

EMC CORP  
Form 10-Q  
May 02, 2012  
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**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 March 31, 2012 March 31, 2012**

**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 1-9853**

**EMC CORPORATION**

(Exact name of registrant as specified in its charter)

**Massachusetts**  
(State or other jurisdiction of  
incorporation or organization)

**04-2680009**  
(I.R.S. Employer  
Identification Number)

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176 South Street

Hopkinton, Massachusetts

01748

(Address of principal executive offices)

(Zip Code)

(508) 435-1000

(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock, par value \$.01 per share, of the registrant outstanding as of March 31, 2012 was 2,099,710,476.

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**FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Federal securities laws, about our business and prospects. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words believes, plans, intends, expects, goals and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Our future results may differ materially from our past results and from those projected in the forward-looking statements due to various uncertainties and risks, including those described in Item 1A of Part II (Risk Factors). The forward-looking statements speak only as of the date of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements contained herein after the date of this Quarterly Report.

**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****EMC CORPORATION****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share amounts)**

	<b>March 31, 2012 (unaudited)</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,671,175	\$ 4,531,036
Short-term investments	1,667,780	1,786,987
Accounts and notes receivable, less allowance for doubtful accounts of \$68,647 and \$61,804	2,661,923	2,937,499
Inventories	1,034,250	1,009,968
Deferred income taxes	750,172	733,308
Other current assets	514,950	583,885
<b>Total current assets</b>	<b>11,300,250</b>	<b>11,582,683</b>
Long-term investments	4,539,588	4,525,106
Property, plant and equipment, net	2,879,264	2,833,149
Intangible assets, net	1,713,829	1,766,115
Goodwill	12,216,710	12,154,970
Other assets, net	1,335,607	1,406,156
<b>Total assets</b>	<b>\$ 33,985,248</b>	<b>\$ 34,268,179</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 922,624	\$ 1,101,659
Accrued expenses	2,246,253	2,354,979
Notes converted and payable (See Note 4)	14,046	1,699,832
Income taxes payable	24,253	155,909
Convertible debt (See Note 4)	1,606,675	1,605,142
Deferred revenue	4,073,273	3,458,689
<b>Total current liabilities</b>	<b>8,887,124</b>	<b>10,376,210</b>
Income taxes payable	233,352	238,851
Deferred revenue	2,723,353	2,715,361
Deferred income taxes	605,320	603,398
Other liabilities	297,115	287,912
<b>Total liabilities</b>	<b>12,746,264</b>	<b>14,221,732</b>
Convertible debt (See Note 4)	103,646	119,325
Commitments and contingencies (See Note 14)		

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Shareholders' equity:

Preferred stock, par value \$0.01; authorized 25,000 shares; none outstanding		
Common stock, par value \$0.01; authorized 6,000,000 shares; issued and outstanding 2,099,710 and 2,048,890 shares	20,997	20,489
Additional paid-in capital	3,512,585	3,052,932
Retained earnings	16,707,463	16,120,621
Accumulated other comprehensive loss, net	(185,692)	(235,009)
Total EMC Corporation's shareholders' equity	20,055,353	18,959,033
Non-controlling interest in VMware, Inc.	1,079,985	968,089
Total shareholders' equity	21,135,338	19,927,122
Total liabilities and shareholders' equity	\$ 33,985,248	\$ 34,268,179

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

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**EMC CORPORATION**  
**CONSOLIDATED INCOME STATEMENTS**

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended	
	March 31, 2012	March 31, 2011
<b>Revenues:</b>		
Product sales	\$ 3,068,857	\$ 2,931,259
Services	2,025,521	1,676,359
	5,094,378	4,607,618
<b>Costs and expenses:</b>		
Cost of product sales	1,301,550	1,320,488
Cost of services	679,611	588,079
Research and development	587,817	502,108
Selling, general and administrative	1,650,197	1,495,931
Restructuring and acquisition-related charges	25,893	26,893
<b>Operating income</b>	<b>849,310</b>	<b>674,119</b>
<b>Non-operating income (expense):</b>		
Investment income	29,452	38,227
Interest expense	(18,183)	(44,979)
Other expense, net	(43,690)	(43,174)
<b>Total non-operating expense</b>	<b>(32,421)</b>	<b>(49,926)</b>
<b>Income before provision for income taxes</b>	<b>816,889</b>	<b>624,193</b>
Income tax provision	190,910	121,639
<b>Net income</b>	<b>625,979</b>	<b>502,554</b>
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(39,137)	(25,406)
<b>Net income attributable to EMC Corporation</b>	<b>\$ 586,842</b>	<b>\$ 477,148</b>
<b>Net income per weighted average share, basic attributable to EMC Corporation common shareholders</b>	<b>\$ 0.28</b>	<b>\$ 0.23</b>
<b>Net income per weighted average share, diluted attributable to EMC Corporation common shareholders</b>	<b>\$ 0.27</b>	<b>\$ 0.21</b>
<b>Weighted average shares, basic</b>	<b>2,067,828</b>	<b>2,066,136</b>
<b>Weighted average shares, diluted</b>	<b>2,201,933</b>	<b>2,258,278</b>

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



**Table of Contents****EMC CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

	<b>For the Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>March 31, 2011</b>
Net income	\$ 625,979	\$ 502,554
Other comprehensive income (loss), net of taxes (benefits):		
Foreign currency translation adjustments	14,986	19,143
Changes in market value of investments:		
Changes in unrealized gains, net of taxes of \$13,045 and \$8,959	25,862	20,733
Less: reclassification adjustment for net gains realized in net income, net of taxes of \$1,650 and \$1,257	(903)	(5,446)
Net change in market value of investments	24,959	15,287
Changes in market value of derivatives:		
Changes in market value of derivatives, net of taxes of \$5,928 and \$3,392	10,001	(3,560)
Less: reclassification adjustment for net losses included in net income, net of tax benefits of \$(5) and \$(1,109)	33	7,766
Net change in the market value of derivatives	10,034	4,206
Other comprehensive income	49,979	38,636
Comprehensive income	675,958	541,190
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(39,137)	(25,406)
Less: Other comprehensive income attributable to the non-controlling interest in VMware, Inc.	(662)	(2,922)
Comprehensive income attributable to EMC Corporation	\$ 636,159	\$ 512,862

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



**Table of Contents****EMC CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 6,023,588	\$ 5,392,175
Cash paid to suppliers and employees	(4,114,849)	(4,009,553)
Dividends and interest received	18,483	33,927
Interest paid	(1,342)	(4,749)
Income taxes paid	(237,692)	(277,023)
<b>Net cash provided by operating activities</b>	<b>1,688,188</b>	<b>1,134,777</b>
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(153,631)	(165,525)
Capitalized software development costs	(105,848)	(111,993)
Purchases of short- and long-term available-for-sale securities	(1,585,822)	(1,601,241)
Sales of short- and long-term available-for-sale securities	1,439,393	1,341,335
Maturities of short- and long-term available-for-sale securities	273,982	261,228
Business acquisitions, net of cash acquired	(102,105)	(14,950)
Decrease (increase) in strategic and other related investments	10,100	(198,049)
Other, net	5,000	(45,000)
<b>Net cash used in investing activities</b>	<b>(218,931)</b>	<b>(534,195)</b>
<b>Cash flows from financing activities:</b>		
Issuance of EMC's common stock from the exercise of stock options	180,189	224,347
Issuance of VMware's common stock from the exercise of stock options	111,041	90,171
EMC repurchase of EMC's common stock		(868,065)
EMC purchase of VMware's common stock	(39,993)	(38,000)
VMware repurchase of VMware's common stock		(147,729)
Excess tax benefits from stock-based compensation	106,024	109,008
Payment of long-term and short-term obligations	(355)	(11)
Proceeds from long-term and short-term obligations	2,742	294
Payment of convertible debt	(1,699,816)	
<b>Net cash used in financing activities</b>	<b>(1,340,168)</b>	<b>(629,985)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>11,050</b>	<b>12,597</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>140,139</b>	<b>(16,806)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>4,531,036</b>	<b>4,119,138</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,671,175</b>	<b>\$ 4,102,332</b>
<b>Reconciliation of net income to net cash provided by operating activities:</b>		

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Net income	\$ 625,979	\$ 502,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	367,453	339,272
Non-cash interest expense on convertible debt	9,323	26,291
Non-cash restructuring and other special charges	4,477	382
Stock-based compensation expense	200,572	212,265
Provision for doubtful accounts	9,472	6,415
Deferred income taxes, net	(52,320)	(10,834)
Excess tax benefits from stock-based compensation	(106,024)	(109,008)
Other, net	(8,987)	(8,316)
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable	299,977	223,464
Inventories	(96,249)	(102,729)
Other assets	(19,580)	(127,747)
Accounts payable	(28,686)	(136,802)
Accrued expenses	(167,584)	(121,190)
Income taxes payable	5,538	(144,550)
Deferred revenue	619,761	554,678
Other liabilities	25,066	30,632
Net cash provided by operating activities	\$ 1,688,188	\$ 1,134,777

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

**Table of Contents****EMC CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(in thousands)

(unaudited)

**For the three months ended March 31, 2012:**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest in VMware	Shareholders Equity
	Shares	Par Value					
Balance, January 1, 2012	2,048,890	\$ 20,489	\$ 3,052,932	\$ 16,120,621	\$ (235,009)	\$ 968,089	\$ 19,927,122
Stock issued through stock option and stock purchase plans	15,145	152	180,037				180,189
Tax benefit from stock options exercised			143,182				143,182
Restricted stock grants, cancellations and withholdings, net	3,330	33	(47,708)				(47,675)
EMC purchase of VMware stock			(34,485)			(5,508)	(39,993)
Stock-based compensation			203,043				203,043
Impact from equity transactions of VMware, Inc.			930			77,605	78,535
Change in market value of investments					24,464	495	24,959
Change in market value of derivatives					9,867	167	10,034
Translation adjustment					14,986		14,986
Convertible debt conversions and warrant settlement	32,345	323	(1,025)				(702)
Reclassification of convertible debt (to)/from mezzanine (Note 4)			15,679				15,679
Net income				586,842		39,137	625,979
Balance, March 31, 2012	2,099,710	\$ 20,997	\$ 3,512,585	\$ 16,707,463	\$ (185,692)	\$ 1,079,985	\$ 21,135,338

**For the three months ended March 31, 2011:**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest in VMware	Shareholders Equity
	Shares	Par Value					
Balance, January 1, 2011	2,069,246	\$ 20,692	\$ 3,816,681	\$ 13,659,284	\$ (92,617)	\$ 762,736	\$ 18,166,776
Stock issued through stock option and stock purchase plans	18,423	184	224,163				224,347
Tax benefit from stock options exercised			147,810				147,810
Restricted stock grants, cancellations and withholdings, net	2,950	30	(45,992)				(45,962)
Repurchase of common stock	(33,051)	(330)	(867,735)				(868,065)
EMC purchase of VMware stock			(33,944)			(4,056)	(38,000)
Stock-based compensation			226,222				226,222
Impact from equity transactions of VMware, Inc.			(69,846)			18,759	(51,087)

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Change in market value of investments				12,365		2,922		15,287
Change in market value of derivatives				4,206				4,206
Translation adjustment				19,143				19,143
Reclassification of convertible debt (to)/from mezzanine (Note 4)			29,363					29,363
Net income				477,148		25,406		502,554
Balance, March 31, 2011	2,057,568	\$ 20,576	\$ 3,426,722	\$ 14,136,432	\$ (56,903)	\$ 805,767		\$ 18,332,594

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

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**EMC CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation**

*Company*

EMC Corporation ( EMC ) and its subsidiaries develop, deliver and support the Information Technology ( IT ) industry s broadest range of information infrastructure and virtual infrastructure technologies, solutions and services.

EMC s Information Infrastructure business provides a foundation for organizations to store, manage, protect, analyze and secure their vast and ever-increasing quantities of information, improve business agility, lower cost of ownership and enhance their competitive advantage within traditional data centers, virtual data centers and cloud-based IT infrastructures. EMC s Information Infrastructure business comprises three segments Information Storage, RSA Information Security and Information Intelligence Group.

EMC s VMware Virtual Infrastructure business, which is represented by EMC s majority equity stake in VMware, Inc. ( VMware ), is the leader in virtualization and virtualization-based cloud infrastructure solutions utilized by businesses to help them transform the way they build, deliver and consume IT resources in a manner that is evolutionary and based on their specific needs. VMware s virtualization infrastructure software solutions run on industry-standard desktop computers and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures.

*General*

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information. These consolidated financial statements include the accounts of EMC, its wholly owned subsidiaries and VMware, a company majority-owned by EMC. All intercompany transactions have been eliminated.

Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2011 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2012.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any future period or the entire fiscal year. The interim consolidated financial statements, in the opinion of management, reflect all adjustments necessary to fairly state the results as of and for the three-month periods ended March 31, 2012 and 2011.

*Net Income Per Share*

Basic net income per weighted average share has been computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per weighted average share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of stock options, restricted stock and restricted stock units, our \$1.725 billion 1.75% convertible senior notes due 2013 and associated warrants. Additionally, for purposes of calculating diluted net income per weighted average share, net income is adjusted for the difference between VMware s reported diluted and basic net income per weighted average share, if any, multiplied by the number of shares of VMware held by EMC.

*Reclassifications*

Certain prior year amounts have been reclassified to conform with the current year s presentation.

*Recent Accounting Pronouncements*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued new guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value

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measurement and disclosure guidance to include increased disclosures regarding valuation inputs and investment categorization. The adoption of this new accounting guidance in 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows.

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The non-controlling interests share of equity in VMware is reflected as Non-controlling interest in VMware, Inc. in the accompanying consolidated balance sheets and was \$1,080.0 million and \$805.8 million as of March 31, 2012 and 2011, respectively. At March 31, 2012, EMC held approximately 97% of the combined voting power of VMware's outstanding common stock and approximately 79% of the economic interest in VMware.

The effect of changes in our ownership interest in VMware on our equity was as follows (table in thousands):

	<b>For the Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>March 31, 2011</b>
Net income attributable to EMC Corporation	\$ 586,842	\$ 477,148
Transfers (to) from the non-controlling interest in VMware, Inc.:		
Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuances	37,982	35,069
Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity	(37,052)	(104,915)
<b>Net transfers (to) from non-controlling interest</b>	<b>930</b>	<b>(69,846)</b>
 Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	 \$ 587,772	 \$ 407,302

**3. Acquisitions**

During the three months ended March 31, 2012, we acquired all of the outstanding capital stock of Likewise Software, a provider of technology for managing cross-platform access to data files and software for managing unstructured data, and Pivotal Labs, a provider of services and technology to build Big Data applications. These acquisitions complement and expand our Information Storage segment. The aggregate cash consideration for these two acquisitions was \$102.1 million, net of cash acquired. The consideration paid was allocated to the fair value of the assets acquired and liabilities assumed based on estimated fair values as of the respective acquisition dates. The aggregate allocation to goodwill, intangibles and net assets was approximately \$61.7 million, \$33.3 million and \$7.1 million, respectively. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired companies were not material, individually or in the aggregate, to our consolidated results of operations for the three months ended March 31, 2012 or 2011.

**4. Convertible Debt**

In November 2006, we issued our \$1,725 million 1.75% convertible senior notes due 2011 (the 2011 Notes) and our \$1,725 million 1.75% convertible senior notes due 2013 (the 2013 Notes) for total gross proceeds of \$3.45 billion. The 2011 Notes and 2013 Notes are senior unsecured obligations and rank equally with all other existing and future senior unsecured debt.

The 2011 Notes matured and a majority of the noteholders exercised their right to convert the outstanding 2011 Notes at the end of 2011. Pursuant to the settlement terms, the majority of the converted 2011 Notes were not settled until January 9, 2012. At that time, we paid the noteholders \$1,699.8 million in cash for the outstanding principal and 29.5 million shares for the \$661.4 million excess of the conversion value over the principal amount, as prescribed by the terms of the 2011 Notes.

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The holders of the 2013 Notes may convert their 2013 Notes at their option on any day prior to the close of business on the scheduled trading day immediately preceding September 1, 2013 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the measurement period) in which the price per 2013 Note for each day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such day; (2) during any calendar quarter, if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; or (3) upon the occurrence of certain events specified in the 2013 Notes. Additionally, the 2013 Notes will become convertible during the last three months prior to their maturity.



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Upon conversion, we will pay cash up to the principal amount of the debt converted. With respect to any conversion value in excess of the principal amount of the 2013 Notes converted, we have the option to settle the excess with cash, shares of our common stock, or a combination of cash and shares of our common stock based on a daily conversion value, determined in accordance with the indenture, calculated on a proportionate basis for each day of the relevant 20-day observation period. The initial conversion rate for the 2013 Notes will be 62.1978 shares of our common stock per one thousand dollars of principal amount of 2013 Notes, which represents a 27.5% conversion premium from the date the 2013 Notes were issued and is equivalent to a conversion price of approximately \$16.08 per share of our common stock. The conversion price is subject to adjustment in some events as set forth in the indenture. In addition, if a fundamental change (as defined in the indenture) occurs prior to the maturity date, we will in some cases increase the conversion rate for a holder of 2013 Notes that elects to convert its 2013 Notes in connection with such fundamental change.

At March 31, 2012, the contingent conversion thresholds on the 2013 Notes were exceeded. As a result, the 2013 Notes became convertible at the option of the holder through June 30, 2012. Accordingly, since the terms of the 2013 Notes require the principal to be settled in cash, we reclassified from shareholders' equity the portion of the 2013 Notes attributable to the conversion feature which had not yet been accreted to its face value, and the 2013 Notes were classified as a current liability. Contingencies continue to exist regarding the holders' ability to convert the 2013 Notes in future quarters. The determination of whether the 2013 Notes are convertible will be performed on a quarterly basis. Consequently, the 2013 Notes might not be convertible in future quarters and therefore the 2013 Notes may be reclassified as long-term debt if the contingent conversion thresholds are not met. Approximately \$14.7 million of the 2013 Notes have been converted as of March 31, 2012.

The carrying amount of the 2013 Notes reported in the consolidated balance sheets as of March 31, 2012 was \$1,710.3 million and the fair value was \$3,191.9 million. The carrying amount of the equity component of the 2013 Notes was \$279.2 million at March 31, 2012. As of March 31, 2012, the unamortized discount on the 2013 Notes consists of \$103.6 million, which will be fully amortized by December 1, 2013.

The 2013 Notes pay interest in cash at a rate of 1.75% semi-annually in arrears on December 1 and June 1 of each year. The effective interest rate on the 2011 Notes and 2013 Notes was 5.6% for both the three months ended March 31, 2012 and 2011.

The following table represents the key components of our interest expense on convertible debt (table in thousands):

	<b>For the Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>March 31, 2011</b>
Contractual interest expense on the coupon	\$ 7,523	\$ 15,094
Amortization of the discount component recognized as interest expense	14,700	29,363
<b>Total interest expense on the convertible debt</b>	<b>\$ 22,223</b>	<b>\$ 44,457</b>

In connection with the issuance of the 2011 Notes and 2013 Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the Purchased Options). The Purchased Options allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the 2011 Notes and 2013 Notes upon conversion. The Purchased Options will cover, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock. We paid an aggregate amount of \$669.1 million of the proceeds from the sale of the 2011 Notes and 2013 Notes for the Purchased Options that was recorded as additional paid-in-capital in shareholders' equity. In the fourth quarter of 2011, we exercised 107.5 million of the Purchased Options in conjunction with the planned settlements of the 2011 Notes, and we received 29.5 million shares of net settlement on January 9, 2012, representing the excess conversion value of the options. The remaining 107.5 million of the Purchased Options expire on December 1, 2013.

We also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. We received aggregate proceeds of \$391.1 million from the sale of the associated warrants. Upon exercise, the value of the warrants is required to be settled in shares. Half of the associated warrants were exercised between February 15, 2012 and March 14, 2012 and the remaining half of the associated warrants

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have expiration dates between February 18, 2014 and March 18, 2014. During the three months ended March 31, 2012, the exercised warrants were settled with 32.3 million shares of our common stock.

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**EMC CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Purchased Options and associated warrants will generally have the effect of increasing the conversion price of the 2013 Notes to approximately \$19.55 per share of our common stock, representing an approximate 55% conversion premium based on the closing price of \$12.61 per share of our common stock on November 13, 2006, which was the issuance date of the 2013 Notes.

In 2010, EMC entered into interest rate swap contracts with an aggregate notional amount of approximately \$900 million. These swaps were designated as cash flow hedges of the semi-annual interest payments of the forecasted issuance of debt in 2011 when our 2011 Notes were scheduled to become due. As such, the unrealized loss on these hedges was recognized in other comprehensive loss until the underlying exposure was realized. In November 2011, we settled these swaps and replaced them with new interest rate swap contracts for the forecasted issuance of debt in 2012. The notional amount and other terms match the underlying hedged item and both the original and the new swaps were deemed as effective hedges. As such, the unrealized loss on these new hedges at March 31, 2012 was recorded in other comprehensive loss. The realized loss on the replaced interest rate swap contracts was \$141.0 million at the time of settlement. Since we intend to issue debt in 2012, this loss will be realized over the life of the new debt issued under the related interest rate swap contracts and recognized as a component of interest expense in the consolidated income statements.

**5. Fair Value of Financial Assets and Liabilities**

Our fixed income and equity investments are classified as available for sale and recorded at their fair market values. We determine 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 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.

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.

Most of our fixed income securities are classified as Level 2, with the exception of some of our U.S. government and agency obligations and our investments in publicly traded equity securities, which are classified as Level 1, and all of our auction rate securities, which are classified as Level 3. In addition, our strategic investments held at cost are classified as Level 3. At March 31, 2012, the vast majority of our Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. In the event observable inputs are not available, we assess other factors to determine the security's market value, including broker quotes or model valuations. Each month, we perform independent price verifications of all of our fixed income holdings. In the event a price fails a pre-established tolerance check, it is researched so that we can assess the cause of the variance to determine what we believe is the appropriate fair market value.

In general, investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. Our publicly traded equity securities are classified as long-term investments and our strategic investments held at cost are classified as other assets. As a result of the lack of liquidity for auction rate securities, we have classified these as long-term investments as of March 31, 2012 and December 31, 2011. At March 31, 2012 and December 31, 2011, all of our short- and long-term investments, excluding auction rate securities, were recognized at fair value, which was determined based upon observable inputs from our pricing vendors for identical or similar assets. At March 31, 2012 and December 31, 2011, auction rate securities were valued using a discounted cash flow model.



**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The following tables summarize the composition of our short- and long-term investments at March 31, 2012 and December 31, 2011 (tables in thousands):

	March 31, 2012			Aggregate Fair Value
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
U.S. government and agency obligations	\$ 2,212,101	\$ 10,111	\$ (1,680)	\$ 2,220,532
U.S. corporate debt securities	1,371,048	11,498	(475)	1,382,071
High yield corporate debt securities	451,107	21,441	(3,199)	469,349
Asset-backed securities	42,766	105	(15)	42,856
Municipal obligations	898,319	2,316	(655)	899,980
Auction rate securities	82,675		(4,278)	78,397
Foreign debt securities	1,026,224	6,708	(318)	1,032,614
Total fixed income securities	6,084,240	52,179	(10,620)	6,125,799
Publicly traded equity securities	58,059	23,510		81,569
Total	\$ 6,142,299	\$ 75,689	\$ (10,620)	\$ 6,207,368

We held approximately \$1.0 billion in foreign debt securities at March 31, 2012. These securities have an average credit rating of AA-, and approximately 7% of these securities are deemed sovereign debt with an average credit rating of AA+. None of the securities deemed sovereign debt are from Greece, Italy, Ireland, Portugal or Spain. Additionally, we have an immaterial amount of exposure to French agencies and financial institutions.

	December 31, 2011			Aggregate Fair Value
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
U.S. government and agency obligations	\$ 2,474,029	\$ 12,420	\$ (1,488)	\$ 2,484,961
U.S. corporate debt securities	1,400,373	9,953	(2,573)	1,407,753
High yield corporate debt securities	442,723	12,498	(7,742)	447,479
Asset-backed securities	29,101	72	(25)	29,148
Municipal obligations	814,657	2,021	(597)	816,081
Auction rate securities	82,900		(8,304)	74,596
Foreign debt securities	984,696	5,185	(2,807)	987,074
Total fixed income securities	6,228,479	42,149	(23,536)	6,247,092
Publicly traded equity securities	58,199	6,802		65,001
Total	\$ 6,286,678	\$ 48,951	\$ (23,536)	\$ 6,312,093

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The following table represents our fair value hierarchy for our financial assets and liabilities measured at fair value as of March 31, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash	\$ 1,821,521	\$	\$	\$ 1,821,521
Cash equivalents	2,796,165	53,489		2,849,654
U.S. government and agency obligations	1,130,349	1,090,183		2,220,532
U.S. corporate debt securities		1,382,071		1,382,071
High yield corporate debt securities		469,349		469,349
Asset-backed securities		42,856		42,856
Municipal obligations		899,980		899,980
Auction rate securities			78,397	78,397
Foreign debt securities		1,032,614		1,032,614
Publicly traded equity securities	81,569			81,569
<b>Total cash and investments</b>	<b>\$ 5,829,604</b>	<b>\$ 4,970,542</b>	<b>\$ 78,397</b>	<b>\$ 10,878,543</b>

## Other items:

Strategic investments held at cost	\$	\$	\$ 203,847	\$ 203,847
Convertible debt		(3,191,887)		(3,191,887)
Foreign exchange derivative assets		42,778		42,778
Foreign exchange derivative liabilities		(32,291)		(32,291)
Commodity derivative liabilities		(5,410)		(5,410)
Interest rate swap contracts		(3,831)		(3,831)

Our auction rate securities are predominantly rated AAA and are primarily collateralized by student loans. The underlying loans of all but two of our auction rate securities, with a market value of \$19.3 million, have partial guarantees by the U.S. government as part of the Federal Family Education Loan Program ( FFELP ) through the U.S. Department of Education. FFELP guarantees at least 95% of the loans which collateralize the auction rate securities. The two securities whose underlying loans are not guaranteed by the U.S. government have credit enhancements and are insured by third party agencies. We believe the quality of the collateral underlying all of our auction rate securities will enable us to recover our principal balance in full.

To determine the estimated fair value of our investment in auction rate securities, we used a discounted cash flow model using a five year time horizon. As of March 31, 2012, the coupon rates used ranged from 1% to 5% and the discount rate was 1%, which rate represents the rate at which similar FFELP backed securities with a five year time horizon outside of the auction rate securities market were trading at March 31, 2012. The assumptions used in preparing the discounted cash flow model include an incremental discount rate for the lack of liquidity in the market ( liquidity discount margin ) for an estimated period of time. The discount rate we selected was based on AA-rated banks as the majority of our portfolio is invested in student loans where EMC acts as a financier to these lenders. The liquidity discount margin represents an estimate of the additional return an investor would require for the lack of liquidity of these securities over an estimated five-year holding period. The rate used for the discount margin was 1% at March 31, 2012 compared to 2% at December 31, 2011 due to the narrowing of credit spreads on AA-rated banks during 2012.

The following table provides a summary of changes in fair value of our Level 3 auction rate securities for the three months ended March 31, 2012 (table in thousands):

**Three Months Ended  
March 31, 2012**

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Balance, beginning of the period	\$	74,596
Calls at par value		(225)
Decrease in previously recognized unrealized losses included in other comprehensive income		4,026
Balance, end of the period	\$	78,397

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

Significant changes in the unobservable inputs discussed above could result in a significantly lower or higher fair value measurement. Generally, an increase in the discount rate, liquidity discount margin or coupon rate results in a decrease in our fair value measurement and a decrease in the discount rate, liquidity discount margin or coupon rate results in an increase in our fair value measurement.

We perform a fair value calculation of our strategic investments held at cost on a quarterly basis using the most currently available information. To determine the estimated fair value of our private strategic investments we use a combination of several valuation techniques including discounted cash flow models, acquisition comparables and trading comparables. In addition, we evaluate the impact of pre- and post-money valuations of recent financing events and the impact of those on our fully diluted ownership percentages, and we consider any available information regarding the issuer's historical and forecasted performance as well as market comparables and conditions. The fair value of these investments is considered in our review for impairment if any events and changes in circumstances occur that might have a significant adverse effect on their value.

*Investment Losses*

Unrealized losses on investments at March 31, 2012 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (table in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	\$ 862,747	\$ (1,651)	\$ 1,482	\$ (29)	\$ 864,229	\$ (1,680)
U.S. corporate debt securities	254,514	(475)			254,514	(475)
High yield corporate debt securities	64,144	(2,818)	1,689	(381)	65,833	(3,199)
Asset-backed securities	12,391	(14)	5	(1)	12,396	(15)
Municipal obligations	287,508	(655)			287,508	(655)
Auction rate securities			78,397	(4,278)	78,397	(4,278)
Foreign debt securities	169,025	(318)			169,025	(318)
Total	\$ 1,650,329	\$ (5,931)	\$ 81,573	\$ (4,689)	\$ 1,731,902	\$ (10,620)

As of March 31, 2012, there were no publicly traded equity securities in a continuous unrealized loss position. For all of our securities for which the amortized cost basis was greater than the fair value at March 31, 2012, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating, third party guarantees and the time to maturity.

*Contractual Maturities*

The contractual maturities of fixed income securities held at March 31, 2012 are as follows (table in thousands):

	March 31, 2012	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	\$ 1,658,223	\$ 1,662,038
Due after 1 year through 5 years	3,654,373	3,677,387



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Due after 5 years through 10 years	440,857	456,844
Due after 10 years	330,787	329,530
<b>Total</b>	<b>\$ 6,084,240</b>	<b>\$ 6,125,799</b>

Short-term investments on the consolidated balance sheet include a \$5.7 million variable rate note which has a contractual maturity in 2014, and is not classified within investments due within one year above.

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****6. Inventories**

Inventories consist of (table in thousands):

	March 31, 2012	December 31, 2011
Work-in-process	\$ 512,119	\$ 492,064
Finished goods	522,131	517,904
	\$ 1,034,250	\$ 1,009,968

**7. Accounts and Notes Receivable and Allowance for Credit Losses**

Our accounts and notes receivable are recorded at cost. The portion of our notes receivable due in one year or less are included in accounts and notes receivable and the long-term portion is included in other assets, net. Lease receivables arise from sales-type leases of products. We typically sell, without recourse, the contractual right to the lease payment stream and assets under lease to third parties. For certain customers, we retain the lease.

The contractual amounts due under the leases we retained as of March 31, 2012 were as follows (table in thousands):

Year	Contractual Amounts Due Under Leases
Due within one year	\$ 112,125
Due within two years	87,656
Due within three years	78,307
Thereafter	899
Total	278,987
Less amounts representing interest	(6,156)
Present value	272,831
Current portion (included in accounts and notes receivable)	109,604
Long-term portion (included in other assets, net)	\$ 163,227

Subsequent to March 31, 2012, we sold \$42.6 million of these notes to third parties without recourse.

We maintain an allowance for credit losses on our accounts and notes receivable. The allowance is based on the credit worthiness of our customers, including an assessment of the customer's financial position, operating performance and their ability to meet their contractual obligation. We assess the credit scores for our customers each quarter. In addition, we consider our historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account.

In the event we determine that a lease may not be paid, we include in our allowance an amount for the outstanding balance related to the lease receivable. As of March 31, 2012, amounts from lease receivables past due for more than 90 days were not significant.

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The following table presents the activity of our allowance for credit losses related to lease receivables for the three months ended March 31, 2012 and 2011 (table in thousands):

	<b>March 31, 2012</b>	<b>March 31, 2011</b>
Balance, beginning of the period	\$ 24,247	\$ 44,661
Recoveries	(11,758)	(14,332)
Provisions	8,559	16,313
Balance, end of the period	\$ 21,048	\$ 46,642

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

Gross lease receivables totaled \$279.0 million and \$277.7 million as of March 31, 2012 and 2011, respectively, before the allowance. The components of these balances were individually evaluated for impairment.

**8. Property, Plant and Equipment**

Property, plant and equipment consist of (table in thousands):

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Furniture and fixtures	\$ 184,273	\$ 180,800
Equipment and software	4,851,949	4,680,118
Buildings and improvements	1,768,677	1,748,214
Land	117,790	117,513
Building construction in progress	146,650	146,650
	7,069,339	6,873,295
Accumulated depreciation	(4,190,075)	(4,040,146)
	\$ 2,879,264	\$ 2,833,149

Building construction in progress at March 31, 2012 includes \$65.8 million for facilities not yet placed in service that we are holding for future use.

**9. Joint Ventures***VCE Company LLC*

In 2009, Cisco and EMC formed VCE Company LLC ( "VCE" ). VMware and Intel are also investors in VCE. VCE, through Vblock infrastructure platforms, delivers an integrated IT offering that combines network, computing, storage, management, security and virtualization technologies for converged infrastructures and cloud based computing models. As of March 31, 2012, we have contributed \$447.0 million in funding and \$11.7 million in stock-based compensation to VCE since inception and own approximately 58% of VCE's outstanding equity. In April 2012, EMC contributed an additional \$94.7 million in funding to VCE.

We consider VCE a variable interest entity. Authoritative guidance related to variable interest entities states that the primary beneficiary of a variable interest entity must have both of the following characteristics: (a) the power to direct the activities of a variable interest entity that most significantly will impact the entity's economic performance; and (b) the obligation to absorb losses that could be potentially significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. Since the power to direct the activities of VCE which most significantly impact its economic performance are determined by its board of directors, which is comprised of equal representation of EMC and Cisco, and all significant decisions require the approval of the minority shareholders, we have determined we are not the primary beneficiary, and as such we account for the investment under the equity method.

Our portion of VCE's gains and losses is recognized in other expense, net, in the consolidated income statements. Our consolidated share of VCE's losses, based upon our portion of the overall funding, was approximately 63.2% for the three months ended March 31, 2012 and 58% for the three months ended March 31, 2011. As of March 31, 2012, we have recorded net accumulated losses from VCE of \$308.8 million since inception, of which \$55.5 million and \$41.9 million were recorded in the three months ended March 31, 2012 and 2011, respectively.

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We recognized \$58.4 million and \$22.3 million in revenue from sales of product and services to VCE during the three months ended March 31, 2012 and 2011, respectively. We perform certain administrative services, pursuant to an administrative services agreement, on behalf of VCE and we pay certain operating expenses on behalf of VCE. Accordingly, we have a receivable from VCE related to the administrative services agreement of \$26.3 million and \$27.0 million as of March 31, 2012 and December 31, 2011, respectively, which is included in other current assets in the consolidated balance sheets.

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****10. Accrued Expenses**

Accrued expenses consist of (table in thousands):

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Salaries and benefits	\$ 851,581	\$ 961,587
Product warranties	263,181	254,554
Partner rebates	138,267	167,813
Restructuring, current (See Note 13)	62,896	61,541
Derivatives	40,185	50,963
Other	890,143	858,521
	<b>\$ 2,246,253</b>	<b>\$ 2,354,979</b>

*Product Warranties*

Systems sales include a standard product warranty. At the time of the sale, we accrue for systems warranty costs. The initial systems warranty accrual is based upon our historical experience, expected future costs and specific identification of systems requirements. Upon sale or expiration of the initial warranty, we may sell additional maintenance contracts to our customers. Revenue from these additional maintenance contracts is included in deferred revenue and recognized ratably over the service period. The following represents the activity in our warranty accrual for the three months ended March 31, 2012 and 2011 (table in thousands):

	<b>For the Three Months Ended</b>	
	<b>March 31, 2012</b>	<b>March 31, 2011</b>
Balance, beginning of the period	\$ 254,554	\$ 236,131
Provision	48,253	45,825
Amounts charged to the accrual	(39,626)	(38,322)
Balance, end of the period	\$ 263,181	\$ 243,634

The provision includes amounts accrued for systems at the time of shipment, adjustments for changes in estimated costs for warranties on systems shipped in the period and changes in estimated costs for warranties on systems shipped in prior periods. It is not practicable to determine the amounts applicable to each of the components.

**11. Income Taxes**

Our effective income tax rates were 23.4% and 19.5% for the three months ended March 31, 2012 and 2011, respectively. The effective income tax rate is based upon the estimated income for the year, the composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits or resolutions of tax audits or other tax contingencies. For the three months ended March 31, 2012 and 2011, the effective tax rate varied from the statutory tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish

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subsidiaries. We do not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on our effective rate.

The increase in the effective tax rate in 2012 compared to 2011 was due primarily to the expiration of the U.S. federal research and development tax credit for 2012 which negatively impacted the rate by 2.5 percentage points, and unfavorable discrete items.

We have concluded all U.S. federal income tax matters for years through 2008. We also have income tax audits in process in numerous state, local and international jurisdictions. Based on the timing and outcome of examinations of EMC, the result of the

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

expiration of statutes of limitations for specific jurisdictions or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our statement of financial position. We anticipate that several of these audits may be finalized within the next 12 months. Based on the status of these examinations, and the protocol of finalizing such audits, it is not possible to estimate the impact of the amount of such changes, if any, to our previously recorded uncertain tax positions.

**12. Stockholders Equity**

The reconciliation from basic to diluted earnings per share for both the numerators and denominators is as follows (table in thousands):

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2012</b>	<b>2011</b>
<b>Numerator:</b>		
Net income attributable to EMC Corporation	\$ 586,842	\$ 477,148
Incremental dilution from VMware	(2,891)	(2,764)
<b>Net income dilution attributable to EMC Corporation</b>	<b>\$ 583,951</b>	<b>\$ 474,384</b>
<b>Denominator:</b>		
Weighted average shares, basic	2,067,828	2,066,136
Weighted common stock equivalents	45,606	59,841
Assumed conversion of the 2013 Notes and associated warrants	88,499	132,301
<b>Weighted average shares, diluted</b>	<b>2,201,933</b>	<b>2,258,278</b>

Due to the cash settlement feature of the principal amount of the 2013 Notes, we only include the impact of the premium feature in our diluted earnings per share calculation when the 2013 Notes are convertible due to maturity or when the average stock price exceeds the conversion price of the 2013 Notes.

Concurrent with the issuance of the 2011 Notes and 2013 Notes, we also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. Half of the associated warrants were exercised during the three months ended March 31, 2012. We include the impact of the remaining outstanding sold warrants in our diluted earnings per share calculation when the average stock price exceeds the exercise price.

Restricted stock awards, restricted stock units and options to acquire shares of our common stock in the amount of 4.6 million and 15.9 million for the three months ended March 31, 2012 and 2011, respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive. The incremental dilution from VMware represents the impact of VMware's dilutive securities on EMC's consolidated diluted net income per share and is calculated by multiplying the difference between VMware's basic and diluted earnings per share by the number of VMware shares owned by EMC.

*Repurchases of Common Stock*

We utilize both authorized and unissued shares (including repurchased shares) for all issuances under our equity plans. In 2008, our Board of Directors authorized the repurchase of 250.0 million shares of our common stock. Of the 250.0 million shares authorized for repurchase, we have repurchased 195.8 million shares at a total cost of \$3.7 billion, leaving a remaining balance of 54.2 million shares authorized for future repurchases. We did not repurchase any shares in the three months ended March 31, 2012. We plan to spend up to \$700.0 million in 2012 on



common stock repurchases.

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Accumulated other comprehensive loss, which is presented net of tax, consists of the following (table in thousands):

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Foreign currency translation adjustments	\$ 4,206	\$ (10,780)
Unrealized losses on temporarily impaired investments, net of tax benefits of \$(3,850) and \$(8,492)	(6,770)	(15,044)
Unrealized gains on investments, net of taxes of \$28,396 and \$18,343	47,293	30,608
Unrealized losses on derivatives, net of tax benefits of \$(56,287) and \$(62,210)	(90,412)	(100,446)
Recognition of actuarial net loss from pension and other postretirement plans, net of tax benefits of \$(81,798) and \$(81,798)	(139,108)	(139,108)
	(184,791)	(234,770)
Less: accumulated other comprehensive income attributable to the non-controlling interest in VMware, Inc.	(901)	(239)
	\$ (185,692)	\$ (235,009)

**13. Restructuring and Acquisition-Related Charges**

For the three months ended March 31, 2012 and 2011, we incurred restructuring and acquisition-related charges of \$25.9 million and \$26.9 million, respectively. For the three months ended March 31, 2012, we incurred \$24.2 million of restructuring charges, primarily related to our current year restructuring program and \$1.7 million of charges in connection with acquisitions for financial advisory, legal and accounting services. For the three months ended March 31, 2011, we incurred \$23.3 million of restructuring charges, primarily related to our 2011 restructuring programs and \$3.6 million of costs in connection with acquisitions for financial advisory, legal and accounting services.

In the first quarter of 2012, we implemented a restructuring program to create further operational efficiencies which will result in a workforce reduction of 298 positions. The actions will impact positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions are expected to be completed by the end of 2012.

During 2011, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 787 positions, of which 33 positions were identified in the three months ended March 31, 2011. The actions will impact positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions are expected to be completed by the end of 2012.

For the three months ended March 31, 2012 and 2011, we recognized \$3.7 million and \$18.7 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs. These costs are expected to be utilized by the end of 2015.

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The activity for the restructuring programs is presented below (tables in thousands):

*Three Months Ended March 31, 2012*

**2012 Programs**

Category	Beginning Balance	2012 Charges	Utilization	Balance as of March 31, 2012
Workforce reductions	\$	\$ 23,348	\$ (2,706)	\$ 20,642
Consolidation of excess facilities		1,318	(710)	608
<b>Total</b>	<b>\$</b>	<b>\$ 24,666</b>	<b>\$ (3,416)</b>	<b>\$ 21,250</b>

**Other Programs**

Category	Beginning Balance	Adjustments to the Provision	Utilization	Balance as of March 31, 2012
Workforce reductions	\$ 49,863	\$ (2,876)	\$ (15,675)	\$ 31,312
Consolidation of excess facilities and other contractual obligations	30,112	2,389	(4,320)	28,181
<b>Total</b>	<b>\$ 79,975</b>	<b>\$ (487)</b>	<b>\$ (19,995)</b>	<b>\$ 59,493</b>

*Three Months Ended March 31, 2011*

Category	Beginning Balance	2011 Charges	Utilization	Balance as of March 31, 2011
Workforce reductions	\$ 53,946	\$ 4,640	\$ (22,298)	\$ 36,288
Consolidation of excess facilities and other contractual obligations	27,818	18,659	(10,561)	35,916
<b>Total</b>	<b>\$ 81,764</b>	<b>\$ 23,299</b>	<b>\$ (32,859)</b>	<b>\$ 72,204</b>

**14. Commitments and Contingencies***Line of Credit*

We have available for use a credit line of \$50.0 million in the United States. As of March 31, 2012, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At March 31, 2012, we were in compliance with the covenants.

*RSA Special Charge*

In March 2011, RSA was the target of a sophisticated cyber attack which resulted in information related to RSA's SecurID products being compromised. In the first quarter of 2011, we incurred and accrued costs associated with investigating the attack, hardening our systems and working with our customers to implement remediation programs. In the second quarter of 2011, we recorded a \$66.3 million charge in cost of sales related to the expansion of the customer remediation programs. We expanded our customer remediation programs in June 2011 to respond

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to heightened customer concerns resulting from press coverage relating to an unsuccessful cyber attack on one of our defense sector customers, as well as broad media coverage of cyber attacks on other high profile organizations. At March 31, 2012, we had a remaining reserve of \$44.0 million included in accrued liabilities on the consolidated balance sheet. We considered whether additional losses might result from the pending remediation efforts beyond our existing accrual and concluded that no additional material losses related to the remediation efforts are reasonably possible. We expect that the remediation efforts will be substantially completed by the end of the second quarter of 2012.

### *Litigation*

We are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including actions with respect to contracts, intellectual property, product liability, employment, benefits and securities matters. As required by authoritative guidance, we have estimated the amount of probable losses that may result from all currently pending matters, and such amounts are reflected in our consolidated financial

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

statements. These recorded amounts are not material to our consolidated financial position or results of operations and no additional material losses related to these pending matters are reasonably possible. While it is not possible to predict the outcome of these matters with certainty, we do not expect the results of any of these actions to have a material adverse effect on our business, results of operations or financial condition. Because litigation is inherently unpredictable, however, the actual amounts of loss may prove to be larger or smaller than the amounts reflected in our consolidated financial statements, and we could incur judgments or enter into settlements of claims that could adversely affect our operating results or cash flows in a particular period.

**15. Segment Information**

We manage our business in two broad categories: EMC Information Infrastructure and VMware Virtual Infrastructure. EMC Information Infrastructure operates in three segments: Information Storage, Information Intelligence Group and RSA Information Security, while VMware Virtual Infrastructure operates in a single segment. Our management measures are designed to assess performance of these operating segments excluding certain items. As a result, the corporate reconciling items are used to capture the items excluded from the segment operating performance measures, including stock-based compensation expense and acquisition-related intangible asset amortization expense. Additionally, in certain instances, restructuring and acquisition-related charges, transition costs and infrequently occurring gains or losses are also excluded from the measures used by management in assessing segment performance. The VMware Virtual Infrastructure amounts represent the revenues and expenses of VMware as reflected within EMC's consolidated financial statements. Research and development expenses, selling, general and administrative, and other income associated with the EMC Information Infrastructure business are not allocated to the segments within the EMC Information Infrastructure business, as they are managed centrally at the corporate level. For the three segments within the EMC Information Infrastructure business, gross profit is the segment operating performance measure.

Our segment information for the three months ended March 31, 2012 and 2011 is as follows (tables in thousands, except percentages):

	EMC Information Infrastructure			VMware			
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
<b>Three Months Ended:</b>							
<b>March 31, 2012</b>							
Revenues:							
Product revenues	\$ 2,454,735	\$ 36,062	\$ 96,489	\$ 2,587,286	\$ 481,571	\$	\$ 3,068,857
Services revenues	1,234,172	109,491	110,028	1,453,691	571,830		2,025,521
Total consolidated revenues	3,688,907	145,553	206,517	4,040,977	1,053,401		5,094,378
Cost of sales	1,629,038	55,932	73,155	1,758,125	128,185	94,851	1,981,161
Gross profit	\$ 2,059,869	\$ 89,621	\$ 133,362	2,282,852	925,216	(94,851)	3,113,217
Gross profit percentage	55.8%	61.6%	64.6%	56.5%	87.8%		61.1%
Research and development				338,216	178,665	70,936	587,817
Selling, general and administrative				1,094,012	404,593	151,592	1,650,197
Restructuring and acquisition-related charges						25,893	25,893
Total costs and expenses				1,432,228	583,258	248,421	2,263,907

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Operating income	850,624	341,958	(343,272)	849,310
Other income (expense), net	(28,502)	7,301	(11,220)	(32,421)
Income before provision for income taxes	822,122	349,259	(354,492)	816,889
Income tax provision	220,453	62,969	(92,512)	190,910
Net income	601,669	286,290	(261,980)	625,979
Net income attributable to the non-controlling interest in VMware, Inc.		(58,588)	19,451	(39,137)
Net income attributable to EMC Corporation	\$ 601,669	\$ 227,702	\$ (242,529)	\$ 586,842

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	EMC Information Infrastructure				VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure			
<b>Three Months Ended:</b>							
<b>March 31, 2011</b>							
Revenues:							
Product revenues	\$ 2,384,011	\$ 41,132	\$ 87,180	\$ 2,512,323	\$ 418,936	\$	\$ 2,931,259
Services revenues	1,055,466	110,043	87,074	1,252,583	423,776		1,676,359
Total consolidated revenues	3,439,477	151,175	174,254	3,764,906	842,712		4,607,618
Cost of sales	1,574,251	57,705	79,919	1,711,875	127,290	69,402	1,908,567
Gross profit	\$ 1,865,226	\$ 93,470	\$ 94,335	2,053,031	715,422	(69,402)	2,699,051
Gross profit percentage	54.2%	61.8%	54.1%	54.5%	84.9%		58.6%
Research and development				298,133	123,661	80,314	502,108
Selling, general and administrative				1,005,264	334,589	156,078	1,495,931
Restructuring and acquisition-related charges						26,893	26,893
Total costs and expenses				1,303,397	458,250	263,285	2,024,932
Operating income				749,634	257,172	(332,687)	674,119
Other income (expense), net				(23,993)	1,524	(27,457)	(49,926)
Income before provision for income taxes				725,641	258,696	(360,144)	624,193
Income tax provision				172,214	49,253	(99,828)	121,639
Net income				553,427	209,443	(260,316)	502,554
Net income attributable to the non-controlling interest in VMware, Inc.					(41,679)	16,273	(25,406)
Net income attributable to EMC Corporation				\$ 553,427	\$ 167,764	\$ (244,043)	\$ 477,148

Our revenues are attributed to the geographic areas according to the location of the customers. Revenues by geographic area are included in the following table (table in thousands):

	For the Three Months Ended	
	March 31, 2012	March 31, 2011
United States	\$ 2,633,394	\$ 2,371,032

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Europe, Middle East and Africa	1,464,292	1,386,783
Asia Pacific and Japan	711,693	595,064
Latin America, Mexico and Canada	284,999	254,739
<b>Total</b>	<b>\$ 5,094,378</b>	<b>\$ 4,607,618</b>

No country other than the United States accounted for 10% or more of revenues during the three months ended March 31, 2012 or 2011.

Long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, in the United States were \$3,631.2 million at March 31, 2012 and \$3,622.8 million at December 31, 2011. Internationally, long-lived assets, excluding financial instruments and deferred tax assets, were \$583.6 million at March 31, 2012 and \$616.5 million at December 31, 2011. No country other than the United States accounted for 10% or more of total long-lived assets, excluding financial instruments and deferred tax assets, at March 31, 2012 or December 31, 2011.



**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and notes thereto which appear elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements and should also be read in conjunction with the risk factors set forth in Item 1A of Part II. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof.

**All dollar amounts expressed numerically in this MD&A are in millions.**

**Certain tables may not add due to rounding.**

**INTRODUCTION**

We manage our business in two broad categories: EMC Information Infrastructure and VMware Virtual Infrastructure.

*EMC Information Infrastructure*

Our EMC Information Infrastructure business consists of three segments: Information Storage, Information Intelligence and RSA Information Security. The objective for our EMC Information Infrastructure business is to simultaneously increase our market share, invest in the business and improve our financial returns. During 2012, we will continue to innovate and invest in expanding our total addressable market through internal research and development (R&D) and through acquisitions to capitalize on the continued expansion of enterprise data. We have developed a product portfolio with customers' current and future needs in mind; these needs will continue to evolve as the largest transformation in information technology (IT) history creates enormous opportunities in three secular trends: Cloud Computing, Big Data and Trust.

Cloud Computing leverages an on-demand, self-managed, virtualized infrastructure to deliver IT-as-a-Service in a more efficient, flexible and cost-effective manner. While the fundamental transition to Cloud Computing architectures is gaining traction, customers are increasingly recognizing that their ability to compete is tied to the efficiency, flexibility and agility of their IT operations and that transitioning to a cloud-based architecture will be a key component to their success. We believe our offerings are well-suited to capitalize on this trend as it unfolds over the next several years. Big Data, which is a primary contributor to the pace of overall data growth, refers to the large repositories of corporate and external data, including unstructured information created by new applications (e.g. medical, entertainment, energy and geophysical), social media and other web repositories. With the continued growth of the investments we made in Big Data, we believe we are well-positioned in this market to continue assisting our customers in storing, managing and unlocking the value contained within this information. The successful transition to a model that leverages Cloud Computing and Big Data is dependent upon both the right infrastructure and the ability to build Trust into that infrastructure. Having a holistic and data-centric approach to security dangers is key to building Trust, and we have been at the forefront of this security trend. The new threat environment is transforming the way customers think about Trust, and we continue to build our data-centric approach to security to enable our customers to take full advantage of the benefits afforded by Cloud Computing and Big Data.

Our go-to-market model, where we continue to leverage our direct sales force and services organization, as well as our channel and services partners and service providers, positions us well for 2012 to help customers transition to Cloud Computing and benefit from Big Data. Additionally, momentum continues to build at VCE Company LLC, our joint venture with Cisco, and other investors VMware and Intel, as it becomes an important element of our go-to-market model, with their Vblock converged infrastructure product for building out cloud data centers.

*VMware Virtual Infrastructure*

VMware's financial focus is on long-term revenue growth to generate cash flows to fund its expansion of industry segment share and evolve its virtualization-based products for data centers, desktop computers and cloud computing through a combination of internal development and acquisitions. VMware expects to grow its business by broadening its virtualization infrastructure software solutions technology and product portfolio, increasing product awareness, promoting the adoption of virtualization and building long-term relationships with its customers through the adoption of enterprise license agreements (ELAs). Since the introduction of VMware vSphere in 2009, VMware has introduced more products that build on the vSphere foundation including



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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VMware vSphere 5 and a comprehensive suite of cloud infrastructure technologies, as well as VMware View 5. VMware plans to continue to introduce additional products in the future. Additionally, VMware has made, and expects to continue to make, acquisitions designed to strengthen its product offerings or extend its strategy to deliver solutions that can be hosted at customer data centers or at service providers.

On a consolidated basis, our best-of-breed offerings, wealth of experience and proven track record will allow us to leverage our strengths and position us to capitalize on the evolving trends of Cloud Computing, Big Data and Trust through 2012. As a result, we believe we will grow faster than the markets we serve in the remainder of 2012 while simultaneously investing in the business and growing earnings per share at a rate faster than the rate at which we will grow our revenue.

**RESULTS OF OPERATIONS****Revenues**

The following table presents revenue by our segments:

	<b>For the Three Months Ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>March 31, 2012</b>	<b>March 31, 2011</b>		
Information Storage	\$ 3,688.9	\$ 3,439.5	\$ 249.4	7.3%
Information Intelligence Group	145.6	151.2	(5.6)	(3.7)
RSA Information Security	206.5	174.3	32.2	18.5
VMware Virtual Infrastructure	1,053.4	842.7	210.7	25.0
<b>Total revenues</b>	<b>\$ 5,094.4</b>	<b>\$ 4,607.6</b>	<b>\$ 486.8</b>	<b>10.6%</b>

Consolidated product revenues increased 4.7% from \$2,931.3 for the three months ended March 31, 2011 to \$3,068.9 for the three months ended March 31, 2012. The consolidated product revenues increase was primarily driven by the Information Storage and VMware Virtual Infrastructure segments' product revenues. The overall growth in product revenue was due to a continued higher demand for our IT infrastructure offerings to address the storage and virtualization needs for continued information growth, particularly as customers continue to build out their own data centers to develop and support their private or public cloud infrastructures.

The Information Storage segment's product revenues increased 3.0% to \$2,454.7 for the three months ended March 31, 2012. Within the high-end of the Information Storage segment, product revenues decreased 9.5% for the three months ended March 31, 2012, primarily due to the strong growth in the three months ended March 31, 2011 which was in turn primarily driven by the pent up demand associated with the introduction of FAST VP in conjunction with VMAX. Within the mid-tier of the Information Storage segment, which includes Unified products, Backup and Recovery Systems, EMC Isilon and EMC Atmos, product revenues increased 26.4% for the three months ended March 31, 2012, due to strong performance across the product groups. Our VNX family has brought in just under 6,000 new customers since it was introduced in the three months ended March 31, 2011. Our Backup and Recovery Systems division delivered strong year over year growth driven by the strong performance of our portfolio of backup products including EMC Data Domain and EMC Avamar, which continue to bring in new customers each quarter. EMC Isilon continues to play an important role among our mid-tier products with revenue almost doubling from the comparable period in 2011. Finally, our EMC Greenplum Big Data analytics solutions portfolio delivered strong year-over-year revenue growth as it continued to experience strong customer demand for its broad portfolio of services.

The VMware Virtual Infrastructure segment's product revenues increased 15.0% to \$481.6 for the three months ended March 31, 2012. VMware's license revenues increased in the first quarter of 2012 primarily due to global demand for vSphere and continued interest in their management and automation solutions. For both the three months ended March 31, 2012 and 2011, ELAs comprised 22% of total sales.

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The RSA Information Security segment's product revenues increased 10.7% to \$96.5 for the three months ended March 31, 2012. The increase in product revenues was primarily attributable to increased demand for our Identity Management and Protection and our Security Management and Compliance products. The growth for the three months ended March 31, 2012 was greater than the growth for the three months ended March 31, 2011 primarily due to a pause in SecurID shipments during the first quarter of 2011 as we reviewed and hardened our internal systems in response to a sophisticated cyber attack targeting RSA.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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The Information Intelligence Group segment's product revenues declined 12.3% to \$36.1 for the three months ended March 31, 2012. The decrease in product revenues was primarily attributable to changing customer demand. The Information Intelligence Group segment continues to evolve to meet the buying preferences of today's content management customers by transitioning to lighter-weight, content-enabled applications using modern virtualized frameworks.

Consolidated services revenues increased 20.8% from \$1,676.4 for the three months ended March 31, 2011 to \$2,025.5 for the three months ended March 31, 2012. The consolidated services revenues increase was primarily driven by the Information Storage and VMware Virtual Infrastructure segments' services revenues where we continue to provide expertise to customers on effective ways to enable Cloud Computing and to leverage their Big Data assets.

The Information Storage segment's services revenues increased 16.9% to \$1,234.2 for the three months ended March 31, 2012. The increase in services revenues was primarily attributable to higher demand for maintenance-related services associated with increased sales in storage products as well as increased maintenance renewals. In addition, a growing demand for professional services also contributed to the increase in services revenues.

The VMware Virtual Infrastructure segment's services revenues increased 34.9% to \$571.8 for the three months ended March 31, 2012. The increase in services revenues was primarily attributable to growth in VMware's software maintenance revenues. In the three months ended 2012, software maintenance revenues benefited from strong renewals, multi-year software maintenance contracts sold in previous periods and additional maintenance contracts sold in conjunction with new software license sales. Additionally, VMware experienced increased demand in their professional services, driven by the growth in their license sales and installed base.

The RSA Information Security segment's services revenues increased 26.4% to \$110.0 for the three months ended March 31, 2012. Services revenues increased due to an increase in professional services and maintenance revenues resulting from continued demand for support from our installed base. The Information Intelligence Group segment's services revenues decreased 0.5% to \$109.5 for the three months ended March 31, 2012.

Consolidated revenues by geography were as follows:

	<b>For the Three Months Ended</b>		<b>% Change</b>
	<b>March 31, 2012</b>	<b>March 31, 2011</b>	
United States	\$ 2,633.4	\$ 2,371.0	11.1 %
Europe, Middle East and Africa	1,464.3	1,386.8	5.6
Asia Pacific and Japan	711.7	595.1	19.6
Latin America, Mexico and Canada	285.0	254.7	11.9
<b>Total revenues</b>	<b>\$ 5,094.4</b>	<b>\$ 4,607.6</b>	<b>10.6 %</b>

Revenues increased for the three months ended March 31, 2012 compared to the same period in 2011 in all of our geographic markets due to greater demand for our products and services offerings.

Changes in exchange rates negatively impacted revenue growth by 0.5% for the three months ended March 31, 2012, compared to the same period in 2011. The impact of the change in rates was most significant in the Euro zone, partially offset by the Asia Pacific markets, primarily Australia and Japan, for the three months ended March 31, 2012.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS - (Continued)**

**Costs and Expenses**

The following table presents our costs and expenses, other income and net income attributable to EMC Corporation:

	For the Three Months Ended		\$ Change	% Change
	March 31, 2012	March 31, 2011		
<b>Cost of revenue:</b>				
Information Storage	\$ 1,629.0	\$ 1,574.3	\$ 54.7	3.5%
Information Intelligence Group	55.9	57.7	(1.8)	(3.1)
RSA Information Security	73.2	79.9	(6.7)	(8.4)
VMware Virtual Infrastructure	128.2	127.3	0.9	0.7
Corporate reconciling items	94.9	69.4	25.5	36.7
<b>Total cost of revenue</b>	<b>1,981.2</b>	<b>1,908.6</b>	<b>72.6</b>	<b>3.8</b>
<b>Gross margins:</b>				
Information Storage	2,059.9	1,865.2	194.7	10.4
Information Intelligence Group	89.6	93.5	(3.9)	(4.2)
RSA Information Security	133.4	94.3	39.1	41.5
VMware Virtual Infrastructure	925.2	715.4	209.8	29.3
Corporate reconciling items	(94.9)	(69.4)	(25.5)	36.7
<b>Total gross margin</b>	<b>3,113.2</b>	<b>2,699.1</b>	<b>414.1</b>	<b>15.3</b>
<b>Operating expenses:</b>				
Research and development <sup>(1)</sup>	587.8	502.1	85.7	17.1
Selling, general and administrative <sup>(2)</sup>	1,650.2	1,495.9	154.3	10.3
Restructuring and acquisition-related charges	25.9	26.9	(1.0)	(3.7)
<b>Total operating expenses</b>	<b>2,263.9</b>	<b>2,024.9</b>	<b>239.0</b>	<b>11.8</b>
<b>Operating income</b>	<b>849.3</b>	<b>674.1</b>	<b>175.2</b>	<b>26.0</b>
Investment income, interest expense and other expenses	(32.4)	(49.9)	17.5	(35.1)
Income before income taxes	816.9	624.2	192.7	30.9
Income tax provision	190.9	121.6	69.3	57.0
<b>Net income</b>	<b>626.0</b>	<b>502.6</b>	<b>123.4</b>	<b>24.6</b>
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(39.1)	(25.4)	(13.7)	53.9
<b>Net income attributable to EMC Corporation</b>	<b>\$ 586.8</b>	<b>\$ 477.1</b>	<b>\$ 109.7</b>	<b>23.0%</b>

(1) Amount includes corporate reconciling items of \$70.9 and \$80.3 for the three months ended March 31, 2012 and 2011, respectively.

(2) Amount includes corporate reconciling items of \$151.6 and \$156.1 for the three months ended March 31, 2012 and 2011, respectively.

**Gross Margins**

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Overall our gross margin percentages were 61.1% and 58.6% for the three months ended March 31, 2012 and 2011, respectively. The increase in the gross margin percentage in the first quarter of 2012 compared to the same period in 2011 was attributable to the VMware Virtual Infrastructure segment, which increased overall gross margins by 174 basis points, the Information Storage segment, which increased overall gross margins by 93 basis points and the RSA Information Security segment, which increased overall gross margins by 41 basis points, partially offset by the Information Intelligence Group segment, which decreased overall gross margins by 1 basis point. The increase in corporate reconciling items, consisting of stock-based compensation, restructuring and acquisition-related charges, acquisition-related intangible asset amortization, amortization of VMware's capitalized software from prior periods and transition costs, decreased the consolidated gross margin percentage by 54 basis points. Transition costs represent the incremental costs incurred to streamline our current cost structure.

For segment reporting purposes, stock-based compensation, restructuring and acquisition-related charges, acquisition-related intangible asset amortization, amortization of VMware's capitalized software from prior periods and transition costs are recognized as corporate expenses and are not allocated among our various operating segments. The increase of \$25.5 in the corporate reconciling items for the three months ended March 31, 2012 compared to the same period in 2011 was attributable to a \$18.6



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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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increase in amortization of VMware's capitalized software from prior periods, an \$8.2 increase in acquisition-related intangible asset amortization expense and a \$1.0 increase in transition costs, partially offset by a \$2.4 decrease in stock-based compensation expense.

The gross margin percentages for the Information Storage segment were 55.8% and 54.2% for the three months ended March 31, 2012 and 2011, respectively. The increase in gross margin percentage for the three months ended March 31, 2012 compared to the same period in 2011 was attributable to improved product and service gross margins, driven by a shift in mix towards higher margin products and services, higher sales volume and an improved cost structure.

The gross margin percentages for the VMware Virtual Infrastructure segment were 87.8% and 84.9% for the three months ended March 31, 2012 and 2011, respectively. The increase in gross margin percentage for the three months ended March 31, 2012 compared to the same period in 2011 was primarily attributable to improvements in license gross margins resulting from decreased software capitalization amortization expense as well as increases in services margins.

The gross margin percentages for the RSA Information Security segment were 64.6% and 54.1% for the three months ended March 31, 2012 and 2011, respectively. The increase in gross margin percentage for the three months ended March 31, 2012 compared to the same period in 2011 was due to an increase in product margins. The increase in product margins was due to the one-time impact of RSA remediation associated with working with our customers to implement remediation programs which negatively impacted margin in the first quarter of 2011.

The gross margin percentages for the Information Intelligence Group segment were 61.6% and 61.8% for three months ended March 31, 2012 and 2011, respectively. The decrease in gross margin percentage for the three months ended March 31, 2012 compared to the same period in 2011 was attributable to a decrease in product margins.

***Research and Development***

As a percentage of revenues, R&D expenses were 11.5% and 10.9% for the three months ended March 31, 2012 and 2011, respectively. R&D expenses increased \$85.7 for the three months ended March 31, 2012 compared to the same period in 2011 primarily due to an increase in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, infrastructure costs and depreciation expense. Additionally, there was a decrease in VMware's capitalized software development costs. Personnel-related costs increased by \$46.9, infrastructure costs increased by \$21.6 and depreciation expense increased by \$2.6. Also increasing these costs was a decrease in capitalized software development costs of \$8.3.

Corporate reconciling items within R&D, which consist of stock-based compensation, intangible asset amortization and transition costs, decreased \$9.4 to \$70.9 for the three months ended March 31, 2012 when compared to the same period in 2011. Stock-based compensation expense decreased \$8.5 and intangible asset amortization decreased \$1.3, partially offset by an increase in transition costs of \$0.4 for the three months ended March 31, 2012. The decrease in stock-based compensation expense was primarily due to the significant costs during 2011 related to the Isilon acquisition, which was consummated in the fourth quarter of 2010.

R&D expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 8.4% and 7.9% for the three months ended March 31, 2012 and 2011, respectively. R&D expenses increased \$40.1 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, cost of facilities and depreciation expense. Personnel-related costs increased by \$28.0, cost of facilities increased by \$18.6 and depreciation expense increased by \$3.6. Partially offsetting these increased costs was an increase in capitalized software development costs of \$19.1. The increase in capitalized software development costs is primarily due to the timing of products reaching technological feasibility.

R&D expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 17.0% and 14.7% for the three months ended March 31, 2012 and 2011, respectively. VMware's R&D expenses as a percentage of revenues increased year over year due to an increase in development costs as VMware ceased capitalization of software development costs. Following the release of vSphere 5 and the comprehensive suite of cloud infrastructure technologies in the third quarter of 2011, VMware determined that its go-to-market strategy had changed from single solutions to product suite solutions. As a result of this change in strategy, and the related increased importance of interoperability between VMware's products, the length of time between achieving technological feasibility and general release to customers

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significantly decreased. VMware expects its products to be available for general release soon after technological feasibility has been established. R&D expenses increased \$55.0 for the

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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three months ended March 31, 2012 compared to the same period in 2011 largely due to increases in personnel-related costs of \$27.1. Additionally, capitalized software development costs decreased \$27.4 for the three months ended March 31, 2012 compared to the same period in 2011 primarily due to a change in VMware's go-to-market strategy.

***Selling, General and Administrative***

As a percentage of revenues, selling, general and administrative (SG&A) expenses were 32.4% and 32.5% for the three months ended March 31, 2012 and 2011, respectively. SG&A expenses increased by \$154.3 for the three months ended March 31, 2012 compared to the same period in 2011 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, commissions, depreciation expense and other various operating expenses, partially offset by a decrease in infrastructure costs. Personnel-related costs increased by \$101.6, commissions increased by \$40.2 and depreciation expense increased by \$9.0, partially offset by a decrease in infrastructure costs of \$54.5.

Corporate reconciling items within SG&A, which consist of stock-based compensation, intangible asset amortization and transition costs decreased \$4.5 to \$151.6 for the three months ended March 31, 2012 when compared to the same period in 2011. Stock-based compensation expense decreased \$3.5 and intangible asset amortization decreased \$2.0, partially offset by an increase in transition costs of \$1.0 for the three months ended March 31, 2012. The decrease in stock-based compensation expense was primarily due to the significant costs during 2011 related to the Isilon acquisition, which was consummated in the fourth quarter of 2010.

SG&A expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 27.1% and 26.7% for the three months ended March 31, 2012 and 2011, respectively. SG&A expenses increased \$88.7 for the three months ended March 31, 2012 when compared to the same period in 2011 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, commissions, depreciation expense and other various operating expenses, partially offset by a decrease in cost of facilities. Personnel-related costs increased by \$51.4, commissions increased by \$38.9 and depreciation expense increased by \$7.7, partially offset by a decrease in cost of facilities of \$57.9.

SG&A expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 38.4% and 39.7% for the three months ended March 31, 2012 and 2011, respectively. SG&A expenses increased \$70.0 for the three months ended March 31, 2012 when compared to the same period in 2011 primarily due to growth in personnel-related expenses driven by incremental headcount as well as expenses related to a global conference held in the first quarter 2012.

***Restructuring and Acquisition-Related Charges***

For the three months ended March 31, 2012 and 2011, we incurred restructuring and acquisition-related charges of \$25.9 and \$26.9, respectively. For the three months ended March 31, 2012, we incurred \$24.2 of restructuring charges, primarily related to our current year restructuring program and \$1.7 of charges in connection with acquisitions for financial advisory, legal and accounting services.

***Investment Income***

Investment income was \$29.5 and \$38.2 for the three months ended March 31, 2012 and 2011, respectively. Investment income decreased for the three months ended March 31, 2012 compared to the same period in 2011 primarily due to more realized gains in our portfolio of fixed income securities in 2011. Net realized gains were \$2.6 and \$6.7 for the three months ended March 31, 2012 and 2011, respectively. The weighted average return on investments, excluding realized losses and gains, was 1.1% and 1.4% for the first quarters of 2012 and 2011, respectively.

***Interest Expense***

Interest expense was \$18.2 and \$45.0 for the three months ended March 31, 2012 and 2011, respectively. Interest expense consists primarily of interest on the 2011 Notes and 2013 Notes. Included in interest expense are non-cash interest charges related to amortization of the debt discount

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attributable to the conversion feature of \$14.7 and \$29.4 for the three months ended March 31, 2012 and 2011, respectively, as we are accreting the 2011 Notes and 2013 Notes to their stated values over their term. See Note 4 to the consolidated financial statements.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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***Other Expense, Net***

Other expense, net was \$43.7 and \$43.2 for the three months ended March 31, 2012 and 2011, respectively. Other expense in the first quarter of 2012 primarily consists of our consolidated share of the losses from our converged infrastructure joint venture, VCE Company LLC, partially offset by our net gains from the sale of strategic investments held at cost. Our consolidated share of the losses from VCE was \$55.5 and \$41.9 for the three months ended March 31, 2012 and 2011, respectively. This joint venture is accounted for under the equity method. See Note 9 to the consolidated financial statements. Net gains from the sale of strategic investments held at cost were \$22.0 and \$0.8 at March 31, 2012 and 2011, respectively.

***Provision for Income Taxes***

Our effective income tax rates were 23.4% and 19.5% for the three months ended March 31, 2012 and 2011, respectively. The effective income tax rate is based upon the estimated income for the year, the composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits or resolutions of tax audits or other tax contingencies. For the three months ended March 31, 2012 and 2011, the effective tax rate varied from the statutory tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish subsidiaries. We do not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on our effective rate.

The increase in the effective tax rate in 2012 compared to 2011 was due primarily to the expiration of the U.S. federal research and development tax credit for 2012 which negatively impacted the rate by 2.5 percentage points, and unfavorable discrete items.

We have concluded all U.S. federal income tax matters for years through 2008. We also have income tax audits in process in numerous state, local and international jurisdictions. Based on the timing and outcome of examinations of EMC, the result of the expiration of statutes of limitations for specific jurisdictions or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our statement of financial position. We anticipate that several of these audits may be finalized within the next 12 months. Based on the status of these examinations, and the protocol of finalizing such audits, it is not possible to estimate the impact of the amount of such changes, if any, to our previously recorded uncertain tax positions.

Our effective tax rate for the remainder of 2012 may be affected by such factors as changes in tax laws, regulations or rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation, the impact of accounting for business combinations, changes in our international organization, and changes in overall levels of income before tax. Our effective tax rate may also be adversely affected by earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates.

***Non-controlling Interest in VMware, Inc.***

The net income attributable to the non-controlling interest in VMware was \$39.1 and \$25.4 for the three months ended March 31, 2012 and 2011, respectively. The increase was due to an increase in VMware's net income and increases in the weighted average percentage ownership by the non-controlling interest in VMware. VMware's net income was \$191.4 and \$125.8 for the three months ended March 31, 2012 and 2011, respectively. The weighted average non-controlling interest in VMware was approximately 20% for both the three months ended March 31, 2012 and 2011. In the first quarter of 2010, we announced a stock purchase program of VMware's Class A Common Stock to maintain an approximately 80% majority ownership in VMware over the long term. During the three months ended March 31, 2012, EMC purchased approximately 0.5 million VMware shares for approximately \$40.0.

***Financial Condition***

Cash provided by operating activities was \$1,688.2 and \$1,134.8 for the three months ended March 31, 2012 and 2011, respectively. Cash received from customers was \$6,023.6 and \$5,392.2 for the three months ended March 31, 2012 and 2011, respectively. The increase in cash

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received from customers was attributable to an increase in maintenance contracts sales volume. Cash paid to suppliers and employees was \$4,114.8 and \$4,009.6 for the three months ended March 31, 2012 and 2011, respectively. The increase was primarily attributable to a general growth in the business to support the increased revenue base. For the three months ended March 31, 2012 and 2011, we paid \$237.7 and \$277.0, respectively, in income taxes. These payments are

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**Table of Contents****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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comprised of estimated taxes for the current year, extension payments for the prior year and refunds or payments associated with income tax filings and tax audits.

Cash used in investing activities was \$218.9 and \$534.2 for the three months ended March 31, 2012 and 2011, respectively. Cash used for business acquisitions, strategic and other related investments was \$92.0 for the three months ended March 31, 2012 and includes 2012 business acquisitions, net of cash acquired, of \$102.1. Cash used for business acquisitions, strategic and other related investments was \$213.0 for the three months ended March 31, 2011 and includes 2011 business acquisitions, net of cash acquired and funding of \$124.3 to our joint venture, VCE. We did not provide any funding to VCE in the three months ended March 31, 2012. Capital additions were \$153.6 and \$165.5 for the three months ended March 31, 2012 and 2011, respectively. The lower level of capital additions was primarily attributable to increased spending in 2011 on facility expansion and information technology infrastructure. Capitalized software development costs were \$105.8 and \$112.0 for the three months ended March 31, 2012 and 2011, respectively. The decrease was primarily attributable to VMware's change in go-to-market strategy, somewhat offset by EMC Information Infrastructure's efforts on its software development activities. Net sales of investments were \$127.6 and \$1.3 for the three months ended March 31, 2012 and 2011, respectively. This activity varies from period to period based upon our cash collections, cash requirements and maturity dates of our investments.

Cash used in financing activities was \$1,340.2 and \$630.0 for the three months ended March 31, 2012 and 2011, respectively. We spent \$1,699.8 for payment of our convertible debt in the three months ended March 31, 2012 and we spent \$40.0 to purchase 0.5 million shares of VMware's common stock. For the three months ended March 31, 2011, we spent \$868.1 to repurchase 33.1 million shares of our common stock and \$38.0 to purchase 0.5 million shares of VMware's common stock. Additionally, in the three months ended March 31, 2011, VMware spent \$147.7 to repurchase 1.7 million shares of its common stock and we generated \$291.2 and \$314.5 during the three months ended March 31, 2012 and 2011, respectively, from the exercise of stock options. We generated \$106.0 and \$109.0 during the three months ended March 31, 2012 and 2011, respectively, of excess tax benefits from stock-based compensation.

We expect to continue to generate positive cash flows from operations for the remainder of 2012 and to use cash generated by operations as our primary source of liquidity. We believe that existing cash and cash equivalents, together with any cash generated from operations will be sufficient to meet normal operating requirements for the next twelve months.

The 2011 Notes matured and a majority of the noteholders exercised their right to convert the outstanding 2011 Notes at the end of 2011. Pursuant to the settlement terms, the majority of the converted 2011 Notes were not settled until January 9, 2012. At that time, we paid the noteholders \$1,699.8 in cash for the outstanding principal and 29.5 million shares for the \$661.4 excess of the conversion value over the principal amount, as prescribed by the terms of the 2011 Notes.

The remaining \$1,710.3 of the 2013 Notes is due in November 2013. Based upon the closing price of our common stock for the prescribed measurement period during the three months ended March 31, 2012, the contingent conversion thresholds on the 2013 Notes were exceeded. As a result, the 2013 Notes are convertible at the option of the holder through June 30, 2012. Upon conversion, we are obligated to pay cash up to the principal amount of the debt converted. We have the option to settle any conversion value in excess of the principal amount with cash, shares of our common stock, or a combination thereof. Approximately \$14.7 of the 2013 Notes have been converted as of March 31, 2012.

In connection with the issuance of the 2011 Notes and 2013 Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the Purchased Options). The Purchased Options allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the 2011 Notes and 2013 Notes upon conversion. The Purchased Options will cover, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock. We paid an aggregate amount of \$669.1 of the proceeds from the sale of the 2011 Notes and 2013 Notes for the Purchased Options that was recorded as additional paid-in-capital in shareholders' equity. In the fourth quarter of 2011, we exercised 107.5 million of the Purchased Options in conjunction with the planned settlements of the 2011 Notes, and we received 29.5 million shares of net settlement on January 9, 2012, representing the excess conversion value of the options. The remaining 107.5 million of the Purchased Options expire on December 1, 2013.

We also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. We received aggregate proceeds of \$391.1 from the sale of the associated warrants. Upon exercise, the value of the warrants is required to be settled in shares. Half of

the associated warrants were exercised between February 15, 2012 and



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March 14, 2012 and the remaining half of the associated warrants have expiration dates between February 18, 2014 and March 18, 2014. During the three months ended March 31, 2012, the exercised warrants were settled with 32.3 million shares of our common stock.

We have available for use a credit line of \$50.0 in the United States. As of March 31, 2012, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At March 31, 2012, we were in compliance with the covenants. As of March 31, 2012, the aggregate amount of liabilities of our subsidiaries was approximately \$6,590.9.

At March 31, 2012, our total cash, cash equivalents, and short-term and long-term investments were \$10,878.5. This balance includes approximately \$5,222.2 held by VMware, of which \$2,464.0 is held overseas, and \$1,623.9 held by EMC in overseas entities. If these overseas funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

***Use of Non-GAAP Financial Measures and Reconciliations to GAAP Results***

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). EMC used certain non-GAAP financial measures in the three months ended March 31, 2012, which exclude stock-based compensation, amortization of intangible assets, restructuring and acquisition-related charges and amortization of VMware's capitalized software from prior periods to measure its gross margin, operating margin, net income and diluted earnings per share for purposes of managing our business. EMC also assesses its financial performance by measuring its free cash flow which is also a non-GAAP financial measure. Free cash flow is defined as net cash provided by operating activities, less additions to capital expenditures and capitalized software development costs. These non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of EMC's financial performance or liquidity prepared in accordance with GAAP. EMC's non-GAAP financial measures may be defined differently from time to time and may be defined differently than similar terms used by other companies, and accordingly, care should be exercised in understanding how EMC defines its non-GAAP financial measures.

EMC's management uses the non-GAAP financial measures to gain an understanding of EMC's comparative operating performance (when comparing such results with previous periods or forecasts) and future prospects and excludes these items from its internal financial statements for purposes of its internal budgets and each reporting segment's financial goals. These non-GAAP financial measures are used by EMC's management in their financial and operating decision-making because management believes they reflect EMC's ongoing business in a manner that allows meaningful period-to-period comparisons. EMC's management believes that these non-GAAP financial measures provide useful information to investors and others (a) in understanding and evaluating EMC's current operating performance and future prospects in the same manner as management does, if they so choose, and (b) in comparing in a consistent manner EMC's current financial results with EMC's past financial results.

Our non-GAAP operating results for the three months ended March 31, 2012 and 2011 were as follows:

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2012</b>	<b>2011</b>
Gross margin	\$ 3,207.0	\$ 2,768.4
Gross margin percentage	63.0%	60.1%
Operating income	1,184.1	1,000.6
Operating income percentage	23.2%	21.7%
Income tax provision	276.8	209.3
Net income attributable to EMC	818.0	700.4

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Diluted earnings per share attributable to EMC	\$ 0.37	\$ 0.31
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The improvements in the non-GAAP gross margin and non-GAAP gross margin percentage were attributable to higher sales volume, a change in mix attributable to higher margin products and improved cost control. The improvements in the non-GAAP operating income and non-GAAP operating income percentage were attributable to an improved gross margin percentage.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
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The reconciliation of the above financial measures from GAAP to non-GAAP is as follows:

	For the Three Months Ended March 31, 2012					
	GAAP	Restructuring and acquisition- related charges	Stock-based compensation	Intangible asset amortization	Amortization of VMware's capitalized software from prior periods	Non-GAAP
Gross margin	\$ 3,113.2	\$	\$ 30.8	\$ 44.4	\$ 18.6	\$ 3,207.0
Operating income	849.3	25.9	204.7	85.6	18.6	1,184.1
Income tax provision	190.9	6.1	47.6	26.4	5.9	276.8
Net income attributable to EMC	586.8	19.8	144.7	56.5	10.1	818.0
Diluted earnings per share attributable to EMC	\$ 0.27	\$ 0.01	\$ 0.07	\$ 0.03	\$ 0.01	\$ 0.37

	For the Three Months Ended March 31, 2011					
	GAAP	Restructuring and acquisition- related charges	Stock-based compensation	Intangible asset amortization	Non-GAAP	
Gross margin	\$ 2,699.1	\$	\$ 33.2	\$ 36.2	\$ 2,768.4	
Operating income	674.1	26.9	219.0	80.6	1,000.6	
Income tax provision	121.6	7.2	54.4	26.0	209.3	
Net income attributable to EMC	477.1	19.7	151.1	52.5	700.4	
Diluted earnings per share attributable to EMC	\$ 0.21	\$ 0.01	\$ 0.07	\$ 0.02	\$ 0.31	

We also monitor our ability to generate free cash flow in relationship to our non-GAAP net income attributable to EMC over comparable periods. For the three months ended March 31, 2012, our free cash flow was \$1,428.7, an increase of 66.7% compared to the free cash flow generated for the three months ended March 31, 2011. The free cash flow for the three months ended March 31, 2012 exceeded our same period non-GAAP net income attributable to EMC by \$610.7. EMC uses free cash flow, among other measures, to evaluate the ability of its operations to generate cash that is available for purposes other than capital expenditures and capitalized software development costs. Management believes that information regarding free cash flow provides investors with an important perspective on the cash available to make strategic acquisitions and investments, repurchase shares, service debt and fund ongoing operations. As free cash flow is not a measure of liquidity calculated in accordance with GAAP, free cash flow should be considered in addition to, but not as a substitute for, the analysis provided in the statements of cash flows.

The reconciliation of the above free cash flow from GAAP to non-GAAP is as follows:

	For the Three Months Ended	
	March 31, 2012	March 31, 2011
Cash Flow from Operations	\$ 1,688.2	\$ 1,134.8

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Capital Expenditures	(153.6)	(165.5)
Capitalized Software Development Costs	(105.8)	(112.0)
Free Cash Flow	\$ 1,428.7	\$ 857.3

Free cash flow represents a non-GAAP measure related to operating cash flows. In contrast, our GAAP measure of cash flow consists of three components. These are cash flows provided by operating activities of \$1,688.2 and \$1,134.8 for the three months ended March 31, 2012 and 2011, respectively, cash used in investing activities of \$218.9 and \$534.2 for the three months ended March 31, 2012 and 2011, respectively, and net cash used in financing activities of \$1,340.2 and \$630.0 for the three months ended March 31, 2012 and 2011, respectively.

All of the foregoing non-GAAP financial measures have limitations. Specifically, the non-GAAP financial measures that exclude the items noted above do not include all items of income and expense that affect EMC's operations or cash flows. Further, these non-GAAP financial measures are not prepared in accordance with GAAP, may not be comparable to non-GAAP financial measures used by other companies and do not reflect any benefit that such items may confer on EMC. Management compensates for these limitations by also considering EMC's financial results as determined in accordance with GAAP.

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**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K filed with the SEC on February 24, 2012. Our exposure to market risks has not changed materially from that set forth in our Annual Report.

**Item 4. CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II**

**OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

We are involved in a variety of claims, demands, suits, investigations and proceedings that arise from time to time relating to matters incidental to the ordinary course of our business, including actions with respect to contracts, intellectual property, product liability, employment, benefits and securities matters. As required by authoritative guidance, we have estimated the amount of probable losses that may result from all currently pending matters, and such amounts are reflected in our consolidated financial statements. These recorded amounts are not material to our consolidated financial position or results of operations and no additional material losses related to these pending matters are reasonably possible. While it is not possible to predict the outcome of these matters with certainty, we do not expect the results of any of these actions to have a material adverse effect on our business, results of operations or financial condition. Because litigation is inherently unpredictable, however, the actual amounts of loss may prove to be larger or smaller than the amounts reflected in our consolidated financial statements, and we could incur judgments or enter into settlements of claims that could adversely affect our operating results or cash flows in a particular period.

**Item 1A. RISK FACTORS**

The risk factors that appear below could materially affect our business, financial condition and results of operations. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. The risks and uncertainties described below are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies.

**Our business could be materially adversely affected as a result of general economic and market conditions.**

We are subject to the effects of general global economic and market conditions. If these conditions remain challenging or deteriorate, our business, results of operations or financial condition could be materially adversely affected. Possible consequences from uncertainty or further deterioration due to the recent global macroeconomic downturn on our business, including insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of our products, customer insolvencies, increased risk that customers may delay payments, fail to pay or default on credit extended to them, and counterparty failures negatively impacting our treasury operations, could have a material adverse effect on our results of operations or financial condition.

**Our business could be materially adversely affected as a result of a lessening demand in the information technology market.**

Our revenue and profitability depend on the overall demand for our products and services. Delays or reductions in IT spending, domestically or internationally, could materially adversely affect demand for our products and services which could result in decreased revenues or earnings.

Our customers operate in a variety of markets. Any adverse effects to such markets could materially adversely affect demand for our products and services which could result in decreased revenues or earnings.

**Competitive pricing, sales volume, mix and component costs could materially adversely affect our revenues, gross margins and earnings.**

Our gross margins are impacted by a variety of factors, including competitive pricing, component and product design costs as well as the volume and relative mixture of product and services revenues. Increased component costs, increased pricing pressures, the relative and varying rates of increases or decreases in component costs and product price, changes in product and services revenue mixture or decreased volume could have a material adverse effect on our revenues, gross margins or earnings.

The costs of third-party components comprise a significant portion of our product costs. While we generally have been able to manage our component and product design costs, we may have difficulty managing such costs if supplies of certain components become limited or component prices increase. Any such limitation could result in an increase in our component costs. An increase in component or design costs relative to our product prices could have a material adverse effect on our gross margins and earnings. Moreover, certain competitors may have advantages due to vertical integration of their supply chain, which may include disk drives, microprocessors, memory components and servers.



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The markets in which we do business are highly competitive, and we may encounter aggressive price competition for all of our products and services from numerous companies globally. There also has been and may continue to be a willingness on the part of certain competitors to reduce prices or provide information infrastructure and virtual infrastructure products or services, together with other IT products or services, at minimal or no additional cost in order to preserve or gain market share. Such price competition may result in pressure on our product and service prices, and reductions in product and service prices may have a material adverse effect on our revenues, gross margins and earnings.

### **If our suppliers are not able to meet our requirements, we could have decreased revenues and earnings.**

We purchase or license many sophisticated components and products from one or a limited number of qualified suppliers, including some of our competitors. These components and products include disk drives, high density memory components, power supplies and software developed and maintained by third parties. We have experienced delivery delays from time to time because of high industry demand or the inability of some vendors to consistently meet our quality or delivery requirements. Natural disasters, such as the recent flooding in Thailand affecting our disk drive component suppliers, have also in the past and may continue to impact our ability to procure certain components in a timely fashion. Current or future social and environmental regulations or critical issues, such as those relating to the sourcing of conflict minerals from the Democratic Republic of the Congo or the need to eliminate environmentally sensitive materials from our products, could restrict the supply of resources used in production or increase our costs. If any of our suppliers were to cancel or materially change contracts or commitments with us or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders, be unable to develop or sell certain products cost-effectively or on a timely basis, if at all, and have significantly decreased quarterly revenues and earnings, which would have a material adverse effect on our business, results of operations and financial condition. Additionally, we periodically transition our product line to incorporate new technologies. The importance of transitioning our customers smoothly to new technologies, along with our historically uneven pattern of quarterly sales, intensifies the risk that the failure of a supplier to meet our quality or delivery requirements will have a material adverse impact on our revenues and earnings. An economic crisis may also negatively affect our suppliers' solvency, which could, in turn, result in product delays or otherwise materially adversely affect our business, results of operations or financial condition.

### **Our financial performance may be impacted by the financial performance of VMware.**

Because we consolidate VMware's financial results in our results of operations, our financial performance will be impacted by the financial performance of VMware. VMware's financial performance may be affected by a number of factors, including, but not limited to:

general economic conditions in their domestic and international markets and the effect that these conditions have on VMware's customers' capital budgets and the availability of funding for software purchases;

fluctuations in demand, adoption rates, sales cycles and pricing levels for VMware's products and services;

fluctuations in foreign currency exchange rates;

changes in customers' budgets for information technology purchases and in the timing of their purchasing decisions;

VMware's ability to compete with existing or increased competition;

the timing of recognizing revenues in any given quarter, which, as a result of software revenue recognition policies, can be affected by a number of factors, including product announcements, beta programs and product promotions that can cause revenue recognition of certain orders to be deferred until future products to which customers are entitled become available;

the sale of VMware's products in the timeframes anticipated, including the number and size of orders in each quarter;



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VMware's ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer demand, certification requirements and technical requirements;

the introduction of new pricing and packaging models for VMware's product offerings;

the timing of the announcement or release of upgrades or new products by VMware or by its competitors;

VMware's ability to maintain scalable internal systems for reporting, order processing, license fulfillment, product delivery, purchasing, billing and general accounting, among other functions;

VMware's ability to control costs, including its operating expenses;

changes to VMware's effective tax rate;

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the increasing scale of VMware's business and its effect on VMware's ability to maintain historical rates of growth;

VMware's ability to attract and retain highly skilled employees, particularly those with relevant experience in software development and sales;

VMware's ability to conform to emerging industry standards and to technological developments by its competitors and customers;

renewal rates for enterprise license agreements, or ELAs, as original ELA terms expire;

the timing and amount of software development costs that are capitalized beginning when technological feasibility has been established and ending when the product is available for general release;

unplanned events that could affect market perception of the quality or cost-effectiveness of VMware's products and solutions; and

the recoverability of benefits from goodwill and intangible assets and the potential impairment of these assets.

**Our stock price is volatile and may be affected by the trading price of VMware Class A common stock and/or speculation about the possibility of future actions we might take in connection with our VMware stock ownership.**

Our stock price, like that of other technology companies, is subject to significant volatility because of factors such as:

the announcement of acquisitions, new products, services or technological innovations by us or our competitors;

quarterly variations in our operating results;

changes in revenue or earnings estimates by the investment community; and

speculation in the press or investment community.

The trading price of our common stock has been and likely will continue to be affected by various factors related to VMware, including:

the trading price for VMware Class A common stock;

actions taken or statements made by us, VMware, or others concerning the potential separation of VMware from us, including by spin-off, split-off or sale; and

factors impacting the financial performance of VMware, including those discussed in the prior risk factor.

In addition, although we own a majority of VMware and consolidate their results, our stock price may not reflect our pro rata ownership interest of VMware.

**We may be unable to keep pace with rapid industry, technological and market changes.**

The markets in which we compete are characterized by rapid technological change, frequent new product introductions, evolving industry standards and changing needs of customers. There can be no assurance that our existing products will be properly positioned in the market or that we will be able to introduce new or enhanced products into the market on a timely basis, or at all. We spend a considerable amount of money on research and development and introduce new products from time to time. There can be no assurance that enhancements to existing products and solutions or new products and solutions will receive customer acceptance. As competition in the IT industry increases, it may become increasingly difficult for us to maintain a technological advantage and to leverage that advantage toward increased revenues and profits. In addition, there can be no assurance that our vision of enabling Hybrid Cloud Computing through infrastructure and application transformation will be accepted or validated in the marketplace.

Risks associated with the development and introduction of new products include delays in development and changes in data storage, networking virtualization, infrastructure management, information security and operating system technologies which could require us to modify existing products. Risks inherent in the transition to new products include:

the difficulty in forecasting customer preferences or demand accurately;

the inability to expand production capacity to meet demand for new products;

the impact of customers' demand for new products on the products being replaced, thereby causing a decline in sales of existing products and an excessive, obsolete supply of inventory; and

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delays in initial shipments of new products.

Further risks inherent in new product introductions include the uncertainty of price-performance relative to products of competitors, competitors responses to the introductions and the desire by customers to evaluate new products for extended periods of time. Our failure to introduce new or enhanced products on a timely basis, keep pace with rapid industry, technological or market changes or effectively manage the transitions to new products or new technologies could have a material adverse effect on our business, results of operations or financial condition.

### **The markets we serve are highly competitive, and we may be unable to compete effectively.**

We compete with many companies in the markets we serve, certain of which offer a broad spectrum of IT products and services and others which offer specific information storage, protection, security, management, virtualization and intelligence products or services. Some of these companies (whether independently or by establishing alliances) may have substantially greater financial, marketing and technological resources, larger distribution capabilities, earlier access to customers and greater opportunity to address customers various IT requirements than us. In addition, as the IT industry consolidates, companies may improve their competitive position and ability to compete against us. We compete on the basis of our products features, performance and price as well as our services. Our failure to compete on any of these bases could affect demand for our products or services, which could have a material adverse effect on our business, results of operations or financial condition.

Companies may develop new technologies or products in advance of us or establish business models or technologies disruptive to us. Our business may be materially adversely affected by the announcement or introduction of new products, including hardware and software products and services by our competitors, and the implementation of effective marketing or sales strategies by our competitors. The material adverse effect to our business could include a decrease in demand for our products and services and an increase in the length of our sales cycle due to customers taking longer to compare products and services and to complete their purchases.

### **We may have difficulty managing operations.**

Our future operating results will depend on our overall ability to manage operations, which includes, among other things:

retaining and hiring, as required, the appropriate number of qualified employees;

managing, protecting and enhancing, as appropriate, our infrastructure, including but not limited to, our information systems (and such systems ability to protect confidential information residing on the systems) and internal controls;

accurately forecasting revenues;

training our sales force to sell more software and services;

successfully integrating new acquisitions;

managing inventory levels, including minimizing excess and obsolete inventory, while maintaining sufficient inventory to meet customer demands;

controlling expenses;

managing our manufacturing capacity, real estate facilities and other assets;

meeting our sustainability goals; and

executing on our plans.

An unexpected decline in revenues without a corresponding and timely reduction in expenses or a failure to manage other aspects of our operations could have a material adverse effect on our business, results of operations or financial condition.

**Our investment portfolio could experience a decline in market value which could adversely affect our financial results.**

We held \$6.2 billion in short- and long-term investments as of March 31, 2012. The investments are invested primarily in investment grade debt securities, and we limit the amount of investment with any one issuer. A further deterioration in the economy, including a tightening of credit markets, increased defaults by issuers, or significant volatility in interest rates, including the downgrade of U.S. government debt, could cause the investments to decline in value or could impact the liquidity of the portfolio. If market conditions deteriorate significantly, our results of operations or financial condition could be materially adversely affected.

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### **Our business may suffer if we are unable to retain or attract key personnel.**

Our business depends to a significant extent on the continued service of senior management and other key employees, the development of additional management personnel and the hiring of new qualified employees. There can be no assurance that we will be successful in retaining existing personnel or recruiting new personnel. The loss of one or more key or other employees, our inability to attract additional qualified employees or the delay in hiring key personnel could have a material adverse effect on our business, results of operations or financial condition.

### **Our quarterly revenues and earnings could be materially adversely affected by uneven sales patterns and changing purchasing behaviors.**

Our quarterly sales have historically reflected an uneven pattern in which a disproportionate percentage of a quarter's total sales occur in the last month and weeks and days of each quarter. This pattern makes prediction of revenues, earnings and working capital for each financial period especially difficult and uncertain and increases the risk of unanticipated variations in quarterly results and financial condition. We believe this uneven sales pattern is a result of many factors including:

the relative dollar amount of our product and services offerings in relation to many of our customers' budgets, resulting in long lead times for customers' budgetary approval, which tends to be given late in a quarter;

the tendency of customers to wait until late in a quarter to commit to purchase in the hope of obtaining more favorable pricing from one or more competitors seeking their business;

the fourth quarter influence of customers' spending their remaining capital budget authorization prior to new budget constraints in the first nine months of the following year; and

seasonal influences.

Our uneven sales pattern also makes it extremely difficult to predict near-term demand and adjust manufacturing capacity or our supply chain accordingly. If predicted demand is substantially greater than orders, there will be excess inventory. Alternatively, if orders substantially exceed predicted demand, the ability to assemble, test and ship orders received in the last weeks and days of each quarter may be limited, which could materially adversely affect quarterly revenues and earnings.

In addition, our revenues in any quarter are substantially dependent on orders booked and shipped in that quarter and our backlog at any particular time is not necessarily indicative of future sales levels. This is because:

we assemble our products on the basis of our forecast of near-term demand and maintain inventory in advance of receipt of firm orders from customers;

we generally ship products shortly after receipt of the order; and

customers may generally reschedule or cancel orders with little or no penalty.

Loss of infrastructure, due to factors such as an information systems failure, loss of public utilities, natural disasters or extreme weather conditions, could impact our ability to ship products in a timely manner. Delays in product shipping or an unexpected decline in revenues without a corresponding and timely slowdown in expenses, could intensify the impact of these factors on our business, results of operations and financial condition.

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In addition, unanticipated changes in our customers' purchasing behaviors such as customers taking longer to negotiate and complete their purchases or making smaller, incremental purchases based on their current needs, also make the prediction of revenues, earnings and working capital for each financial period difficult and uncertain and increase the risk of unanticipated variations in our quarterly results and financial condition.

### **Risks associated with our distribution channels may materially adversely affect our financial results.**

In addition to our direct sales force, we have agreements in place with many distributors, systems integrators, resellers and original equipment manufacturers to market and sell our products and services. We may, from time to time, derive a significant percentage of our revenues from such distribution channels. Our financial results could be materially adversely affected if our contracts with channel partners were terminated, if our relationship with channel partners were to deteriorate, if the financial condition of our channel partners were to weaken, if our channel partners were not able to timely and effectively implement their planned actions or if the level of demand for our channel partners' products and services were to decrease. In addition, as our market opportunities change, we may have an increased reliance on channel partners, which may negatively impact our gross

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margins. There can be no assurance that we will be successful in maintaining or expanding these channels. If we are not successful, we may lose sales opportunities, customers and market share. Furthermore, the partial reliance on channel partners may materially reduce the visibility to our management of potential customers and demand for products and services, thereby making it more difficult to accurately forecast such demand. In addition, there can be no assurance that our channel partners will not develop, market or sell products or services or acquire other companies that develop, market or sell products or services in competition with us in the future.

In addition, as we focus on new market opportunities and additional customers through our various distribution channels, including small-to-medium sized businesses, we may be required to provide different levels of service and support than we typically provided in the past. We may have difficulty managing directly or indirectly through our channels these different service and support requirements and may be required to incur substantial costs to provide such services which may adversely affect our business, results of operations or financial condition.

### **Due to the global nature of our business, political, economic or regulatory changes or other factors in a specific country or region could impair our international operations, future revenue or financial condition.**

A substantial portion of our revenues is derived from sales outside the United States including, increasingly, in rapid growth markets such as Brazil, Russia, India and China. In addition, a substantial portion of our products is manufactured outside of the United States. Accordingly, our future results could be materially adversely affected by a variety of factors relating to our operations outside the United States, including, among others, the following:

changes in foreign currency exchange rates;

changes in a specific country's or region's economic conditions;

political or social unrest;

trade restrictions;

import or export licensing requirements;

the overlap of different tax structures or changes in international tax laws;

changes in regulatory requirements;

difficulties in staffing and managing international operations;

stringent privacy policies in some foreign countries;

compliance with a variety of foreign laws and regulations; and

longer payment cycles in certain countries.



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Foreign operations, particularly in those countries with developing economies, are also subject to risks of violations of laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act and similar regulations in foreign jurisdictions. Although we implement policies and procedures designed to ensure compliance with these laws, our employees, contractors and agents may take actions in violation of our policies. Any such violations, even if prohibited by our policies, could subject us to civil or criminal penalties or otherwise have an adverse effect on our business and reputation.

In addition, we hold a significant portion of our cash and investments in our international subsidiaries. Potential regulations could impact our ability to transfer the cash and investments to the United States. Should we desire to repatriate cash, we may incur a significant tax obligation.

We operate a Venezuelan sales subsidiary in which the Bolivar is the functional currency. Due to limitations in accessing the dollar at the official exchange rate, we have utilized an implied currency rate derived from actively traded bonds in order to translate the foreign currency denominated balance sheet. This rate is analogous to the System for Transactions in Foreign Currency Securities or SITME rate. Our operations in Venezuela include U.S. dollar-denominated assets and liabilities which we remeasure to Bolivars. The remeasurement may result in transaction gains or losses. We have used either the official exchange rate or implied exchange rate to remeasure these balances based upon the expected rate at which we believe the items will be settled. As a result of continued hyper-inflation in Venezuela, effective in 2010, we modified the functional currency to be the U.S. dollar. As a result of this change, Bolivar-denominated transactions will be subject to exchange gains and losses that may impact our earnings. While we do not believe this change will have a material impact on our financial position, results of operations or cash flows, these items could be adversely affected if there is a significant change in exchange rates.

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### **Cybersecurity breaches could expose us to liability, damage our reputation, compromise our ability to conduct business, require us to incur significant costs or otherwise adversely affect our financial results.**

We retain sensitive data, including intellectual property, proprietary business information and personally identifiable information, in our secure data centers and on our networks. We face a number of threats to our data centers and networks of unauthorized access, security breaches and other system disruptions. It is critical to our business strategy that our infrastructure remains secure and is perceived by customers and partners to be secure. Despite our security measures, our infrastructure may be vulnerable to attacks by hackers or other disruptive problems, such as the sophisticated cyber attack on our RSA division that we disclosed in March 2011. Any such security breach may compromise information stored on our networks and may result in significant data losses or theft of our, our customers', our business partners' or our employees' intellectual property, proprietary business information or personally identifiable information. In addition, we have outsourced a number of our business functions to third party contractors, and any breach of their security systems could adversely affect us.

A cybersecurity breach could negatively affect our reputation as a trusted provider of information infrastructure by adversely affecting the market's perception of the security or reliability of our products or services. In addition, a cyber attack could result in other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs, lost revenues or litigation.

### **Undetected problems in our products could directly impair our financial results.**

If flaws in design, production, assembly or testing of our products (by us or our suppliers) were to occur, we could experience a rate of failure in our products that would result in substantial repair, replacement or service costs and potential damage to our reputation. Continued improvement in manufacturing capabilities, control of material and manufacturing quality and costs and product testing are critical factors in our future growth. There can be no assurance that our efforts to monitor, develop, modify and implement appropriate test and manufacturing processes for our products will be sufficient to permit us to avoid a rate of failure in our products that results in substantial delays in shipment, significant repair or replacement costs or potential damage to our reputation, any of which could have a material adverse effect on our business, results of operations or financial condition.

### **Our business could be materially adversely affected as a result of the risks associated with alliances.**

We have alliances with leading information technology companies, and we plan to continue our strategy of developing key alliances in order to expand our reach into markets. There can be no assurance that we will be successful in our ongoing strategic alliances or that we will be able to find further suitable business relationships as we develop new products and strategies. Any failure to continue or expand such relationships could have a material adverse effect on our business, results of operations or financial condition.

There can be no assurance that companies with which we have strategic alliances, certain of which have substantially greater financial, marketing or technological resources than us, will not develop or market products in competition with us in the future, discontinue their alliances with us or form alliances with our competitors.

### **Our business may suffer if we cannot protect our intellectual property.**

We generally rely upon patent, copyright, trademark and trade secret laws and contract rights in the United States and in other countries to establish and maintain our proprietary rights in our technology and products. However, there can be no assurance that any of our proprietary rights will not be challenged, invalidated or circumvented. In addition, the laws of certain countries do not protect our proprietary rights to the same extent as do the laws of the United States. Therefore, there can be no assurance that we will be able to adequately protect our proprietary technology against unauthorized third-party copying or use, which could adversely affect our competitive position. Further, there can be no assurance that we will be able to obtain licenses to any technology that we may require to conduct our business or that, if obtainable, such technology can be licensed at a reasonable cost.

From time to time, we receive notices from third parties claiming infringement by our products of third-party patent or other intellectual property rights. Responding to any such claim, regardless of its merit, could be time-consuming, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses. In the event there is a temporary or permanent injunction entered prohibiting us from marketing or selling certain of our products or a successful claim of infringement against us requiring us to pay royalties to a third party, and we fail to develop or license a substitute technology, our business, results of operations or financial condition could be materially adversely affected.

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In addition, although we believe we have adequate security measures, if our intellectual property or other sensitive data is misappropriated, we could suffer monetary and other losses and reputational harm, which could materially adversely affect our business, results of operations or financial condition. On April 23, 2012, VMware became aware of the public posting by a hacker of a single file from the VMware ESX source code. The hacker has publicly indicated that additional portions of the VMware source code and EMC source code will be posted in the future. The posted VMware code and associated commentary is from the 2004 timeframe.

### **We may become involved in litigation that may materially adversely affect us.**

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, commercial, product liability, employment, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Furthermore, because litigation is inherently unpredictable, there can be no assurance that the results of any of these actions will not have a material adverse effect on our business, results of operations or financial condition.

### **Issues arising during the upgrade of our enterprise resource planning system could affect our operating results and ability to manage our business effectively.**

We are in the process of upgrading our enterprise resource planning, or ERP, computer system to enhance operating efficiencies and provide more effective management of our business operations. The upgrade, or our failure to implement the upgrade, could cause substantial business interruption that could adversely impact our operating results. We are investing significant financial and personnel resources into this project. However, there is no assurance that the design will meet our current and future business needs or that it will operate as designed. We are heavily dependent on such computer systems, and any significant failure or delay in the system upgrade, if encountered, could cause a substantial interruption to our business and additional expense which could result in an adverse impact on our operating results, cash flows and financial condition.

### **We may have exposure to additional income tax liabilities.**

As a multinational corporation, we are subject to income taxes in both the United States and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file and changes to tax laws. From time to time, we are subject to income tax audits. While we believe we have complied with all applicable income tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed with additional taxes, there could be a material adverse effect on our results of operations or financial condition.

In February 2010, President Obama, as part of the Administration's FY 2011 budget, proposed changing certain of the U.S. tax rules for U.S. corporations doing business outside the United States. The proposed changes include limiting the ability of U.S. corporations to deduct certain expenses attributable to offshore earnings, modifying the foreign tax credit rules and taxing currently certain transfers of intangibles offshore. In August 2010, President Obama signed into law H.R. 1586 (commonly known as the Education Jobs and Medicaid Assistance Act), which included several international tax provisions with minimal impact on the Company's effective tax rate. As part of its FY 2012 budget, the Administration has re-proposed, with certain modifications, a number of tax provisions that were not adopted during the previous Congress. Although the scope of future changes remains unclear, revisions to the taxation of international income continue to be a topic of conversation for the Obama Administration and the U.S. Congress. As the enactment of some or all of these proposals could increase the Company's effective tax rate and adversely affect our profitability, we will continue to monitor them.

During 2010, the IRS announced and finalized Schedule UTP, Uncertain Tax Positions Statement. This schedule is an annual disclosure of certain federal UTPs, ranked in order of magnitude. According to the IRS, the disclosure is to include a concise description of the tax position, including a description of the relevant facts affecting the tax treatment of the position and information that reasonably can be expected to apprise the Service of the identity of the tax position. As a result of this disclosure, the amount of taxes we would have to pay in the future could increase.

In December 2010, the President signed into law H.R. 4853, Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which included an extension of a number of expired tax provisions retroactively to 2010 and prospectively through 2011. Among the extended tax provisions was the research and development tax credit, which provides a significant reduction in our effective tax rate. The renewal of this credit beyond 2011 is uncertain.



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**Changes in regulations could materially adversely affect us.**

Our business, results of operations or financial condition could be materially adversely affected if laws, regulations or standards relating to us or our products are newly implemented or changed. In addition, our compliance with existing regulations may have a material adverse impact on us. Under applicable federal securities laws, including the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal control structure and procedures for financial reporting. Should we or our independent auditors determine that we have material weaknesses in our internal controls, our results of operations or financial condition may be materially adversely affected or our stock price may decline. In March 2010, President Obama signed into law a comprehensive health care reform package. We cannot currently determine the impact that such legislation could have on our business, results of operations or financial condition.

**Changes in generally accepted accounting principles may materially adversely affect us.**

From time to time, the Financial Accounting Standards Board ( FASB ) promulgates new accounting principles that could have a material adverse impact on our results of operations or financial condition. The FASB is currently contemplating a number of new accounting pronouncements which, if approved, could materially change our reported results. Such changes could have a material adverse impact on our results of operations and financial position.

**Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments.**

As part of our business strategy, we seek to acquire businesses that offer complementary products, services or technologies. These acquisitions are accompanied by the risks commonly encountered in an acquisition of a business, which may include, among other things:

the effect of the acquisition on our financial and strategic position and reputation;

the failure of an acquired business to further our strategies;

the failure of the acquisition to result in expected benefits, which may include benefits relating to enhanced revenues, technology, human resources, cost savings, operating efficiencies and other synergies;

the difficulty and cost of integrating the acquired business, including costs and delays in implementing common systems and procedures and costs and delays caused by communication difficulties or geographic distances between the two companies' sites;

the assumption of known or unknown liabilities of the acquired business, including litigation-related liability;

the potential impairment of acquired assets;

the lack of experience in new markets, products or technologies or the initial dependence on unfamiliar supply or distribution partners;

the diversion of our management's attention from other business concerns;

the impairment of relationships with customers or suppliers of the acquired business or our customers or suppliers;

