

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

Merger consideration totaling \$18 million is held with a third-party paying agent and is payable to certain employees of Carbon Black subject to specified future employment conditions, and is being recognized as expense over the requisite service period of approximately two years on a straight-line basis.

VMware assumed all of Carbon Black's unvested stock options and restricted stock outstanding at the completion of the acquisition with an estimated fair value of \$181 million. Of the total consideration, \$10 million was allocated to the purchase price and \$171 million was allocated to future services and will be expensed over the remaining requisite service periods of approximately three years on a straight-line basis. The estimated fair value of the stock options assumed by the Company was determined using the Black-Scholes option pricing model. The share conversion ratio of 0.2 was applied to convert Carbon Black's outstanding stock awards into shares of VMware's common stock.

The following table summarizes the preliminary allocation of the consideration to the fair value of the assets acquired and liabilities assumed on the date of acquisition (table in millions):

Cash	\$	111
Accounts receivable		58
Intangible assets		492
Goodwill		1,588
Other acquired assets		52
Total assets acquired		2,301
Unearned revenue		151
Other assumed liabilities		45
Total liabilities assumed		196
Fair value of assets acquired and liabilities assumed	\$	2,105

The following table summarizes the components of the intangible assets acquired and their estimated useful lives by VMware in conjunction with the acquisition (amounts in table in millions):

	Weighted-Average Useful Lives (in years)	Fair Value Amount
Purchased technology	4.2	\$ 232
Customer relationships and customer lists	7.0	215
Trademarks and tradenames	5.0	25
Other	2.0	20
Total definite-lived intangible assets		\$ 492

The excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill. The estimated fair value assigned to the tangible assets, identifiable intangible assets, and assumed liabilities were based on management's estimates and assumptions. The initial allocation of the purchase price was based on preliminary valuations and assumptions and is subject to change within the measurement period, including current and non-current income taxes payable and deferred taxes as additional information is received and tax returns are finalized. VMware expects to finalize the allocation of the purchase price within the measurement period. Management expects that goodwill and identifiable intangible assets will not be deductible for tax purposes.

Acquisition of Avi Networks, Inc.

During the second quarter of fiscal 2020, VMware completed the acquisition of Avi Networks, Inc. ("Avi Networks"), a provider of multi-cloud application delivery services. VMware acquired Avi Networks to provide customers with application delivery controller capabilities that include server load balancing for various applications and analytics. Together, VMware and Avi Networks expect to deliver a software defined networking stack built for the multi-cloud environment. The total purchase price was \$326 million, net of cash acquired of \$9 million. The purchase price primarily included \$94 million of identifiable intangible assets and \$228 million of goodwill that is not expected to be deductible for tax purposes. The identifiable intangible assets primarily consisted of completed technology of \$79 million and customer relationships of \$15 million, with estimated useful lives of one year to eight years.