climate change), 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.

We continue to transition our portfolio from a perpetual license model to subscription and SaaS offerings. During this transition, we are recognizing less revenue up front than we would otherwise recognize under the license agreements through which we have typically sold our established offerings. Additionally, in order to provide customers flexibility, we offer one- and three-year term licenses for certain portions of our portfolio, which have certain characteristics that are similar to subscription products but are accounted for as license and services revenue. Furthermore, during the second half of fiscal 2023, we introduced termination for convenience ("TFC") clauses with respect to term-based license offerings in certain enterprise agreements ("EAs"). Revenue from such term license offerings subject to TFC clauses is recognized ratably as subscription and SaaS revenue, rather than as license revenue, due to the requirement to refund any unused, pre-paid fees upon termination. Our transition to these term-based licenses and subscription and SaaS offerings involves various risks that may negatively affect our operating results, including:

- We may fail to set pricing for subscription and SaaS offerings 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.
- We may fail to accurately predict subscription renewal and consumption rates or their impact on operating results and annual recurring revenue ("ARR"), and because revenue from subscriptions is recognized for our services over the term of the subscription, downturns or upturns in sales may not be immediately reflected in our results.
- As customers transition to our subscription and SaaS products and services, our revenue and license revenue growth rates have been and may in the future be adversely impacted during the period of transition when we recognize less revenue up front than we would otherwise recognize as part of perpetual license contracts. 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 was previously viewed as a leading indicator of our business performance, as well as our software maintenance revenue and deferred revenue were negatively impacted. At the same time, 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.
- Inclusion of the TFC clauses with respect to term license offerings in certain EAs adds uncertainty to our ability to forecast license revenue in any particular period, could significantly increase our customer deposit liability balance in future periods and could cause results in a given period to materially differ from those in prior periods. If a concentration of customers exercise their rights under these TFC clauses in any given period, our subscription and SaaS revenue, subscription and SaaS ARR and cash flow results could be materially negatively impacted.
- 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.
- Term licenses are sold with shorter support and maintenance terms than perpetual licenses are, and customers may not renew such licenses at the end of their term or transition to subscription and SaaS offerings.
- As we offer more services that depend on converting users of free services to premium services and purchasers of our on-premises products to our SaaS offerings, our ability to maintain, improve and predict conversion rates will become more important.

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

The application platform, multi-cloud, digital workspace, networking and security product areas 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 have the potential to adversely affect our operating results.

We face competition from, among others:

Providers of public cloud infrastructure and SaaS-based multi-cloud offerings. As businesses increasingly utilize public cloud and SaaS-based offerings, they are building more of their new compute workloads, and may also shift some of their existing workloads, off premises. A significant percentage of new application development is happening in the public cloud, with providers such as Amazon Web Services ("AWS"), Microsoft Azure ("Azure") or Google Cloud, or in a distributed fashion, and these new applications are often deployed on public cloud or multi-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 multi-cloud offerings, such as those offered by Datadog in monitoring and IT telemetry and ServiceNow in the automation space. If we fail to address evolving customer priorities or requirements, the demand for VMware's products and services may decline, and we could experience slower than expected or no 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, which are increasingly integrated with on-premises solutions. Although we have formed alliances with various public cloud providers to create hybrid and multi-cloud offerings, we continue to face intense competition from these public cloud providers. In fiscal 2018, we entered into a strategic alliance with AWS to deliver a vSphere-based cloud service, VMware Cloud on AWS, running in AWS data centers available in certain geographies. In fiscal 2019, we extended our collaboration with AWS to include VMware Cloud on AWS Outposts to deliver VMware Cloud on AWS as a managed offering in on-premises facilities. In fiscal 2020, we also announced partnerships with Microsoft (Azure VMware Solution by CloudSimple), Google (Google Cloud VMware Engine), and Oracle (Oracle Cloud VMware Solution) under the framework of our VCPP that enable customers to run native VMware-based workloads on each of Azure, Google Cloud, and Oracle Cloud. Our partnerships with AWS and other public cloud providers may be seen as competitive with each other and with other VCPP partners, 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, including AWS and Microsoft, are delivering hybrid cloud hardware solutions with integrated software, such as distributed cloud management, which may be based on specialized technologies such as smart network interface cards ("SmartNICs"), data processing units ("DPUs") or infrastructure processing units ("IPUs"). These specialized technologies can take on an array of compute, storage, security and networking functions, enabling greater cloud efficiency and performance gains, as well as security benefits, namely in the form of CPU hardware isolation, that may undergird hybrid cloud offerings like AWS Outposts. Public cloud infrastructure providers have also developed offerings based on servers using Arm CPUs to reduce energy costs, such as AWS Graviton, announced in 2018. To the extent customers and partners, including service providers, choose to adopt co-processor or non-x86-based models to operate native or hybrid cloud environments, demand for VMware's on-premises, hybrid and multi-cloud products and our operating results could be materially adversely affected.

Providers of application modernization and open source developer platform services. Many public cloud infrastructure and multi-cloud SaaS competitors also offer standalone or embedded application development, or Platform-as-a-Service ("PaaS"), services. With respect to AWS, Azure and Google Cloud, PaaS services are often bundled with consumption-based IaaS offerings. These IaaS providers and other developer solution partners, such as Red Hat, a subsidiary of IBM, and HashiCorp, offer tools and services based on containers and DevSecOps (development, security and operations), "shift-left" or continuous integration and continuous delivery practices. These providers may offer services, such as application security testing, application performance monitoring and automation, earlier in the application lifecycle or during development, in addition to during production. While VMware offers Aria Operations for Applications (formerly Tanzu Observability), which directly competes in this space, competitor DevSecOps offerings may reduce the demand for or put pricing pressure on traditional VMware management and automation product offerings, which are often deployed for production use cases. Open source technologies for 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 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. 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. In step with these trends, we deliver a comprehensive container, Kubernetes and Cloud Native Application technologies portfolio with VMware Tanzu and have increased our level of commitment to open source projects and communities, such as the Cloud Native Computing Foundation ("CNCF"), 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, such as Red Hat, and the large providers of public cloud infrastructure and developer services. Such competitive pressure or the availability of new open source software may cause us to experience reduced sales, increased pricing pressure, increased sales and marketing expenses and reduced operating margins, any one of which may adversely affect our operating results.

Providers of enterprise security offerings. With our acquisition of Carbon Black Inc. ("Carbon Black") in 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 frequent introductions of new solutions. Competitors in the end point security space range from established solution providers such as Microsoft and Trend Micro to next-generation endpoint security providers such as CrowdStrike and SentinelOne. 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. Additionally, new trends, such as Extended Threat Detection and Response (XDR), Secure Access Service Edge (SASE) and Zero Trust Network Access (ZTNA), represent the coalescence of formerly distinct markets, such as identity management, secure web gateway (SWG), SD-

WAN, network firewall and cloud access security brokers (CASBs). These new trends may bring existing partners, such as Fortinet, Zscaler and Okta into a more competitive position with our Carbon Black, VeloCloud and other distributed network security offerings. 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 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 its 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.

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. For example, Google Cloud is a member of the CrowdXDR Alliance, a CrowdStrike initiative competitive with VMware security offerings that also includes other VMware partners such as Zscaler. Many public cloud infrastructure providers have also entered into strategic partnerships with mobile telecommunications network providers (such as AWS with Verizon and Microsoft Azure with AT&T) to jointly embed distributed cloud infrastructure and management tools into 5G mobile networks as applications are increasingly deployed closer to end users at the "edge." These alliances may result in more compelling product and service offerings than those 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 2019, one of our important partners and customers, IBM, acquired Red Hat, one of our competitors in the cloud native applications space. In 2020, Nvidia acquired Mellanox, a SmartNIC provider, and, similarly, in 2022, AMD acquired Xilinx, a field-programmable gate array ("FPGA") provider, and Pensando, a DPU provider, giving Nvidia and AMD the potential to offer offloaded, FAC-embedded competitive virtualization, storage, security and networking software to enterprise customers for their on-premises environments. In 2022, Intel formed a partnership with Google Cloud to develop public cloud instances using Intel IPUs, and each of Microsoft Azure and Google Cloud announced agreements with Ampere, an Arm-based CPU provider. Consequently, when such convergences occur, we may find it more difficult to continue to collaborate productively on other projects with these partners, and the advantages we derive from our ecosystem could diminish.

These various forms of 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 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 three months ended May 5, 2023, revenue from Dell, including purchases of products and services directly from us, as well as through our channel partners, accounted for 36% 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 compete with us in new areas and 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.

We believe that our commercial relationship with Dell provides 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, such 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. Additionally, cloud and on-premises infrastructure companies may choose not 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 data center virtualization, application modernization and related multi-cloud technologies used to manage distributed computing architectures, which form the foundation for multi-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 and sales efforts toward products and services that enable businesses to modernize applications and efficiently implement their multi-cloud services. We have also been introducing SaaS versions of our on-premises products, including vRealize Cloud Universal, and investing in a range of SaaS and cloud-native technologies and products, including through acquisitions such as CloudHealth Technologies, Inc., Carbon Black and Pivotal Software, Inc. ("Pivotal"). 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 multi-cloud and application platform solutions. As the market for our data center virtualization products continues to mature, and the scale of our business continues to increase, our rate of revenue growth increasingly depends upon the success of our newer product and service offerings. To the extent that adoption rates for our newer products and services are not sufficient to offset declines in revenue growth for our established server virtualization offerings, our overall revenue growth rates may slow materially or our revenue may decline substantially. Additionally, we may fail to realize returns on our investments in new initiatives and our operating results could be materially adversely affected.

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

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

The loss of key management personnel could harm our business.

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

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

Developing our products and services is expensive, and developing and launching disruptive technologies requires significant investment often entailing greater risk than incremental investments in existing products and services. Our research and development expenses were approximately 26% of our total revenue during the three months ended May 5, 2023. 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 may 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 or liabilities 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 or that relate to the acquired business;
- 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 36% of our consolidated revenue during the three months ended May 5, 2023, and transactions where Dell acted as an 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 no longer consolidates 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 three months ended May 5, 2023. Although we believe that we have, 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, multi-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, required 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 some of our development cycles 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, channel partners and third-party providers whom we rely upon to help deliver our subscription and SaaS services 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, trade barriers and other regulatory or contractual limitations on our ability to develop and sell our products and services in certain non-U.S. geographies, such as in China, whose government has adopted laws and regulations relating to the procurement of key network equipment and security products that might cause our business in such geographies to suffer and expose us to civil and criminal penalties;
- laws and regulations regarding the storage and processing of data in certain non-U.S. geographies, such as in China, might cause our business in such geographies to suffer and expose us to civil and criminal penalties;
- localized impacts of the COVID-19 pandemic or other public health crises 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;
- regional impacts of climate change, which increase the risk of extreme weather events, wildfire and drought that can impact local infrastructure such as the reliability of local electrical grids and telecommunications;
- global economic conditions, including inflation, recession and supply chain disruptions, could materially and adversely affect our business, prospects, results of operations, financial condition or cash flows;
- economic or political instability, military actions or armed conflict, such as the Russian invasion of Ukraine, in locations where we have employees, partners or customers, 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. geographies, such as in the U.K. where Brexit created regulatory uncertainty; 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.

Russia's military actions in Ukraine have affected and may continue to affect our business.

In response to Russian military actions in Ukraine, we ceased business operations in Russia and suspended business operations in Belarus, including with respect to sales, support on existing contracts and professional services in both countries. Furthermore, the sanctions imposed by the U.S. and other countries in connection with the Russian invasion of Ukraine include restrictions on selling or importing goods, services or technology in or from affected regions and travel bans and asset freezes impacting connected individuals and political, military, business and financial organizations in Russia. Sanctions imposed on Russia and our suspension of business operations in Russia could impact the fulfillment of existing orders, future revenue streams from impacted customers and the recoverability of certain financial assets. It is not possible to predict the broader consequences of this conflict, which have included and could in the future include further sanctions, embargoes, regional instability, geopolitical shifts and adverse effects on the global economy.

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 (“Common Stock”) would likely decline substantially.

Factors that may contribute to 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, have in the past and could in the future 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. Adverse developments that affect financial institutions, transactional counterparties or other third parties, such as bank failures, or concerns or speculation about any similar events or risks, could lead to market-wide liquidity problems, which in turn may cause third parties, including customers, to become unable to meet their obligations under various types of financial arrangements as well as general disruptions or instability in the financial markets. 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 depressed economic activity worldwide, and the timing and strength of economic recoveries is highly uncertain and likely to vary significantly by region. While the COVID-19 pandemic, including the dangers posed by COVID-19 variants, has not had a material adverse financial impact on our operations to date, 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. Accordingly, should the pandemic continue to 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. More recently, inflation rates in the U.S. have increased to levels not seen in several years, which may result in decreased demand for our products and services, increases in our operating costs, constrained credit and liquidity, reduced government spending and increased volatility in financial markets.

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. Further, volatility due to these types of adverse economic conditions in financial and other capital markets, 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.

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 May 5, 2023, we had an aggregate of $10.4 billion of outstanding indebtedness. Additionally, we entered into a $1.5 billion unsecured revolving credit facility during the third quarter of fiscal 2022, which is undrawn.

The terms of our indebtedness and 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 enable us to 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 condition, including exposure to interest rate volatility due to our variable rate indebtedness, 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 revolving credit facility and senior unsecured term loan 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 Internal Revenue 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 Internal Revenue Service ("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.

In connection with the Merger Agreement with Broadcom, we provided Dell with an opinion from our counsel, Gibson Dunn, to the effect that the transaction will not result in the Spin-Off failing to qualify as a tax-free transaction under Section 355 of the Internal Revenue Code. Moreover, the Merger Agreement includes a representation by us to Broadcom that such opinion has not been revoked, substantively modified or withdrawn (unless an acceptable replacement opinion has been received), and Broadcom's obligation to consummate the transaction is conditioned on such representation being true and correct in all respects as of the date of the Merger Agreement and as of the closing of the transaction, as though made on and as of the closing of the transaction. Broadcom may, in its sole discretion, waive the condition relating to the accuracy of this representation. Dell could seek to enjoin the consummation of the transaction if (1) there is a breach of our representation regarding the opinion, (2) Broadcom waives the condition relating to the accuracy of the opinion, and (3) we do not obtain an IRS private letter ruling confirming that the transaction will not cause the Spin-Off to fail to qualify as a tax-free transaction under Section 355 of the Internal Revenue Code. The opinion of counsel is based on, among other things, various assumptions and the accuracy of representations made by us, Broadcom, Dell and certain other persons in connection with the Spin-Off and the execution of the Merger Agreement. If any of these assumptions or representations were, or were to become, inaccurate or incomplete, the opinion may be invalid. No ruling from the IRS is being sought regarding the U.S. federal income tax consequences of the transaction, and an opinion of counsel is not binding on the IRS or any court. Accordingly, there can be no assurance that the IRS will not disagree with or challenge any of the conclusions in the opinion of counsel or that a court will not sustain such a challenge. Regardless of whether the condition in the Merger Agreement relating to the accuracy of our representation regarding the opinion required by the Tax Matters Agreement is satisfied or waived by Broadcom, if the Spin-Off were determined to be taxable as a result of the transaction, Dell, its affiliates and, potentially, its stockholders would incur significant tax liabilities and, under the Tax Agreements, we (following the consummation of the transaction, as a wholly owned subsidiary of Broadcom) may be required to indemnify Dell and its affiliates for any such tax liabilities, which would be material.

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 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. Further, beginning in fiscal 2023, the 2017 Tax Act eliminates the option to deduct research and development expenditures immediately in the year incurred and requires taxpayers to amortize such expenditures over five years for domestic expenses and fifteen years for certain foreign expenses. Although the U.S. Congress is considering various legislative options that would defer the amortization requirement to later years, we have no assurance that the provision will be repealed or otherwise modified. This provision became effective for us beginning in fiscal 2023. If this provision is not deferred, repealed or modified, our cash taxes may further increase in the future.

Our future effective tax rate may also 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;
- 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
- other developments related to tax laws or their interpretations, in our business or statutory rates, and in our corporate structure.

For example, 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. Further, the Inflation Reduction Act (the "IRA") was enacted in August 2022 and is effective for us commencing with our fiscal 2024. The key tax provisions of the IRA relate to a new 15% corporate alternative minimum tax on adjusted financial statement income for companies with profits greater than $1.0 billion and a 1% excise tax on stock repurchases by publicly traded companies.

These and any other significant developments related to U.S. 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, internally developed and proprietary software and services, as well as the software and 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.
- 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.
- Hardware, software and applications that we produce or procure from third parties can contain vulnerabilities, such as the Log4J vulnerability reported in December 2021, that have in the past and could in the future interfere with our systems and processes and compromise and introduce vulnerabilities into our products and services.
- Our leadership position in the enterprise security industry, and the widespread use of our services and products in the computing ecosystem, makes us, our employees and contractors and our products a target of threat actors seeking to compromise product security.
- Our large and globally distributed workforce, many of which "work from anywhere," may increase our exposure to internal threats, social engineering and cyber-attacks.
- Our products, to function as intended, often require heightened permissions within customer environments, and also serve as underlying technology infrastructure for customers' other systems, making our products more attractive targets for malicious actors, including for example, ransomware attackers such as those engaged in the ESXiArgs campaign exploiting known vulnerabilities in servers running outdated versions of VMware's ESXi software.
- We are considered an essential supplier in the digital supply chain for the United States government and other entities, including entities operating critical infrastructure, 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 or exploit vulnerabilities or introduce malicious files into our IT systems and our products and services for financial gain and unlawful, fraudulent or other malicious purposes, including rendering customers' core IT infrastructure inoperable. Malicious actors often target company employees and contractors in an effort to compromise our IT systems and products using techniques such as email phishing, credential stuffing, password spraying and social engineering, which risk may be heightened as greater numbers of employees and contractors work remotely. Furthermore, geopolitical tensions, such as the current conflict between Russia and Ukraine, could increase the risk of retaliatory state-sponsored cyber-attacks to exploit vulnerabilities in VMware systems and products. We may not be able to adequately prepare for or mitigate against such attacks, including, among other reasons, because techniques used in such attacks change frequently. This may cause a delay in our detection and response time, which could in turn exacerbate the scope and impact of the compromise of our and our customers' systems.

Unauthorized actors (external malicious actors, including nation states and individuals sponsored by them, as well as internal actors bypassing internal controls) have penetrated our network security and our website in the past and may do so in the future. Malicious actors are also actively probing our environments for exploitable vulnerabilities, including in open-source components we utilize, and will likely continue doing so in the future. We are increasingly targeted by malicious actors who seek to extort or steal funds from companies and employees. Significant and increasing investments of time, resources and management and Board attention have been, and will continue to be, required to anticipate and address cybersecurity risks and incidents. Accordingly, if our cybersecurity risk management program and those of our contractors, partners and vendors is not effective in protecting against, containing or recovering from breaches, internal threats or other incidents, our ability to conduct our business could be damaged in a number of ways, including:

- Commercially and competitively sensitive business information, such as our intellectual property and other proprietary data, could be stolen, exposed or misused;
- our IT systems could be disrupted, and our ability to conduct our business operations could be severely impeded until they are restored and secured;
- our supply chain may be compromised, which may in turn impact the confidentiality, availability and integrity of our internal or customer-facing systems and products;
- 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; and
- personal information or data of our customers, employees and business partners could be compromised, misused or lost.

Should any of the above events occur, or are perceived to have occurred, we could be subject to significant claims for damages or injunctive relief from our customers, partners, vendors, or employees (among others); we could face costly and time-intensive investigations, inquiries or actions by regulators or government policymakers, and sanctions, penalties or injunctive demands from governmental agencies under privacy, data protection, cybersecurity, incident notification, or other laws and regulations; our ability to protect our intellectual property rights could be compromised; our ability to attract and retain customers could be negatively impacted; 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, legislative or administrative 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 our own or suppliers', errors, defects or security vulnerabilities.

Our products and services are highly technical and complex and, when deployed, contain errors, defects or security vulnerabilities, some of which may not be discovered before or after a product or service has been released, installed and used by customers. The complexity and breadth of our technical and production environment, which involves multiple and dispersed product and engineering teams in different countries, including China, working on different product initiatives, increases the risk that vulnerabilities or defects are introduced into our products and services and may delay our ability to detect, mitigate or remediate such vulnerabilities. The need to coordinate with multiple parties in the supply chain when vulnerabilities are detected can also delay mitigation or remediation, thereby increasing risks to customers. Our internal logging, alerting, and cyber incident detection mechanisms may not cover every system potentially targeted by threat actors, may not have the capability to detect certain types of unauthorized activities, and may not capture and surface information sufficient to enable us to detect and take responsive action. In addition, our internal access control policies, mechanisms and training, including around credentials security and management, may not be effective in eradicating in all instances previously identified or known risks, particularly in scenarios where our credentials and related policies have been exposed or obtained externally. Employees or contractors have also bypassed our access control mechanisms and 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.

Security vulnerabilities in our IT environments, software products or customer environments, installation errors or misuse can also lead to increased cybersecurity risks for customers and partners, including unintended access to or exploitation of our products, which risks are exacerbated if customers fail to timely implement (or to implement at all) security recommendations and software updates that we and other IT vendors issue from time to time when significant issues have been identified. Undiscovered or unresolved vulnerabilities in our products or services could expose our customers to hackers, threat actors or other unscrupulous third parties who develop and deploy viruses, worms and other malicious software programs that could attack customers using 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 proprietary 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. In addition, public exposure, or exploitation of vulnerabilities in our products by threat actors, could result in reputational damage and lost customers and could negatively affect our operating results and those of our customers.

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 or cancel subscriptions, 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 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. In addition, we have already been, and may continue to be, subject to demands, claims and lawsuits arising out of Broadcom's proposed acquisition of VMware. We may also be subject to demands, claims, lawsuits, regulatory investigations and Congressional inquiries relating to cybersecurity incidents. 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, cause us to incur significant expenses, and could result in ancillary consequences that limit our ability to avail ourselves of certain legal benefits or protections for periods of time. For example, as a result of our settlement with the SEC in September 2022, we no longer qualify for well-known seasoned issuer status, we are ineligible for certain private offering exemptions under the Securities Act that would otherwise make our public offerings of debt more efficient and we are unable to rely on protection of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995 again until September 2025. 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 Privacy 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 an open source license, but we can provide no assurances that we will not face similar lawsuits with respect to our use of open source software in the future, nor what the outcome of any such lawsuits may be.

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

Our contracts with federal, state, local and non-U.S. governmental customers and our arrangements with distributors and resellers who may sell directly to governmental customers are subject to various procurement regulations, contract provisions and other requirements relating to their formation, administration and performance. Any failure by us to comply with government contracting regulations (such as cybersecurity- and COVID-19-related requirements) 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 chief executive officer of Dell and is a significant stockholder of Dell, and one of our directors, Egon Durban, serves on the Dell board of directors and as managing partner of Silver Lake Partners, a significant stockholder of Dell. 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 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 entities affiliated with Michael Dell ("MSD Stockholders") and the entities affiliated with Silver Lake Partners ("SLP Stockholders") became direct beneficial holders of VMware with interests representing 39.3% and 9.8%, respectively, of our outstanding stock, based on the number of shares outstanding as of June 2, 2023. 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 65.9% of Dell's outstanding stock as of June 2, 2023. Accordingly, their interests may not be aligned with other VMware stockholders with respect to actions involving or impacting Dell.

The price of our Common Stock has fluctuated significantly in recent years and may fluctuate significantly in the future.

The trading price of our 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 Common Stock may decline. Broad market and industry factors may also decrease the market price of our 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:

- perceived progress, or lack thereof, in the satisfaction of conditions precedent to and speculation regarding the timing of the consummation of our acquisition by Broadcom;
- 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.

Our bylaws provide for an exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our bylaws include a provision providing that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by, or other wrongdoing by, any of our directors, officers, employees or stockholders to us or to our stockholders;
- any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or as to which the Delaware General Corporation Law confers jurisdiction on the Court of Chancery of the State of Delaware; or
- any action asserting a claim governed by the internal affairs doctrine.

This provision would not apply to suits brought to enforce any duty or liability created by the Securities Exchange Act of 1934 (the "Exchange Act"). Furthermore, Section 22 of the Securities Act of 1933 (the "Securities Act") creates concurrent jurisdiction for federal and state courts over all such Securities Act actions.

While the Delaware courts have determined that exclusive forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than the one we have designated. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provision of our bylaws, which may require significant expenditures of resources, and, ultimately, there can be no assurance that the provisions would be enforced by a court in those other jurisdictions. This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees and may discourage these types of lawsuits. If a court were to find the exclusive forum provision contained in our bylaws to be inapplicable or unenforceable in an action, we may incur additional costs to resolve such action in other jurisdictions.

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 has made in the past and may in the future 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 May 5, 2023, goodwill and amortizable intangible assets were $9.6 billion and $427 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 consolidated financial statements in accordance with accounting principles generally accepted in the U.S. These principles are subject to interpretation by the SEC and various bodies formed to create and interpret appropriate accounting principles and guidance. A change in these principles or guidance, or in their interpretations, may have a material effect on our reported results, as well as our processes and related controls, and may retroactively affect previously reported results.

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, such as extreme weather conditions, sea-level rise, drought, flooding and wildfires, 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, and unanticipated extreme cold weather has resulted in electrical grid outages in Texas where many of our U.S. employees are located. While this danger currently has a low-assessed risk of disrupting normal business operations in the near term, 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 and additional costs to maintain or resume operations. Climate change and environmental regulations may result in changes in the supply, demand or available sources of energy or other resources that could adversely impact the availability or cost of goods and services, including natural resources necessary to run our business. Additionally, changes in climate in the locations where we operate may increase the costs of powering and cooling the computer hardware we use to develop software and deliver our subscription and SaaS-based offerings as well as the costs of carbon offsets that we may procure from time to time as we pursue our net zero carbon objectives.

Social and ethical issues, including our ability to make progress on our ESG goals and commitments, may result in reputational harm and liability.

In December 2020, we announced our 2030 Agenda, which represents our ESG strategy to drive outcomes of sustainability, equity and trust. Our public commitments include promoting environmental sustainability and decarbonization; human capital development and diversity, equity and inclusion; and cybersecurity, privacy, digital ethics and transparent business practices. Each of these are areas of increasing scrutiny from the investment community, customers, employees, partners, suppliers and communities who expect us to report transparently on our progress. In order to meet expectations from our stakeholders, we are working to align our reporting with emerging disclosure and accounting standards such as the Financial Stability Board's Task Force on Climate-Related Financial Disclosures ("TCFD"), the Sustainability Accounting Standards Board ("SASB") and the Global Reporting Initiative ("GRI") as well as potential new disclosure requirements from regulators such as the SEC while we also seek to report timely on progress toward our 2030 Agenda objectives. In order to do so, we are continuing to develop internal operational, information and data assurance systems that will enable us to accurately report on these matters on a timely basis. If we fail to report accurately or on a timely basis or fail to anticipate reporting requirements and expectations in this emerging area, our reputation may be adversely affected, and we could be exposed to increased risk of litigation. Additionally, if we are perceived as failing to make or accurately report on our progress on our ESG goals or to follow through on our commitments, our brand and our reputation may be harmed, we may be exposed to increased risk of litigation, our ability to attract and retain employees may be damaged and our financial performance and stock price may be adversely affected.

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. All shares repurchased under our stock repurchase programs are retired.

As of May 5, 2023, the cumulative authorized amount remaining for stock repurchases under the October 2021 authorized repurchase program was $1.6 billion. In connection with our entry into the Merger Agreement, we suspended our stock repurchase program during the second quarter of fiscal 2023.

ITEM 6. EXHIBITS

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

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, dated as of May 26, 2022, by and among VMware, Inc., Broadcom Inc, Verona Holdco, Inc., Verona Merger Sub, Inc., Barcelona Merger Sub 2, Inc. and Barcelona Merger Sub 3, LLC	8-K	001-33622	2.1	5/26/22
3.1	Amended and Restated Certificate of Incorporation	8-K	001-33622	3.1	11/4/22
3.2	Amended and Restated Bylaws	8-K	001-33622	3.1	4/6/23
10.1*+	Executive Bonus Program, as amended April 26, 2023				
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: June 8, 2023	By:	/s/ Pebbie Verdecanna
		Pebbie Verdecanna **Chief Accounting Officer** **(Principal Accounting Officer)**

Exhibit 10.1

Amended April 26, 2023

VMware, Inc.
Executive Bonus Program

Executive Bonus Program Objectives

Among the objectives of the VMware Bonus Program are to:

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

Overview

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

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

Bonus awards represent an unfunded, unsecured promise by the Company to pay a bonus amount determined by the Compensation Committee to each individual subject to the Executive Bonus Program ("**Participant**"), but only upon satisfaction of the performance criteria determined by the Compensation Committee in accordance with the provisions set forth below.

Eligibility

All senior executives are eligible to be considered for participation. However, no person is automatically entitled to participate in the Executive Bonus Program. Participants will be approved solely at the discretion of and may be amended at any time by the Compensation Committee.

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

Administration

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

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

Target Bonus Formulas

The Administrator shall establish target bonuses and bonus formulas for the Executive Bonus Program. Target bonus amounts will be a designated percentage (the "**Target Bonus Percentage**") of a Participant's actual semi-annual base salary earned for the Performance Period (the "**Semi-Annual Base Salary**"). The Target Bonus Percentage will be determined by the Compensation Committee at a time when the actual results of the performance criteria established by the Committee for a performance period are substantially uncertain.

The Calculated Bonus Amount, if any, may range 0% to 225% of the Target Bonus Percentage multiplied by the Participant's Semi-Annual Base Salary depending upon performance achievement. Minimum bonus thresholds are described below. For purposes of this calculation, a Participant's Semi-Annual Base Salary may not exceed 200% of the Participant's base salary rate as of the date that semi-annual performance targets are approved.

Performance Period

Unless otherwise determined by the Compensation Committee, the performance periods for bonuses granted under the Executive Bonus Program will run from the first day of the Company's fiscal year through the last day of the Company's second fiscal quarter and from the first day of the Company's third fiscal quarter through the last day of the Company's fiscal year (each, a "**Performance Period**").

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

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

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

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

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

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

Performance Metrics

The Calculated Bonus Amount will depend on both a company component ("**Corporate Financial Metric**") and an MBO component selected from the performance goals from the Plan. The Company must meet a minimum performance threshold established within the Corporate Financial Metric in order for any bonus payouts to be made. If the minimum threshold is not achieved, the Executive Bonus Program will not be funded and no bonus payouts will be made. The Corporate Financial Metrics, the MBOs and the relative weighting of the Corporate Financial Metrics and the MBOs will be determined by the Committee at a time when the actual results of the performance criteria established by the Committee for a performance period are substantially uncertain.

Corporate Financial Metric Component: The Corporate Financial Metric will be determined by calculating success against Company-wide financial metrics and, as applicable, business unit performance metrics, as determined by the Compensation Committee.

MBO Component: Each Participant will be assigned MBOs by the Compensation Committee that are appropriate to the Participant's role at the Company. If the threshold achievement under the Corporate Financial Metric is met, then the MBO component is funded at a multiple of the Corporate Financial Metric percentage to be set by the Compensation Committee. The Compensation Committee can exercise negative discretion to reduce the bonus for the MBO component. In making its determination whether to reduce the bonus for the MBO component, the Compensation Committee shall review and discuss the Chief Executive Officer's assessment of each Participant's MBO achievement.

Bonus Determination and Payment

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

Cancellation, Rescission and Recoupment of Awards

Any bonus granted under this Executive Bonus Program to a Participant will be subject to cancellation, rescission, repayment, recoupment or other action at the discretion of the Compensation Committee as set forth in Section 7(d) of the Plan in the event of a restatement of incorrect financial results, the Participant's termination for "Cause" (as such term is defined in the Plan unless the Participant is a participant or party to a separate Company plan or agreement deemed by the Committee to be applicable to Participant's termination of employment, in which case the definition of "Cause" will be as defined in such other applicable plan or agreement) or any other circumstances set forth in a clawback policy that the Compensation Committee may adopt or impose.

At-Will Employment (U.S. Only)

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

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: June 8, 2023

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: June 8, 2023

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 May 5, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of VMware, Inc.

Date:	June 8, 2023	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 May 5, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of VMware, Inc.

Date:	June 8, 2023	By:	/s/ Zane Rowe
			Zane Rowe **Chief Financial Officer and Executive Vice President** **(Principal Financial Officer)**