

TABLE OF CONTENTS

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

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Table of Contents

VMware, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(unaudited)

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

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

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Cash and cash equivalents at end of the period	\$2,654	\$2,083
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$21	\$21
Cash paid for taxes, net	212	155
Non-cash items:		
Changes in capital additions, accrued but not paid	\$(15)	\$(49)

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

6

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

7

centers. The pro forma financial information assuming the acquisition had occurred as of the beginning of the calendar year prior to the year of acquisition, as well as the revenue and earnings generated during the current year, were not material for disclosure purposes.

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2016 and 2015, because their effect would have been anti-dilutive (shares in thousands):

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

11

value due to the minimal difference between the fair market interest rate as of September 30, 2016 and the fixed interest rate for the notes

14

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

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

Forward Contracts Not Designated as Hedges

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

meritorious defenses in connection with this lawsuit, and currently a reasonably possible loss or range of loss cannot be estimated.

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

16

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Aggregate purchase price	\$1,016	\$200	\$1,016	\$1,050
Class A common shares repurchased	13,999	2,408	13,999	12,524
Weighted-average price per share	\$72.57	\$83.06	\$72.57	\$83.84

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

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

20

restated in June 2011.

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

21

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

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

and is generally recognized as the services are delivered.

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

25

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

During 2013, we transferred certain assets and liabilities to Pivotal in exchange for preferred equity interests in Pivotal's outstanding shares. As of December 31, 2015, our ownership interest in Pivotal was 28%. In April 2016, we contributed \$20 million in cash to Pivotal in exchange for additional preferred equity interests in Pivotal. After our contribution, our ownership interest in Pivotal was 17% and the cost method is being applied to this strategic investment. The decrease in our ownership interest was a result of investments made by other investors.

31

our available-for-sale securities.

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

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

33

disclosures.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting during the most recent fiscal quarter ended September 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

operating results.

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

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

35

Table of Contents

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

We face competition from, among others:

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

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

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

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

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

technology partner ecosystem. Consequently, we may find it more difficult to continue to work together productively on other projects, and the advantages we derive from our ecosystem could diminish. This competition could result in increased pricing pressure and sales and marketing expenses, thereby materially reducing our operating margins, and could also prevent our new products and services from gaining market acceptance, thereby harming our ability to increase, or causing us to lose, market share.

resources, applications, data and IT services. We may not be able to establish or sustain our thought leadership in the cloud computing and enterprise software fields, and our customers may not view our products and services as innovative and best-of-breed, which could result in a reduction in market share and our inability to command a pricing premium over competitor products and services. We may not be able to develop updated products and services that keep pace with technological developments and emerging industry standards, that address the increasingly sophisticated needs of our customers or that interoperate with new or updated operating systems and hardware devices.

37

sales may not be immediately reflected in our results. Additionally, as customers transition to our hybrid cloud and SaaS products and services, our revenue growth rate may be adversely impacted during the period of transition as we will recognize less revenue up front than we would otherwise recognize as part of the multi-year license arrangements through which we typically sell our established offerings. Finally, as we offer more services that depend on converting users of free services to users of premium services and converting purchasers

hybrid cloud services built on our technology, expose us to particularly significant risks. We rely on the contractual representations of these third parties that they do not violate any applicable privacy laws and regulations or their own privacy policies.

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

uncertainties in achieving the expected benefits of an acquisition or disposition, including enhanced revenue, technology, human resources, cost savings, operating efficiencies and other synergies;

- reducing cash available for operations, stock repurchase programs and other uses and resulting in potentially dilutive issuances of equity securities or the incurrence of debt;
- incurring amortization expense related to identifiable intangible assets acquired that could impact our operating results;
- difficulty integrating the operations, systems, technologies, products and personnel of acquired businesses effectively;

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

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

controls, and may retroactively affect previously reported results. For example, during May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The updated standard is effective for us in the first quarter of 2018 and permits the use of either the retrospective or cumulative effect transition method. Early adoption is permitted, but not earlier than the first quarter of 2017. We have not selected a transition method and are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures.

Risks Related to Our Relationship with Dell and the Dell Acquisition

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

outstanding stock. If its ownership falls below 20% of the outstanding shares of our common stock, all outstanding shares of Class B common stock will automatically convert to Class A common stock. If Dell effects a 355 Distribution at a time when it holds shares of Class B common stock, its stockholders will receive Class B common stock. These shares will remain entitled to 10 votes per share, holders of these shares

47

Delaware law. In such a proceeding, petitioning stockholders may be awarded more or less than the merger price or the amount they would have received in a merger negotiated between the parent and a disinterested special committee advised by independent financial and legal advisors. Dell has publicly stated that from the completion of the Dell Acquisition through the two-year anniversary of its completion, it will not acquire any shares of common stock of VMware if such acquisition would cause the common stock of VMware to no longer be publicly traded on a U.S. securities exchange or VMware to no longer be required to file reports under Sections 13 and 15(d) of the Exchange Act, in each case, unless such acquisition of VMware common stock is required in order for VMware to continue to be a member of the affiliated group of corporations filing a consolidated tax return with Dell.

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

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

consolidated group for U.S. federal income tax purposes or any other consolidated, combined or unitary group of Dell and its subsidiaries, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of any such group.

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

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

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

(a) Sales of Unregistered Securities

None.

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

None.

52

Table of Contents

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: November 7, 2016 By: /s/ Kevan Krysler

Kevan Krysler
Senior Vice President, Chief Accounting Officer
(Principal Accounting Officer)

54

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Filed Herewith	Form/ File No.	Date
3.1	Amended and Restated Certificate of Incorporation		S-1/A-2	7/9/2007
3.2	Amended and Restated Bylaws		8-K	3/8/2011
10.10+	Form of Restricted Stock Unit Agreement, as amended August 12, 2016	X		
10.31+	Form of Restricted Stock Unit Agreement for U.K. Participants, as amended September 1, 2016	X		
10.32	Amended and Restated Tax Sharing Agreement between VMware, Inc. and Dell Technologies Inc. effective as of September 6, 2016	X		
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X		
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X		
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X		
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X		
101.INS	XBRL Instance Document	X		
101.SCH	XBRL Taxonomy Extension Schema	X		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X		
101.DEF	XBRL Taxonomy Extension Definition Linkbase	X		
101.LAB	XBRL Taxonomy Extension Label Linkbase	X		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X		
	+ Management contract or compensatory plan or arrangement			