

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

	For the Year Ended		
	January 31, 2020	February 1, 2019	February 2, 2018
<u>VMware Employee Stock Purchase Plan</u>			
Dividend yield	None	None	None
Expected volatility	27.4%	33.5%	22.6%
Risk-free interest rate	1.7%	2.0%	1.2%
Expected term (in years)	0.6	0.8	0.9
Weighted-average fair value at grant date	\$ 35.66	\$ 34.72	\$ 21.93

The weighted-average grant date fair value of VMware stock options can fluctuate from period to period primarily due to higher valued options assumed through business combinations with exercise prices lower than the fair market value of VMware's stock on the date of grant.

For equity awards granted under the VMware equity plan, volatility was based on an analysis of historical stock prices and implied volatilities of VMware's Class A common stock. The expected term was based on historical exercise patterns and post-vesting termination behavior, the term of the option period for grants made under the ESPP, or the weighted-average remaining term for options assumed in acquisitions. VMware's expected dividend yield input was zero as the Company has not historically paid, nor expects in the future to pay, regular dividends on its common stock. The risk-free interest rate was based on a U.S. Treasury instrument whose term is consistent with the expected term of the stock options.

For equity awards granted under the Pivotal equity plan, volatility was based on the volatility of a group of comparable public companies based on size, stage of life cycle, profitability, growth and other factors. The expected term was estimated using the simplified method and was determined based on the vesting terms, exercise terms and contractual lives of the options. Pivotal's expected dividend yield input was zero as the Company has not historically paid regular dividends on its common stock. The risk-free interest rate was based on a U.S. Treasury instrument whose term was consistent with the expected term of the stock options.