

EMC CORP  
Form 10-Q  
May 05, 2011  
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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, 2011**

**OR**

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

(Address of principal executive offices)

**01748**

(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, 2011 was 2,057,567,927.

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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,<br/>2011<br/>(unaudited)</b> | <b>December 31,<br/>2010</b> |
|----------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------|
| <b>ASSETS</b>                                                                                |                                           |                              |
| Current assets:                                                                              |                                           |                              |
| Cash and cash equivalents                                                                    | \$ 4,102,332                              | \$ 4,119,138                 |
| Short-term investments                                                                       | 1,491,454                                 | 1,256,175                    |
| Accounts and notes receivable, less allowance for doubtful accounts of \$62,305 and \$57,385 | 2,379,175                                 | 2,569,523                    |
| Inventories                                                                                  | 921,004                                   | 856,405                      |
| Deferred income taxes                                                                        | 631,809                                   | 609,832                      |
| Other current assets                                                                         | 646,684                                   | 372,249                      |
| Total current assets                                                                         | 10,172,458                                | 9,783,322                    |
| Long-term investments                                                                        | 3,876,569                                 | 4,115,918                    |
| Property, plant and equipment, net                                                           | 2,565,263                                 | 2,528,432                    |
| Intangible assets, net                                                                       | 1,556,718                                 | 1,624,267                    |
| Goodwill                                                                                     | 11,790,048                                | 11,772,650                   |
| Other assets, net                                                                            | 1,226,376                                 | 1,008,695                    |
| Total assets                                                                                 | \$ 31,187,432                             | \$ 30,833,284                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                  |                                           |                              |
| Current liabilities:                                                                         |                                           |                              |
| Accounts payable                                                                             | \$ 913,773                                | \$ 1,062,600                 |
| Accrued expenses                                                                             | 2,044,953                                 | 2,090,035                    |
| Income taxes payable                                                                         |                                           | 199,735                      |
| Convertible debt                                                                             | 3,244,134                                 | 3,214,771                    |
| Deferred revenue                                                                             | 3,155,651                                 | 2,810,873                    |
| Total current liabilities                                                                    | 9,358,511                                 | 9,378,014                    |
| Income taxes payable                                                                         | 266,880                                   | 265,549                      |
| Deferred revenue                                                                             | 2,065,026                                 | 1,853,263                    |
| Deferred income taxes                                                                        | 710,474                                   | 717,004                      |
| Other liabilities                                                                            | 248,081                                   | 217,449                      |
| Total liabilities                                                                            | 12,648,972                                | 12,431,279                   |
| Convertible debt (See Note 3)                                                                | 205,866                                   | 235,229                      |
| Commitments and contingencies (See Note 13)                                                  |                                           |                              |
| Shareholders' equity:                                                                        |                                           |                              |

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|                                                                                                                    |                   |                   |
|--------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 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 2,057,568 and 2,069,246 shares | 20,576            | 20,692            |
| Additional paid-in capital                                                                                         | 3,426,722         | 3,816,681         |
| Retained earnings                                                                                                  | 14,136,432        | 13,659,284        |
| Accumulated other comprehensive loss, net                                                                          | (56,903)          | (92,617)          |
| <b>Total EMC Corporation's shareholders' equity</b>                                                                | <b>17,526,827</b> | <b>17,404,040</b> |
| Non-controlling interest in VMware, Inc.                                                                           | 805,767           | 762,736           |
| <b>Total shareholders' equity</b>                                                                                  | <b>18,332,594</b> | <b>18,166,776</b> |
| <br>Total liabilities and shareholders' equity                                                                     | <br>\$ 31,187,432 | <br>\$ 30,833,284 |

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<br>Three Months Ended |                   |
|----------------------------------------------------------------------------------------------------|-------------------------------|-------------------|
|                                                                                                    | March 31,<br>2011             | March 31,<br>2010 |
| Revenues:                                                                                          |                               |                   |
| Product sales                                                                                      | \$ 2,931,259                  | \$ 2,478,717      |
| Services                                                                                           | 1,676,359                     | 1,411,975         |
|                                                                                                    | 4,607,618                     | 3,890,692         |
| Costs and expenses:                                                                                |                               |                   |
| Cost of product sales                                                                              | 1,320,488                     | 1,161,922         |
| Cost of services                                                                                   | 588,079                       | 510,251           |
| Research and development                                                                           | 502,108                       | 434,933           |
| Selling, general and administrative                                                                | 1,495,931                     | 1,261,284         |
| Restructuring and acquisition-related charges                                                      | 26,893                        | 18,502            |
| Operating income                                                                                   | 674,119                       | 503,800           |
| Non-operating income (expense):                                                                    |                               |                   |
| Investment income                                                                                  | 38,227                        | 31,532            |
| Interest expense                                                                                   | (44,979)                      | (42,968)          |
| Other expense, net                                                                                 | (43,174)                      | (9,021)           |
| Total non-operating expense                                                                        | (49,926)                      | (20,457)          |
| Income before provision for income taxes                                                           | 624,193                       | 483,343           |
| Income tax provision                                                                               | 121,639                       | 95,653            |
| Net income                                                                                         | 502,554                       | 387,690           |
| Less: Net income attributable to the non-controlling interest in VMware, Inc.                      | (25,406)                      | (14,986)          |
| Net income attributable to EMC Corporation                                                         | \$ 477,148                    | \$ 372,704        |
| Net income per weighted average share, basic attributable to EMC Corporation common shareholders   | \$ 0.23                       | \$ 0.18           |
| Net income per weighted average share, diluted attributable to EMC Corporation common shareholders | \$ 0.21                       | \$ 0.17           |
| Weighted average shares, basic                                                                     | 2,066,136                     | 2,051,030         |
| Weighted average shares, diluted                                                                   | 2,258,278                     | 2,119,192         |

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>2011</b>                       | <b>2010</b>      |
| Cash flows from operating activities:                                      |                                   |                  |
| Cash received from customers                                               | \$ 5,392,175                      | \$ 4,615,013     |
| Cash paid to suppliers and employees                                       | (4,009,553)                       | (3,213,917)      |
| Dividends and interest received                                            | 33,927                            | 26,634           |
| Interest paid                                                              | (4,749)                           | (4,670)          |
| Income taxes paid                                                          | (277,023)                         | (105,714)        |
| Net cash provided by operating activities                                  | 1,134,777                         | 1,317,346        |
| Cash flows from investing activities:                                      |                                   |                  |
| Additions to property, plant and equipment                                 | (165,525)                         | (114,048)        |
| Capitalized software development costs                                     | (111,993)                         | (93,161)         |
| Purchases of short- and long-term available-for-sale securities            | (1,601,241)                       | (1,475,229)      |
| Sales of short- and long-term available-for-sale securities                | 1,341,335                         | 628,504          |
| Maturities of short- and long-term available-for-sale securities           | 261,228                           | 40,346           |
| Business acquisitions, net of cash acquired                                | (14,950)                          | (288,246)        |
| Increase in strategic and other related investments                        | (198,049)                         | (5,240)          |
| Other                                                                      | (45,000)                          | (16,648)         |
| Net cash used in investing activities                                      | (534,195)                         | (1,323,722)      |
| Cash flows from financing activities:                                      |                                   |                  |
| Issuance of EMC's common stock from the exercise of stock options          | 224,347                           | 130,338          |
| Issuance of VMware's common stock from the exercise of stock options       | 90,171                            | 109,775          |
| EMC repurchase of EMC's common stock                                       | (868,065)                         | (176,260)        |
| EMC purchase of VMware's common stock                                      | (38,000)                          | (99,500)         |
| VMware repurchase of VMware's common stock                                 | (147,729)                         | (31,348)         |
| Excess tax benefits from stock-based compensation                          | 109,008                           | 35,248           |
| Payment of long-term and short-term obligations                            | (11)                              | (2,327)          |
| Proceeds from long-term and short-term obligations                         | 294                               | 1,116            |
| Net cash used in financing activities                                      | (629,985)                         | (32,958)         |
| Effect of exchange rate changes on cash and cash equivalents               | 12,597                            | (6,539)          |
| Net decrease in cash and cash equivalents                                  | (16,806)                          | (45,873)         |
| Cash and cash equivalents at beginning of period                           | 4,119,138                         | 6,302,499        |
| Cash and cash equivalents at end of period                                 | \$ 4,102,332                      | \$ 6,256,626     |
| Reconciliation of net income to net cash provided by operating activities: |                                   |                  |
| Net income                                                                 | \$ 502,554                        | \$ 387,690       |



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Adjustments to reconcile net income to net cash provided by operating activities:

|                                                         |              |              |
|---------------------------------------------------------|--------------|--------------|
| Depreciation and amortization                           | 339,272      | 281,580      |
| Non-cash interest expense on convertible debt           | 26,291       | 25,921       |
| Non-cash restructuring and other special charges        | 382          | 162          |
| Stock-based compensation expense                        | 212,265      | 158,805      |
| Increase in provision for doubtful accounts             | 6,415        | 7,226        |
| Deferred income taxes, net                              | (10,834)     | (28,766)     |
| Excess tax benefits from stock-based compensation       | (109,008)    | (35,248)     |
| Other                                                   | (8,316)      | (820)        |
| Changes in assets and liabilities, net of acquisitions: |              |              |
| Accounts and notes receivable                           | 223,464      | 380,790      |
| Inventories                                             | (102,729)    | 2,198        |
| Other assets                                            | (127,747)    | (24,760)     |
| Accounts payable                                        | (136,802)    | (102,803)    |
| Accrued expenses                                        | (121,190)    | (83,164)     |
| Income taxes payable                                    | (144,550)    | 18,705       |
| Deferred revenue                                        | 554,678      | 336,305      |
| Other liabilities                                       | 30,632       | (6,475)      |
| Net cash provided by operating activities               | \$ 1,134,777 | \$ 1,317,346 |

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

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**EMC CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(in thousands)

(unaudited)

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

|                                                              | Common Stock |              | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Non-controlling<br>Interest in<br>VMware | Shareholders<br>Equity |
|--------------------------------------------------------------|--------------|--------------|----------------------------------|----------------------|-----------------------------------------------|------------------------------------------|------------------------|
|                                                              | Shares       | Par<br>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)               |
| 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 mezzanine (Note 3)   |              |              | 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          |

**For the three months ended March 31, 2010:**

|                                                              | Common Stock |              | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Non-controlling<br>Interest in<br>VMware | Shareholders<br>Equity |
|--------------------------------------------------------------|--------------|--------------|----------------------------------|----------------------|-----------------------------------------------|------------------------------------------|------------------------|
|                                                              | Shares       | Par<br>Value |                                  |                      |                                               |                                          |                        |
| Balance, January 1, 2010                                     | 2,052,441    | \$ 20,524    | \$ 3,875,791                     | \$ 11,759,289        | \$ (105,722)                                  | \$ 510,592                               | \$ 16,060,474          |
| Stock issued through stock option and stock purchase plans   | 12,238       | 122          | 130,216                          |                      |                                               |                                          | 130,338                |
| Tax benefit from stock options exercised                     |              |              | 57,321                           |                      |                                               |                                          | 57,321                 |
| Restricted stock grants, cancellations and withholdings, net | 1,268        | 13           | (29,096)                         |                      |                                               |                                          | (29,083)               |
| Repurchase of common stock                                   | (10,339)     | (103)        | (176,157)                        |                      |                                               |                                          | (176,260)              |
| EMC purchase of VMware stock                                 |              |              | (86,636)                         |                      |                                               | (12,864)                                 | (99,500)               |
| Stock options issued in business acquisitions                |              |              | 38                               |                      |                                               |                                          | 38                     |

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|                                                 |         |         |    |         |
|-------------------------------------------------|---------|---------|----|---------|
| Stock-based compensation                        | 165,507 |         |    | 165,507 |
| Impact from equity transactions of VMware, Inc. | (3,860) | 55,289  |    | 51,429  |
| Change in market value of investments           |         | 5,555   | 80 | 5,635   |
| Change in market value of derivatives           |         | (3,456) |    | (3,456) |
| Translation adjustment                          |         | (6,066) |    | (6,066) |
| Net income                                      | 372,704 | 14,986  |    | 387,690 |

|                         |           |           |              |               |              |            |               |
|-------------------------|-----------|-----------|--------------|---------------|--------------|------------|---------------|
| Balance, March 31, 2010 | 2,055,608 | \$ 20,556 | \$ 3,933,124 | \$ 12,131,993 | \$ (109,689) | \$ 568,083 | \$ 16,544,067 |
|-------------------------|-----------|-----------|--------------|---------------|--------------|------------|---------------|

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<br/>Three Months Ended</b> |                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|---------------------------|
|                                                                                                                                                         | <b>March 31,<br/>2011</b>             | <b>March 31,<br/>2010</b> |
| Net income                                                                                                                                              | \$ 502,554                            | \$ 387,690                |
| Other comprehensive income (loss), net of taxes (benefits):                                                                                             |                                       |                           |
| Foreign currency translation adjustments                                                                                                                | 19,143                                | (6,066)                   |
| Changes in market value of investments, including unrealized gains and reclassification adjustments to net income, net of taxes of \$10,216 and \$3,116 | 15,287                                | 5,635                     |
| Changes in market value of derivatives, net of taxes (benefits) of \$2,284 and \$(1,631)                                                                | 4,206                                 | (3,456)                   |
| Other comprehensive income (loss)                                                                                                                       | 38,636                                | (3,887)                   |
| Comprehensive income                                                                                                                                    | 541,190                               | 383,803                   |
| Less: Net income attributable to the non-controlling interest in VMware, Inc.                                                                           | (25,406)                              | (14,986)                  |
| Less: Other comprehensive income attributable to the non-controlling interest in VMware, Inc.                                                           | (2,922)                               | (80)                      |
| Comprehensive income attributable to EMC Corporation                                                                                                    | \$ 512,862                            | \$ 368,737                |

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 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 leading provider of virtualization and cloud infrastructure software solutions.

*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 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, 2010 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2011.

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, 2011 and 2010.

*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 2011 (the 2011 Notes ), our \$1.725 billion 1.75% convertible senior notes due 2013 (the 2013 Notes ) and, together with the 2011 Notes, the Notes ) 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.

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

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 \$805.8 million and \$568.1 million as of March 31, 2011 and 2010, respectively. At March 31, 2011, EMC held approximately 80% of the economic interest in VMware.



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

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

|                                                                                                                        | <b>March 31,<br/>2011</b> | <b>March 31,<br/>2010</b> |
|------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| Net income attributable to EMC Corporation                                                                             | \$ 477,148                | \$ 372,704                |
| Transfers (to) from the non-controlling interest in VMware, Inc.:                                                      |                           |                           |
| Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuances                                 | 35,069                    | 38,496                    |
| Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity                            | (104,915)                 | (42,356)                  |
| Net transfers to non-controlling interest                                                                              | (69,846)                  | (3,860)                   |
| Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc. | \$ 407,302                | \$ 368,844                |

**3. Convertible Debt**

In November 2006, we issued our Notes for total gross proceeds of \$3.45 billion. The Notes are senior unsecured obligations and rank equally with all other existing and future senior unsecured debt. Holders may convert their Notes at their option on any day prior to the close of business on the scheduled trading day immediately preceding (i) September 1, 2011, with respect to the 2011 Notes, and (ii) September 1, 2013, with respect to the 2013 Notes, in each case 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 Note of the applicable series 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 Notes. Additionally, the Notes will become convertible during the last three months prior to the respective maturities of the 2011 Notes and the 2013 Notes.

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 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 Notes will be 62.1978 shares of our common stock per one thousand dollars of principal amount of Notes, which represents a 27.5% conversion premium from the date the 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 Notes that elects to convert its Notes in connection with such fundamental change.

Based upon the closing price of our common stock for the prescribed measurement period during the three months ended March 31, 2011 and December 31, 2010, the contingent conversion thresholds on the Notes were exceeded. As a result, the Notes are convertible at the option of the holder through June 30, 2011. Accordingly, since the terms of the Notes require the principal to be settled in cash, we reclassified from Shareholders' Equity the portion of the Notes attributable to the conversion feature which had not yet been accreted to its face value, and the Notes have been classified as a current liability. Contingencies continue to exist regarding the holders' ability to convert such Notes in future quarters. The determination of whether the Notes are convertible will be performed on a quarterly basis. Consequently, the Notes may not be convertible in future quarters and may therefore be reclassified as long-term debt if the contingent conversion thresholds are not met in the future.

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The carrying amount reported in the consolidated balance sheet as of March 31, 2011 for our convertible debt was \$3,450.0 million and the fair value was \$5,748.7 million. The carrying amount of the equity component was \$463.2 million at March 31, 2011.

The Notes pay interest in cash at a rate of 1.75% semi-annually in arrears on December 1 and June 1 of each year.



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

|                                                                       | <b>For the Three Months Ended</b> |                       |
|-----------------------------------------------------------------------|-----------------------------------|-----------------------|
|                                                                       | <b>March 31, 2011</b>             | <b>March 31, 2010</b> |
| Contractual interest expense on the coupon                            | \$ 15,094                         | \$ 15,094             |
| Amortization of the discount component recognized as interest expense | 29,363                            | 27,789                |
| <b>Total interest expense on the convertible debt</b>                 | <b>\$ 44,457</b>                  | <b>\$ 42,883</b>      |

As of March 31, 2011, the unamortized discount consists of \$43.0 million which will be amortized over the nine months ended September 30, 2011 and an unamortized discount of \$162.9 million, which will be amortized over 2.8 years. The effective interest rate on the Notes was 5.6% for the three months ended March 31, 2011 and 2010.

In connection with the sale of the 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 Notes upon conversion. The Purchased Options will cover, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock. Half of the Purchased Options expire on December 1, 2011 and the remaining half of the Purchased Options expire on December 1, 2013. We paid an aggregate amount of \$669.1 million of the proceeds from the sale of the Notes for the Purchased Options that was recorded as additional paid-in-capital in Shareholders' Equity.

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 have expiration dates between February 15, 2012 and March 15, 2012 and the remaining half of the associated warrants have expiration dates between February 18, 2014 and March 18, 2014. 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.

The Purchased Options and associated warrants will generally have the effect of increasing the conversion price of the 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 Notes.

#### **4. Fair Value of Financial Assets and Liabilities**

Our investments are comprised primarily of debt securities that 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.

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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 debt securities are classified as Level 2 securities, with the exception of some of our U.S. government and agency obligations, which are classified as Level 1 securities and all of our auction rate securities, which are classified as Level 3. At March 31, 2011, the vast majority of our Level 2 investments 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 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.

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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. As a result of the lack of liquidity for auction rate securities, we have classified these as long-term investments as of March 31, 2011 and December 31, 2010. At March 31, 2011 and December 31, 2010, all of our available for sale, 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, 2011 and December 31, 2010, auction rate securities were valued using a discounted cash flow model.

The following tables summarize the composition of our investments at March 31, 2011 and December 31, 2010 (tables in thousands):

|                                        | <b>March 31, 2011</b>     |                             |                                |                                 |
|----------------------------------------|---------------------------|-----------------------------|--------------------------------|---------------------------------|
|                                        | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>(Losses)</b> | <b>Aggregate<br/>Fair Value</b> |
| U.S. government and agency obligations | \$ 1,986,021              | \$ 8,187                    | \$ (3,900)                     | \$ 1,990,308                    |
| U.S. corporate debt securities         | 1,139,127                 | 11,308                      | (1,220)                        | 1,149,215                       |
| High yield corporate debt securities   | 433,327                   | 23,237                      | (897)                          | 455,667                         |
| Asset-backed securities                | 98,137                    | 148                         | (1)                            | 98,284                          |
| Municipal obligations                  | 698,925                   | 705                         | (497)                          | 699,133                         |
| Auction rate securities                | 125,125                   |                             | (7,034)                        | 118,091                         |
| Foreign debt securities                | 851,178                   | 7,045                       | (898)                          | 857,325                         |
| Total                                  | \$ 5,331,840              | \$ 50,630                   | \$ (14,447)                    | \$ 5,368,023                    |

|                                        | <b>December 31, 2010</b>  |                             |                                |                                 |
|----------------------------------------|---------------------------|-----------------------------|--------------------------------|---------------------------------|
|                                        | <b>Amortized<br/>Cost</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>(Losses)</b> | <b>Aggregate<br/>Fair Value</b> |
| U.S. government and agency obligations | \$ 1,737,782              | \$ 11,286                   | \$ (2,674)                     | \$ 1,746,394                    |
| U.S. corporate debt securities         | 1,239,325                 | 13,608                      | (1,307)                        | 1,251,626                       |
| High yield corporate debt securities   | 421,469                   | 18,306                      | (1,943)                        | 437,832                         |
| Asset-backed securities                | 34,730                    | 152                         | (1)                            | 34,881                          |
| Municipal obligations                  | 1,095,338                 | 3,829                       | (3,266)                        | 1,095,901                       |
| Auction rate securities                | 155,950                   |                             | (9,906)                        | 146,044                         |
| Foreign debt securities                | 653,251                   | 6,878                       | (714)                          | 659,415                         |
| Total                                  | \$ 5,337,845              | \$ 54,059                   | \$ (19,811)                    | \$ 5,372,093                    |

The following table represents our fair value hierarchy for our financial assets and liabilities measured at fair value as of March 31, 2011 (in thousands):

|                                        | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|----------------------------------------|----------------|----------------|----------------|--------------|
| Cash                                   | \$ 1,162,260   | \$             | \$             | \$ 1,162,260 |
| Cash equivalents                       | 2,875,316      | 64,756         |                | 2,940,072    |
| U.S. government and agency obligations | 1,212,157      | 778,151        |                | 1,990,308    |
| U.S. corporate debt securities         |                | 1,149,215      |                | 1,149,215    |
| High yield corporate debt securities   |                | 455,667        |                | 455,667      |

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|                                         |              |              |            |              |
|-----------------------------------------|--------------|--------------|------------|--------------|
| Asset-backed securities                 | 98,284       |              |            | 98,284       |
| Municipal obligations                   | 699,133      |              |            | 699,133      |
| Auction rate securities                 |              | 118,091      |            | 118,091      |
| Foreign debt securities                 | 857,325      |              |            | 857,325      |
|                                         |              |              |            |              |
| Total cash and investments              | \$ 5,249,733 | \$ 4,102,531 | \$ 118,091 | \$ 9,470,355 |
|                                         |              |              |            |              |
| Other items:                            |              |              |            |              |
| Foreign exchange derivative assets      | \$           | \$ 38,641    | \$         | \$ 38,641    |
| Foreign exchange derivative liabilities |              | (38,778)     |            | (38,778)     |
| Commodity derivative liabilities        |              | (381)        |            | (381)        |
| Interest rate swap contracts            |              | (2,292)      |            | (2,292)      |

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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 \$19.2 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. 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 both March 31, 2011 and December 31, 2010 as credit spreads on AA-rated banks remained constant.

The following table provides a summary of changes in fair value of our Level 3 financial assets for the three months ended March 31, 2011 and 2010 (table in thousands):

|                                                                                            | <b>Three Months<br/>Ended<br/>March 31,<br/>2011</b> | <b>Three Months<br/>Ended<br/>March 31,<br/>2010</b> |
|--------------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------|
| Balance, beginning of the period                                                           | \$ 146,044                                           | \$ 234,452                                           |
| Calls                                                                                      | (30,825)                                             | (1,862)                                              |
| Decrease in previously recognized unrealized losses included in other comprehensive income | 2,872                                                | 1,874                                                |
| Balance, end of the period                                                                 | \$ 118,091                                           | \$ 234,464                                           |

*Investment Losses*

Unrealized losses on investments at March 31, 2011 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (table in thousands):

|                                        | <b>Less Than 12 Months</b> |                                        | <b>12 Months or Greater</b> |                                        | <b>Total</b>      |                                        |
|----------------------------------------|----------------------------|----------------------------------------|-----------------------------|----------------------------------------|-------------------|----------------------------------------|
|                                        | <b>Fair Value</b>          | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b>           | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |
| U.S. government and agency obligations | \$ 869,604                 | \$ (3,779)                             | \$ 4,719                    | \$ (121)                               | \$ 874,323        | \$ (3,900)                             |
| U.S. corporate debt securities         | 334,216                    | (1,220)                                |                             |                                        | 334,216           | (1,220)                                |
| High yield corporate debt securities   | 58,560                     | (897)                                  |                             |                                        | 58,560            | (897)                                  |
| Asset-backed securities                | 4,796                      |                                        | 5                           | (1)                                    | 4,801             | (1)                                    |
| Municipal obligations                  | 292,056                    | (497)                                  |                             |                                        | 292,056           | (497)                                  |
| Auction rate securities                |                            |                                        | 118,091                     | (7,034)                                | 118,091           | (7,034)                                |
| Foreign debt securities                | 175,181                    | (848)                                  | 3,159                       | (50)                                   | 178,340           | (898)                                  |
| Total                                  | \$ 1,734,413               | \$ (7,241)                             | \$ 125,974                  | \$ (7,206)                             | \$ 1,860,387      | \$ (14,447)                            |

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For all of our securities where the amortized cost basis was greater than the fair value at March 31, 2011, 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.

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The contractual maturities of investments held at March 31, 2011 are as follows (table in thousands):

|                                    | <b>March 31, 2011</b>           |                                 |
|------------------------------------|---------------------------------|---------------------------------|
|                                    | <b>Amortized<br/>Cost Basis</b> | <b>Aggregate<br/>Fair Value</b> |
| Due within one year                | \$ 1,366,760                    | \$ 1,369,839                    |
| Due after 1 year through 5 years   | 3,171,949                       | 3,192,944                       |
| Due after 5 years through 10 years | 411,110                         | 427,214                         |
| Due after 10 years                 | 382,021                         | 378,026                         |
| <b>Total</b>                       | <b>\$ 5,331,840</b>             | <b>\$ 5,368,023</b>             |

Short-term investments in the balance sheet include \$121.6 million of variable rate demand notes, which have contractual maturities ranging from 2014 through 2048, and are not classified within investments due within one year above.

**5. Inventories**

Inventories consist of (table in thousands):

|                 | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-----------------|---------------------------|------------------------------|
| Work-in-process | \$ 574,152                | \$ 508,426                   |
| Finished goods  | 346,852                   | 347,979                      |
|                 | <b>\$ 921,004</b>         | <b>\$ 856,405</b>            |

**6. 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, 2011 were as follows (table in thousands):

| <b>Year</b>            | <b>Contractual amounts<br/>due under leases</b> |
|------------------------|-------------------------------------------------|
| Due within one year    | \$ 112,456                                      |
| Due within two years   | 89,197                                          |
| Due within three years | 74,106                                          |

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|                                                             |                   |
|-------------------------------------------------------------|-------------------|
| Thereafter                                                  | 1,918             |
| <b>Total</b>                                                | <b>277,677</b>    |
| Less amounts representing interest                          | 9,608             |
| <b>Present value</b>                                        | <b>268,069</b>    |
| Current portion (included in accounts and notes receivable) | 92,949            |
| <b>Long-term portion (included in other assets, net)</b>    | <b>\$ 175,120</b> |

Subsequent to March 31, 2011, we sold \$66.9 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.



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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, 2011, amounts from lease receivables past due for more than 90 days were not significant.

The following table presents the activity of our allowance for credit losses related to lease receivables for the three months ended March 31, 2011 and 2010 (table in thousands):

|                                  | <b>March 31,<br/>2011</b> | <b>March 31,<br/>2010</b> |
|----------------------------------|---------------------------|---------------------------|
| Balance, beginning of the period | \$ 44,661                 | \$ 40,200                 |
| Recoveries                       | (14,332)                  | (6,179)                   |
| Provisions                       | 16,313                    | 18,869                    |
| Balance, end of the period       | \$ 46,642                 | \$ 52,890                 |

Gross lease receivables totaled \$277.7 million and \$234.7 million as of March 31, 2011 and 2010, respectively, before the allowance. The components of these balances were individually evaluated for impairment by management.

**7. Property, Plant and Equipment**

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

|                                   | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-----------------------------------|---------------------------|------------------------------|
| Furniture and fixtures            | \$ 255,228                | \$ 251,159                   |
| Equipment                         | 4,130,359                 | 4,025,813                    |
| Buildings and improvements        | 1,644,389                 | 1,580,595                    |
| Land                              | 115,876                   | 115,899                      |
| Building construction in progress | 108,903                   | 98,345                       |
|                                   | 6,254,755                 | 6,071,811                    |
| Accumulated depreciation          | (3,689,492)               | (3,543,379)                  |
|                                   | \$ 2,565,263              | \$ 2,528,432                 |

Building construction in progress at March 31, 2011 includes \$65.6 million for facilities not yet placed in service that we are holding for future use.

**8. Joint Ventures***VCE Company LLC*

In 2009, Cisco and EMC formed VCE Company LLC ( "VCE" ) along with investments from VMware and Intel. VCE accelerates the adoption of converged infrastructure and cloud-based computing models that significantly reduce the cost of IT while improving time to market for our customers. VCE, through Vblock infrastructure platforms, delivers an integrated IT offering that combines network, computing, storage, management, security and virtualization technologies. As of March 31, 2011, we have contributed \$173.5 million in funding and \$3.9 million in

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stock-based compensation to VCE since inception and own approximately 58% of VCE's outstanding equity.

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 directed 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.

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Our portion of the gains and losses are recognized in the Other Expense line in the Consolidated Income Statements. Through March 31, 2011, we have recorded net accumulated losses from VCE of \$85.7 million of which \$41.9 million were recorded in the three months ended March 31, 2011.

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 as of March 31, 2011, which is included in Other Current Assets in the Consolidated Balance Sheet.

**9. Accrued Expenses**

Accrued expenses consist of (table in thousands):

|                             | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-----------------------------|---------------------------|------------------------------|
| Salaries and benefits       | \$ 737,711                | \$ 861,434                   |
| Standard product warranties | 243,634                   | 236,131                      |
| Restructuring (See Note 12) | 72,204                    | 81,764                       |
| Other                       | 991,404                   | 910,706                      |
|                             | <b>\$ 2,044,953</b>       | <b>\$ 2,090,035</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 our standard product warranty (table in thousands):

|                                  | <b>For the Three Months Ended</b> |                           |
|----------------------------------|-----------------------------------|---------------------------|
|                                  | <b>March 31,<br/>2011</b>         | <b>March 31,<br/>2010</b> |
| Balance, beginning of the period | \$ 236,131                        | \$ 271,594                |
| Provision                        | 45,825                            | 36,960                    |
| Amounts charged to the accrual   | (38,322)                          | (38,987)                  |
| Balance, end of the period       | <b>\$ 243,634</b>                 | <b>\$ 269,567</b>         |

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.

**10. Income Taxes**

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Our effective income tax rates were 19.5% and 19.8% for the three months ended March 31, 2011 and 2010, 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, 2011 and 2010, 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. The decrease in the effective tax rate in 2011 compared to 2010 was primarily attributable to the expiration of the U.S. federal research and development tax credit as of March 31, 2010, which was partially offset by the mix of income between our foreign and domestic jurisdictions.

We have substantially concluded all U.S. federal income tax matters for years through 2006 and are currently under audit for U.S. federal income taxes for 2007 and 2008. We also have income tax audits in process in numerous state, local and international

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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. However, at December 31, 2010, we reasonably anticipated that up to \$41.4 million of individually-insignificant unrecognized tax positions may be recognized within one year. There has been no material change to this amount as of March 31, 2011.

**11. 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,<br/>2011</b>         | <b>March 31,<br/>2010</b> |
| <b>Numerator:</b>                                       |                                   |                           |
| Net income attributable to EMC Corporation              | \$ 477,148                        | \$ 372,704                |
| Incremental dilution from VMware                        | (2,764)                           | (1,883)                   |
| Net income dilution attributable to EMC Corporation     | \$ 474,384                        | \$ 370,821                |
| <b>Denominator:</b>                                     |                                   |                           |
| Weighted average shares, basic                          | 2,066,136                         | 2,051,030                 |
| Weighted common stock equivalents                       | 59,841                            | 47,835                    |
| Assumed conversion of the Notes and associated warrants | 132,301                           | 20,327                    |
| Weighted average shares, diluted                        | 2,258,278                         | 2,119,192                 |

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

Concurrent with the issuance of the 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. We also include the impact of the sold warrants in our diluted earnings per share calculation when the average stock price exceeds the exercise price.

Options to acquire 15.8 million and 74.6 million shares of our common stock for the three months ended March 31, 2011 and 2010, 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. For the three months ended March 31, 2011, we spent \$868.1 million to repurchase 33.1 million shares of our common stock. We plan to spend up to \$1.5 billion in 2011 on common stock repurchases. Of the 250.0 million shares authorized for repurchase, we have repurchased 147.1 million shares at a total cost of \$2.6 billion, leaving a remaining

balance of 102.9 million shares authorized for future repurchases.

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)***Accumulated Other Comprehensive Loss*

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

|                                                                                                                                 | <b>March 31,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|---------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------------------------|
| Foreign currency translation adjustments                                                                                        | \$ 12,160                 | \$ (6,983)                   |
| Unrealized losses on temporarily impaired investments, net of tax benefits of \$(5,324) and \$(7,278)                           | (9,123)                   | (12,533)                     |
| Unrealized gains on investments, net of taxes of \$40,946 and \$32,684                                                          | 65,700                    | 53,823                       |
| Unrealized losses on derivatives, net of tax benefits of \$(1,120) and \$(3,403)                                                | (1,728)                   | (5,934)                      |
| Recognition of actuarial net loss from pension and other postretirement plans, net of tax benefits of \$(70,388) and \$(70,388) | (117,058)                 | (117,058)                    |
|                                                                                                                                 | (50,049)                  | (88,685)                     |
| Less: accumulated other comprehensive income attributable to the non-controlling interest in VMware, Inc.                       | (6,854)                   | (3,932)                      |
|                                                                                                                                 | \$ (56,903)               | \$ (92,617)                  |

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

For the three months ended March 31, 2011, we incurred restructuring and acquisition-related charges of \$26.9 million compared to \$18.5 million of restructuring and acquisition-related charges for the three months ended March 31, 2010. For the three months ended March 31, 2011, we incurred \$23.3 million of restructuring charges, of which \$4.1 million related to our first quarter 2011 program, \$1.6 million related to our fourth quarter 2010 program and the remainder was primarily related to our 2008 restructuring program. Additionally, we incurred \$3.6 million of costs in connection with acquisitions for financial advisory, legal and accounting services.

In the first quarter of 2011 and the fourth quarter of 2010, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 33 and 400 positions, respectively. The actions will impact positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. Additionally, the restructuring program implemented in the first quarter of 2011 includes a plan to consolidate two vacated facilities. All of these actions are expected to be completed by the end of 2011.

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

The activity for each charge is as follows:

**Restructuring Programs**

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

**2011****2011 Program**

| Category                           | Beginning<br>Balance | 2011<br>Charges | Utilization     | Balance as of<br>March 31,<br>2011 |
|------------------------------------|----------------------|-----------------|-----------------|------------------------------------|
| Workforce reductions               | \$                   | \$ 3,712        | \$ (651)        | \$ 3,061                           |
| Consolidation of excess facilities |                      | 412             | (100)           | 312                                |
| <b>Total</b>                       | <b>\$</b>            | <b>\$ 4,124</b> | <b>\$ (751)</b> | <b>\$ 3,373</b>                    |

**Fourth Quarter 2010 Program**

| Category             | Beginning<br>Balance | 2011<br>Charges | Utilization       | Balance as of<br>March 31,<br>2011 |
|----------------------|----------------------|-----------------|-------------------|------------------------------------|
| Workforce reductions | \$ 35,945            | \$ 1,603        | \$ (7,007)        | \$ 30,541                          |
| <b>Total</b>         | <b>\$ 35,945</b>     | <b>\$ 1,603</b> | <b>\$ (7,007)</b> | <b>\$ 30,541</b>                   |

**Other Programs**

| Category                                                             | Beginning<br>Balance | 2011<br>Charges  | Utilization        | Balance as of<br>March 31,<br>2011 |
|----------------------------------------------------------------------|----------------------|------------------|--------------------|------------------------------------|
| Workforce reductions                                                 | \$ 18,001            | \$ (675)         | \$ (14,640)        | \$ 2,686                           |
| Consolidation of excess facilities and other contractual obligations | 27,818               | 18,247           | (10,461)           | 35,604                             |
| <b>Total</b>                                                         | <b>\$ 45,819</b>     | <b>\$ 17,572</b> | <b>\$ (25,101)</b> | <b>\$ 38,290</b>                   |

For the three months ended March 31, 2011, we recognized \$18.7 million of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs, excluding the first quarter of 2011 and fourth quarter of 2010 restructuring programs.

**2010**

| Category | Beginning<br>Balance | 2010<br>Charges | Utilization | Balance as of<br>March 31,<br>2010 |
|----------|----------------------|-----------------|-------------|------------------------------------|
|----------|----------------------|-----------------|-------------|------------------------------------|



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|                                                                      |                   |                  |                    |                  |
|----------------------------------------------------------------------|-------------------|------------------|--------------------|------------------|
| Workforce reductions                                                 | \$ 87,238         | \$ (1,720)       | \$ (28,504)        | \$ 57,014        |
| Consolidation of excess facilities and other contractual obligations | 18,522            | 18,696           | (5,389)            | 31,829           |
| <b>Total</b>                                                         | <b>\$ 105,760</b> | <b>\$ 16,976</b> | <b>\$ (33,893)</b> | <b>\$ 88,843</b> |

### 13. 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, 2011, 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, 2011, we were in compliance with the covenants.

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

We are involved in a variety of claims, demands, suits, investigations, and proceedings, including those identified below, 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.

We have received three derivative demand letters sent on behalf of purported EMC shareholders. The letters refer to a now-settled civil action in which EMC was named as a defendant and in which the United States (acting through the Civil Division of the Department of Justice (DoJ)) intervened. The civil action involved allegations concerning EMC's compliance with the terms and conditions of certain agreements pursuant to which we sold products and services to the federal government and EMC's fee arrangements with partners and systems integrators in federal government transactions. EMC reached a settlement of all claims asserted in this action effective as of May 4, 2010, without any admission of liability or wrongdoing. The derivative demand letters contend that the existence of the civil action serves as evidence that certain EMC officers and directors failed to exercise due care and/or failed to oversee compliance with certain federal laws.

The matters relating to the demand letters were referred to a Special Committee of independent directors of the Board of Directors, which investigated and made a determination regarding such allegations. At the conclusion of their investigation, the Special Committee determined in good faith that commencing or maintaining derivative proceedings based on the allegations would not be in the best interests of EMC. In October 2009, one of the purported shareholders filed a complaint in the Superior Court for Middlesex County in Massachusetts alleging claims for breach of fiduciary duty against EMC directors and certain officers based on the same allegations set forth in the demand letter. In May 2010, another purported shareholder filed a complaint in the same court making virtually identical allegations. We are defending these matters vigorously.

**14. 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 (SG&A), 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 business unit level. For the three segments within the EMC Information Infrastructure business, gross profit is the segment operating performance measure.

In April 2010, VMware acquired certain software product technology and related capabilities from the EMC Information Infrastructure segment's Ionix information technology management business for cash consideration of \$175.0 million. For the three months ended December 31, 2010 and March 31, 2011, an additional \$10.6 million and \$12.5 million, respectively, of contingent amounts were paid to EMC in accordance with the asset purchase agreement. The acquisition of the Ionix net assets and related capabilities was accounted for as a business combination between entities under common control. We did not revise our segment presentation for prior periods, as the historical impact of the acquired business was not material to the VMware Virtual Infrastructure segment.



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

Our segment information for the three months ended March 31, 2011 and 2010 is as follows (tables in thousands, except percentages):

|                                                                         | <b>EMC Information Infrastructure</b> |                                               |                                         |                                               | <b>VMware<br/>Virtual<br/>Infrastructure<br/>within<br/>EMC</b> | <b>Corp<br/>Reconciling<br/>Items</b> | <b>Consolidated</b> |
|-------------------------------------------------------------------------|---------------------------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|---------------------------------------|---------------------|
|                                                                         | <b>Information<br/>Storage</b>        | <b>Information<br/>Intelligence<br/>Group</b> | <b>RSA<br/>Information<br/>Security</b> | <b>EMC<br/>Information<br/>Infrastructure</b> |                                                                 |                                       |                     |
| <b>Three Months Ended:<br/>March 31, 2011</b>                           |                                       |                                               |                                         |                                               |                                                                 |                                       |                     |
| <b>Revenues:</b>                                                        |                                       |                                               |                                         |                                               |                                                                 |                                       |                     |
| Product revenues                                                        | \$ 2,381,885                          | \$ 43,258                                     | \$ 87,180                               | \$ 2,512,323                                  | \$ 418,936                                                      | \$                                    | \$ 2,931,259        |
| Services revenues                                                       | 1,048,412                             | 117,097                                       | 87,074                                  | 1,252,583                                     | 423,776                                                         |                                       | 1,676,359           |
| Total consolidated revenues                                             | 3,430,297                             | 160,355                                       | 174,254                                 | 3,764,906                                     | 842,712                                                         |                                       | 4,607,618           |
| Cost of sales                                                           | 1,570,533                             | 61,423                                        | 79,919                                  | 1,711,875                                     | 127,290                                                         | 69,402                                | 1,908,567           |
| Gross profit                                                            | \$ 1,859,764                          | \$ 98,932                                     | \$ 94,335                               | 2,053,031                                     | 715,422                                                         | (69,402)                              | 2,699,051           |
| Gross profit percentage                                                 | 54.2%                                 | 61.7%                                         | 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          |

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

|                                                                         | <b>EMC Information Infrastructure</b> |                                               |                                         |                                               | <b>VMware<br/>Virtual<br/>Infrastructure<br/>within<br/>EMC</b> | <b>Corp<br/>Reconciling<br/>Items</b> | <b>Consolidated</b> |
|-------------------------------------------------------------------------|---------------------------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------------------|-----------------------------------------------------------------|---------------------------------------|---------------------|
|                                                                         | <b>Information<br/>Storage</b>        | <b>Information<br/>Intelligence<br/>Group</b> | <b>RSA<br/>Information<br/>Security</b> | <b>EMC<br/>Information<br/>Infrastructure</b> |                                                                 |                                       |                     |
| <b>Three Months Ended:</b>                                              |                                       |                                               |                                         |                                               |                                                                 |                                       |                     |
| <b>March 31, 2010</b>                                                   |                                       |                                               |                                         |                                               |                                                                 |                                       |                     |
| Revenues:                                                               |                                       |                                               |                                         |                                               |                                                                 |                                       |                     |
| Product revenues                                                        | \$ 2,017,314                          | \$ 63,662                                     | \$ 85,814                               | \$ 2,166,790                                  | \$ 311,927                                                      | \$                                    | \$ 2,478,717        |
| Services revenues                                                       | 901,781                               | 114,502                                       | 75,654                                  | 1,091,937                                     | 320,038                                                         |                                       | 1,411,975           |
| Total consolidated revenues                                             | 2,919,095                             | 178,164                                       | 161,468                                 | 3,258,727                                     | 631,965                                                         |                                       | 3,890,692           |
| Cost of sales                                                           | 1,401,514                             | 63,332                                        | 52,256                                  | 1,517,102                                     | 95,504                                                          | 59,567                                | 1,672,173           |
| Gross profit                                                            | \$ 1,517,581                          | \$ 114,832                                    | \$ 109,212                              | 1,741,625                                     | 536,461                                                         | (59,567)                              | 2,218,519           |
| Gross profit percentage                                                 | 52.0%                                 | 64.5%                                         | 67.6%                                   | 53.4%                                         | 84.9%                                                           |                                       | 57.0%               |
| Research and development                                                |                                       |                                               |                                         | 266,876                                       | 101,975                                                         | 66,082                                | 434,933             |
| Selling, general and administrative                                     |                                       |                                               |                                         | 879,157                                       | 257,115                                                         | 125,012                               | 1,261,284           |
| Restructuring and acquisition-related charges                           |                                       |                                               |                                         |                                               |                                                                 | 18,502                                | 18,502              |
| Total costs and expenses                                                |                                       |                                               |                                         | 1,146,033                                     | 359,090                                                         | 209,596                               | 1,714,719           |
| Operating income                                                        |                                       |                                               |                                         | 595,592                                       | 177,371                                                         | (269,163)                             | 503,800             |
| Other income (expense), net                                             |                                       |                                               |                                         | 10,878                                        | (5,213)                                                         | (26,122)                              | (20,457)            |
| Income before provision for income taxes                                |                                       |                                               |                                         | 606,470                                       | 172,158                                                         | (295,285)                             | 483,343             |
| Income tax provision                                                    |                                       |                                               |                                         | 140,800                                       | 34,440                                                          | (79,587)                              | 95,653              |
| Net income                                                              |                                       |                                               |                                         | 465,670                                       | 137,718                                                         | (215,698)                             | 387,690             |
| Net income attributable to the non-controlling interest in VMware, Inc. |                                       |                                               |                                         |                                               | (26,184)                                                        | 11,198                                | (14,986)            |
| Net income attributable to EMC Corporation                              |                                       |                                               |                                         | \$ 465,670                                    | \$ 111,534                                                      | \$ (204,500)                          | \$ 372,704          |

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):

|               | <b>For the Three Months Ended</b> |                           |
|---------------|-----------------------------------|---------------------------|
|               | <b>March 31,<br/>2011</b>         | <b>March 31,<br/>2010</b> |
| United States | \$ 2,371,032                      | \$ 2,118,730              |

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|                                  |                     |                     |
|----------------------------------|---------------------|---------------------|
| Europe, Middle East and Africa   | 1,386,783           | 1,148,847           |
| Asia Pacific and Japan           | 595,064             | 416,696             |
| Latin America, Mexico and Canada | 254,739             | 206,419             |
| <b>Total</b>                     | <b>\$ 4,607,618</b> | <b>\$ 3,890,692</b> |

No country other than the United States accounted for 10% or more of revenues during the three months ended March 31, 2011 or 2010.

Long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, in the United States were \$3,100.7 million at March 31, 2011 and \$2,936.8 million at December 31, 2010. Internationally, long-lived assets, excluding financial instruments and deferred tax assets, were \$691.0 million at March 31, 2011 and \$600.3 million at December 31, 2010. 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, 2011 or December 31, 2010.

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### **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 Group and RSA Information Security. The objective for our EMC Information Infrastructure business is to simultaneously invest in the business, increase our market share and improve our profitability. During 2011, we will continue to invest in expanding our total addressable market opportunity through internal research and development ( R&D ) efforts and acquisitions to capitalize on the continued growth of enterprise data. Because of these investments and our focus on the transformation of Information Technology ( IT ) infrastructures and applications, we believe we are well-positioned in the largest IT transformation in history which is creating enormous opportunities in Cloud Computing and Big Data. 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 only in the early stages, customers recognize that their ability to compete is increasingly tied to the efficiency and agility of their IT operations and that transitioning to cloud architectures to increase their efficiencies and make them more flexible and agile 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 staggering pace of data growth, refers to the large repositories of corporate and external data, including unstructured information created by social media and other web repositories. With the investments we made in 2010 by acquiring Isilon and Greenplum, as well as our internally developed Atmos offering, we believe we are well-positioned in this market.

Through a combination of reinvesting for growth and growing faster than the markets we serve, we believe we will be able to increase our 2011 earnings at a rate faster than the rate at which we will grow our revenue and reinforce our position as the provider of choice for enterprise data, cloud infrastructure and Big Data solutions.

### *VMware Virtual Infrastructure*

VMware's current 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 in 2009 of VMware vSphere and VMware View 4, which is compatible with VMware vSphere, VMware has introduced more products that build on the vSphere foundation. In the third quarter of 2010, VMware released updated versions of VMware vSphere and VMware View, and 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 and/or extend its strategy to deliver solutions that can be hosted at customer data centers or at service providers.

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

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

The following table presents revenue by our segments:

|                                | For the Three Months Ended |                   |           |          |
|--------------------------------|----------------------------|-------------------|-----------|----------|
|                                | March 31,<br>2011          | March 31,<br>2010 | \$ Change | % Change |
| Information Storage            | \$ 3,430.3                 | \$ 2,919.1        | \$ 511.2  | 17.5%    |
| Information Intelligence Group | 160.4                      | 178.2             | (17.8)    | (10.0)   |
| RSA Information Security       | 174.3                      | 161.5             | 12.8      | 7.9      |
| VMware Virtual Infrastructure  | 842.7                      | 632.0             | 210.7     | 33.3     |
| Total revenues                 | \$ 4,607.6                 | \$ 3,890.8        | \$ 716.8  | 18.4%    |

Consolidated product revenues increased 18.3% from \$2,478.7 for the three months ended March 31, 2010 to \$2,931.3 for the three months ended March 31, 2011. The consolidated product revenues increase was primarily driven by the Information Storage and the 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 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 18.1% to \$2,381.9 for the three months ended March 31, 2011. Within the high-end of the Information Storage segment, product revenues increased 25.1% for the three months ended March 31, 2011 primarily due to the pent-up demand for the FAST VP tiering software announced in January 2011, which in turn drove VMAX system sales and upgrades. Within the mid-tier of the Information Storage segment, product revenues increased 20.2% for the three months ended March 31, 2011, helped by consistent strong performance of our back-up and recovery systems division. Additionally, within the mid-tier, our Isilon storage division exceeded our expectations in its first quarter within EMC and our newly launched VNX family, which started shipping at the end of February, is being well received by the market.

The VMware Virtual Infrastructure segment's product revenues increased 34.3% to \$418.9 for the three months ended March 31, 2011. VMware's license revenues continue to benefit from the improved demand for virtualization, resulting in strong growth across all geographies. VMware observed an increase in the volume of ELAs as compared with the first quarter of 2010, as virtualization becomes mainstream as it is the fundamental step to cloud computing. With the majority of new applications being deployed in virtual environments, VMware's products are becoming a standard feature in modern data centers.

The Information Intelligence Group segment's product revenues decreased 32.1% to \$43.3 for the three months ended March 31, 2011. The decrease in product revenues was primarily attributable to a lower number of large value orders in the first quarter of 2011 when compared to the same period in 2010.

The RSA Information Security segment's product revenues increased 1.6% to \$87.2 for the three months ended March 31, 2011. The increase in product revenues was attributable to increased demand for our Governance, Risk and Compliance, Data Loss Prevention and Identity Protection and Verification solutions. This growth was offset by a pause in SecurID shipments as we reviewed and hardened our internal IT systems in response to a sophisticated cyber attack targeting RSA that occurred in the first quarter of 2011.

Consolidated services revenues increased 18.7% from \$1,412.0 for the three months ended March 31, 2010 to \$1,676.4 for the three months ended March 31, 2011. The consolidated services revenues increase was primarily driven by the Information Storage and the VMware Virtual Infrastructure segments' services revenues.



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The Information Storage segment's services revenues increased 16.3% to \$1,048.4 for the three months ended March 31, 2011. The increase in services revenues was primarily attributable to higher demand for systems maintenance-related services, which correlates to the increased sales in storage products. In addition, a growing demand for professional services and software maintenance also contributed to the increase in services revenues in the first quarter of 2011.

The VMware Virtual Infrastructure segment's services revenues increased 32.4% to \$423.8 for the three months ended March 31, 2011. The increase in services revenues was primarily attributable to growth in VMware's software maintenance revenues. In the first quarter of 2011, services revenues benefited from strong renewals, multi-year software maintenance contracts sold in previous periods and additional maintenance contracts sold in conjunction with software licenses.

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

The Information Intelligence Group segment's services revenues increased 2.3% to \$117.1 for the three months ended March 31, 2011. The increase in services revenues was primarily attributable to higher demand for professional services. The RSA Information Security segment's services revenues increased 15.1% to \$87.1 for the three months ended March 31, 2011. Services revenues increased due to an increase in professional services and maintenance revenues resulting from continued demand for support from our installed base.

Consolidated revenues by geography were as follows:

|                                  | For the Three Months Ended |                   |              |
|----------------------------------|----------------------------|-------------------|--------------|
|                                  | March 31,<br>2011          | March 31,<br>2010 | % Change     |
| United States                    | \$ 2,371.0                 | \$ 2,118.7        | 11.9%        |
| Europe, Middle East and Africa   | 1,386.8                    | 1,148.8           | 20.7         |
| Asia Pacific and Japan           | 595.1                      | 416.7             | 42.8         |
| Latin America, Mexico and Canada | 254.7                      | 206.4             | 23.4         |
| <b>Total revenues</b>            | <b>\$ 4,607.6</b>          | <b>\$ 3,890.7</b> | <b>18.4%</b> |

Revenues increased for the three months ended March 31, 2011 compared to the same period in 2010 in all of our geographic markets due to greater demand for our product and service offerings.

Changes in exchange rates positively impacted revenues by 1.1% and 2.4% for the three months ended March 31, 2011 and 2010, respectively. The impact of the change in rates between 2011 and 2010 was most significant in Australia, Japan, Brazil and Canada.

**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 |                   |              |             |
|--------------------------------|----------------------------|-------------------|--------------|-------------|
|                                | March 31,<br>2011          | March 31,<br>2010 | \$<br>Change | %<br>Change |
| <b>Cost of revenue:</b>        |                            |                   |              |             |
| Information Storage            | \$ 1,570.5                 | \$ 1,401.5        | \$ 169.0     | 12.1%       |
| Information Intelligence Group | 61.4                       | 63.3              | (1.9)        | (3.0)       |
| RSA Information Security       | 79.9                       | 52.3              | 27.6         | 52.8        |
| VMware Virtual Infrastructure  | 127.3                      | 95.5              | 31.8         | 33.3        |
| Corporate reconciling items    | 69.4                       | 59.6              | 9.8          | 16.4        |
| <b>Total cost of revenue</b>   | <b>1,908.6</b>             | <b>1,672.2</b>    | <b>236.4</b> | <b>14.1</b> |
| <b>Gross margins:</b>          |                            |                   |              |             |
| Information Storage            | 1,859.8                    | 1,517.6           | 342.2        | 22.5        |
| Information Intelligence Group | 98.9                       | 114.8             | (15.9)       | (13.9)      |
| RSA Information Security       | 94.3                       | 109.2             | (14.9)       | (13.6)      |
| VMware Virtual Infrastructure  | 715.4                      | 536.5             | 178.9        | 33.3        |
| Corporate reconciling items    | (69.4)                     | (59.6)            | (9.8)        | 16.4        |

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|                                                                               |                 |                 |                 |              |
|-------------------------------------------------------------------------------|-----------------|-----------------|-----------------|--------------|
| Total gross margin                                                            | 2,699.1         | 2,218.5         | 480.6           | 21.7         |
| <b>Operating expenses:</b>                                                    |                 |                 |                 |              |
| Research and development (1)                                                  | 502.1           | 434.9           | 67.2            | 15.5         |
| Selling, general and administrative (2)                                       | 1,495.9         | 1,261.3         | 234.6           | 18.6         |
| Restructuring and acquisition-related charges                                 | 26.9            | 18.5            | 8.4             | 45.4         |
| <b>Total operating expenses</b>                                               | <b>2,024.9</b>  | <b>1,714.7</b>  | <b>310.2</b>    | <b>18.1</b>  |
| <b>Operating income</b>                                                       | <b>674.1</b>    | <b>503.8</b>    | <b>170.3</b>    | <b>33.8</b>  |
| Investment income, interest expense and other expenses                        | (49.9)          | (20.5)          | (29.4)          | 143.4        |
| Income before income taxes                                                    | 624.2           | 483.3           | 140.9           | 29.2         |
| Income tax provision                                                          | 121.6           | 95.7            | 25.9            | 27.1         |
| <b>Net income</b>                                                             | <b>502.6</b>    | <b>387.7</b>    | <b>114.9</b>    | <b>29.6</b>  |
| Less: Net income attributable to the non-controlling interest in VMware, Inc. | (25.4)          | (15.0)          | (10.4)          | 69.3         |
| <b>Net income attributable to EMC Corporation</b>                             | <b>\$ 477.1</b> | <b>\$ 372.7</b> | <b>\$ 104.4</b> | <b>28.0%</b> |

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- (1) Amount includes corporate reconciling items of \$80.3 and \$66.1 for the three months ended March 31, 2011 and 2010, respectively.
- (2) Amount includes corporate reconciling items of \$156.1 and \$125.0 for the three months ended March 31, 2011 and 2010, respectively.

***Gross Margins***

Overall, our gross margin percentages were 58.6% and 57.0% for the three months ended March 31, 2011 and 2010, respectively. The increase in the gross margin percentage for the three months ended March 31, 2011 compared to the same period in 2010 was attributable to the VMware Virtual Infrastructure segment, which increased overall gross margins by 135 basis points and the Information Storage segment, which increased overall gross margins by 110 basis points, partially offset by the RSA Information Security segment, which decreased overall gross margins by 53 basis points and the Information Intelligence Group segment, which decreased overall gross margins by 13 basis points. The increase in corporate reconciling items, consisting of stock-based compensation, acquisition-related intangible asset amortization, restructuring charges and transition costs, decreased the consolidated gross margin percentage by 23 basis points. The transition costs represent the incremental costs incurred to transform our current cost structure to a more streamlined cost structure.

For segment reporting purposes, stock-based compensation, restructuring and acquisition-related charges, acquisition-related intangible asset amortization and transition costs are recognized as corporate expenses and are not allocated among our various operating segments. The increase of \$9.8 in the corporate reconciling items for the three months ended March 31, 2011 was attributable to a \$6.3 increase in stock-based compensation expense and a \$4.0 increase in acquisition-related intangible asset amortization expense, which was partially offset by a \$0.5 decrease in transition costs.

The gross margin percentages for the Information Storage segment were 54.2% and 52.0% for the three months ended March 31, 2011 and 2010, respectively. The increase in gross margin percentage for the three months ended March 31, 2011 compared to the same period in 2010 was primarily attributable to improved product gross margins, driven by a shift in product mix towards higher margin product offerings, higher sales volume and an improved cost structure.

The gross margin percentages for the VMware Virtual Infrastructure segment were 84.9% for both the three months ended March 31, 2011 and 2010. The gross margin percentage for the three months ended March 31, 2011 compared to the same period in 2010 remained flat due to consistent product and service margins for both periods.

The gross margin percentages for the Information Intelligence Group segment were 61.7% and 64.5% for the three months ended March 31, 2011 and 2010, respectively. The decrease in gross margin percentage for the three months ended March 31, 2011 compared to the same period in 2010 was attributable to a decrease in product margins, resulting from lower license sales, which was partially offset by an increase in service gross margins.

The gross margin percentages for the RSA Information Security segment were 54.1% and 67.6% for the three months ended March 31, 2011 and 2010, respectively. The decrease in the gross margin percentage for the three months ended March 31, 2011 compared to the same period in 2010 was due to a decrease in product margins. The decrease in product margin was primarily attributable to costs incurred and accrued associated with investigating the sophisticated cyber attack targeting RSA during the quarter, hardening our systems as a result of the attack and working with our customers to implement remediation actions.

***Research and Development***

As a percentage of revenues, R&D expenses were 10.9% and 11.2% for the first quarters of 2011 and 2010, respectively. R&D expenses increased \$67.2 for the three months ended March 31, 2011 compared to the same period in 2010 primarily due to an increase in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, depreciation expense, cost of facilities and travel costs, partially offset by greater levels of software capitalization. Personnel-related costs increased by \$72.2, depreciation expense increased by \$5.4, cost of facilities increased by \$3.8 and travel costs increased by \$2.2. Partially offsetting these increased costs was an increase in capitalized software development costs of \$22.2, which reduce R&D expense.



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Corporate reconciling items within R&D, which consist of stock-based compensation, acquisition-related intangible asset amortization and transition costs increased \$14.2 to \$80.3 for the three months ended March 31, 2011 when compared to the same period in 2010. Stock-based compensation expense increased \$16.3, intangible asset amortization decreased \$0.9 and transition costs decreased by \$1.2 for the three months ended March 31, 2011. The increase in stock-based compensation expense for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due 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 7.9% and 8.2% for the three months ended March 31, 2011 and 2010, respectively. R&D expenses increased \$31.3 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, depreciation expense, cost of facilities and travel costs. Personnel-related costs increased by \$33.2, depreciation expense increased by \$5.3, the cost of facilities increased by \$2.6 and travel costs increased by \$1.5. Partially offsetting these increased costs was an increase in capitalized software development costs of \$16.7, which reduce R&D expense. The increase in capitalized software development costs is attributable to the timing of efforts associated with new product development.

R&D expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 14.7% and 16.1% for the three months ended March 31, 2011 and 2010, respectively. R&D expenses increased \$21.7 for the three months ended March 31, 2011 compared to the same period in 2010 largely due to increases in personnel-related costs of \$24.0, primarily due to increased salaries and benefits expenses resulting from incremental headcount from strategic hiring and acquisitions. Additionally, capitalized software development costs increased \$5.6 for the three months ended March 31, 2011 compared to the same period in 2010 primarily due to the timing of when products reached technological feasibility in 2010.

***Selling, General and Administrative***

SG&A expenses, as a percentage of revenues, were 32.5% and 32.4% for the three months ended March 31, 2011 and 2010, respectively. SG&A expenses increased by \$234.6 for the three months ended March 31, 2011 compared to the same period in 2010 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, travel costs and commissions. Personnel-related costs increased by \$189.9, travel costs increased by \$16.0 and commissions increased by \$13.1.

Corporate reconciling items within SG&A, which consist of stock-based compensation, intangible asset amortization and transition costs decreased \$31.1 to \$156.1 for the three months ended March 31, 2011 when compared to the same period in 2010. Stock-based compensation expense increased \$29.9, intangible asset amortization increased \$8.0 and transition costs decreased \$6.8 for the three months ended March 31, 2011. The increase in stock-based compensation expense for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due 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 26.7% and 27.0% for the three months ended March 31, 2011 and 2010, respectively. SG&A expenses increased \$126.1 for the three months ended March 31, 2011 when compared to the same period in 2010 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, travel costs and commissions. Personnel-related costs increased by \$107.4, travel costs increased by \$11.5 and commissions increased by \$5.4.

SG&A expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 39.7% and 40.7% for the three months ended March 31, 2011 and 2010, respectively. SG&A expenses increased \$77.5 for the three months ended March 31, 2011 compared with the same period in 2010 primarily due to growth in personnel-related expenses driven by incremental headcount from strategic hiring and business acquisitions as well as higher variable compensation due to the growth of VMware's business.

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

For the three months ended March 31, 2011, we incurred restructuring and acquisition-related charges of \$26.9 compared to \$18.5 of restructuring and acquisition-related charges for the three months ended March 31, 2010. For the three months ended March 31, 2011, we incurred \$23.3 of restructuring charges, primarily related to our other restructuring programs incurred in prior years and \$3.6 of charges in connection with acquisitions for financial advisory, legal and accounting services.

***Investment Income***

Investment income was \$38.2 and \$31.5 for the three months ended March 31, 2011 and 2010, respectively. Investment income increased for the three months ended March 31, 2011 compared to the same period in 2010, primarily due to higher weighted average return on investments. The weighted average return on investments, excluding realized losses and gains, was 1.4% and 1.2% for the first quarters of 2011 and 2010, respectively. Net realized gains were \$6.7 and \$2.0 for the three months ended March 31, 2011 and 2010, respectively.

***Interest Expense***

Interest expense was \$45.0 and \$43.0 for the three months ended March 31, 2011 and 2010, respectively. Interest expense consists primarily of interest on the convertible senior debt of our \$1,725, 1.75% convertible senior notes due 2011 (the "2011 Notes") and our \$1,725, 1.75% convertible senior notes due 2013 (the "2013 Notes"), and, together with the 2011 Notes, the "Notes"). Included in interest expense are non-cash interest charges of \$26.8 and \$25.9 for the three months ended March 31, 2011 and 2010, respectively, as we are accreting our Notes to their stated values over their term. (See Note 3 to the Consolidated Financial Statements).

***Other Expense, Net***

Other expense was \$43.2 and \$9.0 for the three months ended March 31, 2011 and 2010, respectively. Other expense in the first quarter of 2011 was primarily attributable to our consolidated share of the losses from our cloud infrastructure joint venture, VCE Company LLC, of \$41.9. This joint venture is accounted for under the equity method.

***Provision for Income Taxes***

Our effective income tax rates were 19.5% and 19.8% for the three months ended March 31, 2011 and 2010, 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, 2011 and 2010, 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. The decrease in the effective tax rate in 2011 compared to 2010 was primarily attributable to the expiration of the U.S. federal research and development tax credit as of March 31, 2010, which was partially offset by the mix of income between our foreign and domestic jurisdictions.

We have substantially concluded all U.S. federal income tax matters for years through 2006 and are currently under audit for U.S. federal income taxes for 2007 and 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. However, at December 31, 2010, we reasonably anticipated that up to \$41.4 of individually-insignificant unrecognized tax positions may be recognized within one year. There has been no material change to this amount as of March 31, 2011.

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Our effective tax rate for the remainder of 2011 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, shifts in the amount of income before tax earned in the U.S. as compared with other regions in the world, and changes in overall levels of income before tax.



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

The net income attributable to the non-controlling interest in VMware was \$25.4 and \$15.0 for the three months ended March 31, 2011 and 2010, respectively. The \$10.4 increase was due to an increase in VMware's net income and an increase in the weighted average percentage ownership by the non-controlling interest in VMware. VMware's net income was \$125.8 and \$78.4 for the three months ended March 31, 2011 and 2010, respectively. The weighted average non-controlling interest in VMware was approximately 20% and 19% for the three months ended March 31, 2011 and 2010, respectively. 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. As of March 31, 2011, we have purchased approximately 6.5 million shares for \$437.2.

***Financial Condition***

Cash provided by operating activities was \$1,134.8 and \$1,317.3 for the three months ended March 31, 2011 and 2010, respectively. Cash received from customers was \$5,392.2 and \$4,615.0 for the three months ended March 31, 2011 and 2010, respectively. The increase in cash received from customers was attributable to an increase in sales volume and higher cash proceeds from the sale of maintenance contracts, which are typically billed and paid in advance of services being rendered. Cash paid to suppliers and employees was \$4,009.6 and \$3,213.9 for the three months ended March 31, 2011 and 2010, respectively. The increase was primarily attributable to a general growth in the business to support the increased revenue base. Cash received from dividends and interest increased to \$33.9 for the quarter ended March 31, 2011 compared with \$26.6 for the quarter ended March 31, 2010, due to higher yields on our investments. For the quarters ended March 31, 2011 and 2010, we paid \$277.0 and \$105.7, respectively, in income taxes. These payments are 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 \$534.2 and \$1,323.7 for the three months ended March 31, 2011 and 2010, respectively. Cash used for acquisitions, strategic and other related investments were \$213.0 and \$293.5 for the three months ended March 31, 2011 and 2010, respectively. Capital additions were \$165.5 and \$114.0 for the three months ended March 31, 2011 and 2010, respectively. The higher level of capital additions was primarily attributable to an increase in spending to support the growth of the business. Capitalized software development costs were \$112.0 and \$93.2 for the three months ended March 31, 2011 and 2010, respectively. The increase was primarily attributable to EMC Information Infrastructure's efforts on its software development activities, partially offset by the decrease in capitalized software costs within our VMware Virtual Infrastructure segment. Net sales of investments were \$1.3 for the three months ended March 31, 2011 and net purchases of investments were \$806.4 for the three months ended March 31, 2010. 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 \$630.0 and \$33.0 for the three months ended March 31, 2011 and 2010, respectively. 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, VMware spent \$147.7 to repurchase 1.7 million shares of its common stock. We generated \$314.5 and \$240.1 during the three months ended March 31, 2011 and 2010, respectively, from the exercise of stock options. We generated \$109.0 and \$35.2 during the three months ended March 31, 2011 and 2010, respectively, of excess tax benefits from stock-based compensation.

We expect to continue to generate positive cash flows from operations in 2011 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.

Based upon the closing price of our common stock for the prescribed measurement period during the three months ended March 31, 2011, the Notes are convertible at the option of the holder through June 30, 2011. 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.

Additionally, \$1,725 of the Notes is due in November 2011. The remaining \$1,725 of the Notes is due in November 2013. At maturity, we are obligated to pay cash up to the principal amount of the debt. 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.



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In connection with the issuance of the Notes, we entered into separate convertible note hedge transactions with respect to our common stock. These will generally have the effect of offsetting the cash outlay which may be paid by EMC for the conversion value in excess of the principal amount. See Note 3 to the Consolidated Financial Statements.

We have available for use a credit line of \$50.0 in the United States. As of March 31, 2011, 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, 2011, we were in compliance with the covenants. As of March 31, 2011, the aggregate amount of liabilities of our subsidiaries was approximately \$5,269.0.

At March 31, 2011, our total cash, cash equivalents, and short-term and long-term investments were \$9,470.4. This balance includes approximately \$3,661.8 held by VMware, of which \$1,648.4 is held overseas, and \$1,425.4 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 uses certain non-GAAP financial measures, which exclude stock-based compensation, amortization of intangible assets, restructuring and acquisition-related charges, infrequently occurring gains and losses, special tax items and provision for litigation 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. 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. Free cash flow is defined as net cash provided by operating activities, less additions to property, plant and equipment and capitalized software development costs. 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, 2011 and 2010 were as follows:

|                                | <b>For the Three Months Ended<br/>March 31,<br/>2011</b> | <b>March 31,<br/>2010</b> |
|--------------------------------|----------------------------------------------------------|---------------------------|
| Gross margin                   | \$ 2,768.4                                               | \$ 2,277.5                |
| Gross margin percentage        | 60.1%                                                    | 58.5%                     |
| Operating income               | 1,000.6                                                  | 758.3                     |
| Operating income percentage    | 21.7%                                                    | 19.5%                     |
| Income tax provision           | 209.3                                                    | 162.2                     |
| Net income attributable to EMC | 700.4                                                    | 549.6                     |

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|                                                |         |         |
|------------------------------------------------|---------|---------|
| Diluted earnings per share attributable to EMC | \$ 0.31 | \$ 0.26 |
|------------------------------------------------|---------|---------|

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 product offerings and improved cost control. The improvements in the

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non-GAAP operating income and non-GAAP operating income percentage were attributable to an improved gross margin percentage and revenues growing faster than both our R&D and SG&A expenses. R&D expenses, as a percentage of revenues, were 9.2% and 9.5% for the three months ended March 31, 2011 and 2010, respectively. SG&A expenses, as a percentage of revenues, were 29.2% and 29.5% for the three months ended March 31, 2011 and 2010, respectively.

We also monitor our ability to generate free cash flow in relationship to our non-GAAP net income attributable to EMC. For the three months ended March 31, 2011, our free cash flow was \$857.3. The free cash flow for the three months ended March 31, 2011 exceeded our non-GAAP net income attributable to EMC by \$156.9.

The reconciliation of the above financial measures from GAAP to non-GAAP is as follows:

|                                                | For the Three Months Ended March 31, 2011 |                                                            |                             |                                     |            |
|------------------------------------------------|-------------------------------------------|------------------------------------------------------------|-----------------------------|-------------------------------------|------------|
|                                                | GAAP                                      | Restructuring<br>and<br>acquisition-<br>related<br>charges | Stock-based<br>compensation | Intangible<br>asset<br>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    |

|                                                | For the Three Months Ended March 31, 2010 |                                                            |                             |                                     |            |
|------------------------------------------------|-------------------------------------------|------------------------------------------------------------|-----------------------------|-------------------------------------|------------|
|                                                | GAAP                                      | Restructuring<br>and<br>acquisition-<br>related<br>charges | Stock-based<br>compensation | Intangible<br>asset<br>amortization | Non-GAAP   |
| Gross margin                                   | \$ 2,218.5                                | \$                                                         | \$ 26.8                     | \$ 32.2                             | \$ 2,277.5 |
| Operating income                               | 503.8                                     | 18.5                                                       | 166.5                       | 69.5                                | 758.3      |
| Income tax provision                           | 95.7                                      | 3.4                                                        | 40.0                        | 23.1                                | 162.2      |
| Net income attributable to EMC                 | 372.7                                     | 14.9                                                       | 116.2                       | 45.8                                | 549.6      |
| Diluted earnings per share attributable to EMC | \$ 0.18                                   | \$ 0.01                                                    | \$ 0.06                     | \$ 0.02                             | \$ 0.26    |

Free cash flow is defined as net cash provided by operating activities, less additions to property, plant and equipment and capitalized software development costs. 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,<br>2011          | March 31,<br>2010 |
| Cash Flow from Operations | \$ 1,134.8                 | \$ 1,317.3        |

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|                                        |          |            |
|----------------------------------------|----------|------------|
| Capital Expenditures                   | (165.5)  | (114.0)    |
| Capitalized Software Development Costs | (112.0)  | (93.2)     |
| Free Cash Flow                         | \$ 857.3 | \$ 1,110.1 |

Free cash flow represents a non-GAAP measure related to operating cash flows. In contrast, our GAAP measures of cash flow consist of three components. These are cash flows provided by operating activities of \$1,134.8 and \$1,317.3 for the three months ended March 31, 2011 and 2010, respectively, cash used in investing activities of \$534.2 and \$1,323.7 for the three months ended

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RESULTS OF OPERATIONS - (Continued)**

March 31, 2011 and 2010, respectively, and net cash used in financing activities of \$630.0 and \$33.0 for the three months ended March 31, 2011 and 2010, 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 28, 2011. 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, including those identified below, 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.

We have received three derivative demand letters sent on behalf of purported EMC shareholders. The letters refer to a now-settled civil action in which EMC was named as a defendant and in which the United States (acting through the Civil Division of the Department of Justice (DoJ)) intervened. The civil action involved allegations concerning EMC's compliance with the terms and conditions of certain agreements pursuant to which we sold products and services to the federal government and EMC's fee arrangements with partners and systems integrators in federal government transactions. EMC reached a settlement of all claims asserted in this action effective as of May 4, 2010, without any admission of liability or wrongdoing. The derivative demand letters contend that the existence of the civil action serves as evidence that certain EMC officers and directors failed to exercise due care and/or failed to oversee compliance with certain federal laws.

The matters relating to the demand letters were referred to a Special Committee of independent directors of the Board of Directors, which investigated and made a determination regarding such allegations. At the conclusion of their investigation, the Special Committee determined in good faith that commencing or maintaining derivative proceedings based on the allegations would not be in the best interests of EMC. In October 2009, one of the purported shareholders filed a complaint in the Superior Court for Middlesex County in Massachusetts alleging claims for breach of fiduciary duty against EMC directors and certain officers based on the same allegations set forth in the demand letter. In May 2010, another purported shareholder filed a complaint in the same court making virtually identical allegations. We are defending these matters vigorously.

**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, 2010. 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.



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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.

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. 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;

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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;

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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 and 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;

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 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;

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 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:

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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

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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

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; and

executing on our plans.



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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 \$5.4 billion in short- and long-term investments as of March 31, 2011. 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, 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.

### **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;

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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.

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.

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### **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 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, such as recent developments in Egypt, where we have a research and development facility;

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.

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.

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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 the System for Transactions in Foreign Currency Securities or SITME rate, which is the available market rate in the country to translate the foreign currency denominated balance sheet. 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 the parallel 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 have 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.

### **Security breaches could expose us to liability and our reputation and business could suffer.**

We retain sensitive data, including intellectual property, books of record and personally identifiable information, in our secure data centers and on our networks. 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. Any such security breach may compromise information stored on our networks. Such an occurrence 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.

### **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 network security is penetrated and 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.

### **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. Although the scope of future changes is 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 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;



the potential loss of key employees of the acquired company; and

the potential incompatibility of business cultures.

These factors could have a material adverse effect on our business, results of operations or financial condition. To the extent that we issue shares of our common stock or other rights to purchase our common stock in connection with any future acquisition, existing shareholders may experience dilution. Additionally, regardless of the form of consideration issued, acquisitions could negatively impact our net income and our earnings per share.

In addition to the risks commonly encountered in the acquisition of a business as described above, we may also experience risks relating to the challenges and costs of closing a transaction. Further, the risks described above may be exacerbated as a result of managing multiple acquisitions at the same time.

We also seek to invest in businesses that offer complementary products, services or technologies. These investments are accompanied by risks similar to those encountered in an acquisition of a business.

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**Our pension plan assets are subject to market volatility.**

We have a noncontributory defined benefit pension plan assumed as part of our Data General acquisition. The plan's assets are invested in common stocks, bonds and cash. The expected long-term rate of return on the plan's assets is 6.75%. This rate represents the average of the expected long-term rates of return weighted by the plan's assets as of December 31, 2010. We have begun to shift, and may continue to shift in the future, its asset allocation to lower the percentage of investment in equity securities and increase the percentage of investments in fixed-income securities. The effect of such change could result in a reduction in the long-term rate on plan assets and an increase in future pension expense. As of December 31, 2010, the ten-year historical rate of return on plan assets was 4.1%, and the inception to date return on plan assets was 9.8%. In 2010, we experienced a 12.6% gain on plan assets. Should we not achieve the expected rate of return on the plan's assets or if the plan experiences a decline in the fair value of its assets, we may be required to contribute assets to the plan which could materially adversely affect our results of operations or financial condition.

**Our business could be materially adversely affected by changes in regulations or standards regarding energy use of our products.**

We continually seek ways to increase the energy efficiency of our products. Recent analyses have estimated the amount of global carbon emissions that are due to information technology products. As a result, governmental and non-governmental organizations have turned their attention to development of regulations and standards to drive technological improvements and reduce such amount of carbon emissions. There is a risk that the development of these standards will not fully address the complexity of the technology developed by the IT industry or will favor certain technological approaches. Depending on the regulations or standards that are ultimately adopted, compliance could materially adversely affect our business, results of operations or financial condition.

**Our business could be materially adversely affected as a result of war, acts of terrorism or natural disasters.**

Terrorist acts, acts of war, natural disasters, such as the recent earthquake and tsunami in Japan, or other indirect effects of climate change may cause damage or disruption to our employees, facilities, customers, partners, suppliers, distributors and resellers, which could have a material adverse effect on our business, results of operations or financial condition. Such events may also cause damage or disruption to transportation and communication systems and to our ability to manage logistics in such an environment, including receipt of components and distribution of products.

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**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**  
**ISSUER PURCHASES OF EQUITY SECURITIES IN THE FIRST QUARTER OF 2011**

| Period            | Total Number of<br>Shares<br>Purchased <sup>(1)</sup> | Average Price<br>Paid per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans<br>or<br>Programs | Maximum Number (or<br>Approximate Dollar<br>Value) of Shares that May<br>Yet Be Purchased<br>Under<br>the Plans or<br>Programs |
|-------------------|-------------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| January 1, 2011   |                                                       |                                 |                                                                                                 |                                                                                                                                |
| January 31, 2011  | 7,117,486                                             | \$ 24.74                        | 7,061,788                                                                                       | 128,920,586                                                                                                                    |
| February 1, 2011  |                                                       |                                 |                                                                                                 |                                                                                                                                |
| February 28, 2011 | 14,993,210                                            | 26.44                           | 13,212,922                                                                                      | 115,707,664                                                                                                                    |
| March 1, 2011     |                                                       |                                 |                                                                                                 |                                                                                                                                |
| March 31, 2011    | 12,776,641                                            | 26.92                           | 12,776,584                                                                                      | 102,931,080                                                                                                                    |
| Total             | 34,887,337 <sup>(2)</sup>                             | \$ 26.27                        | 33,051,294                                                                                      | 102,931,080                                                                                                                    |

(1) Except as noted in note (2), all shares were purchased in open-market transactions pursuant to our previously announced authorization by our Board of Directors in April 2008 to repurchase 250.0 million shares of our common stock. This repurchase authorization does not have a fixed termination date.

(2) Includes an aggregate of 1,836,043 shares withheld from employees for the payment of taxes.

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. RESERVED**

**Item 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

(a) Exhibits

See index to Exhibits on page 45 of this report.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EMC CORPORATION

Date: May 5, 2011

By: /s/ DAVID I. GOULDEN  
David I. Goulden  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

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**EXHIBIT INDEX**

|          |                                                                                                                                                                                                                          |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1      | Restated Articles of Organization of EMC Corporation. (1)                                                                                                                                                                |
| 3.2      | Amended and Restated Bylaws of EMC Corporation. (filed herewith)                                                                                                                                                         |
| 4.1      | Form of Stock Certificate. (2)                                                                                                                                                                                           |
| 4.2      | Indenture with Wells Fargo Bank, N.A., as trustee, dated as of November 17, 2006. (3)                                                                                                                                    |
| 4.3      | Registration Rights Agreement with Goldman, Sachs & Co., Lehman Brothers Inc. and Citigroup Global Markets Inc., dated as of November 17, 2006. (3)                                                                      |
| 31.1     | Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith) |
| 31.2     | Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith) |
| 32.1     | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (filed herewith)                                                      |
| 32.2     | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (filed herewith)                                                      |
| 101.INS* | XBRL Instance Document. (filed herewith)                                                                                                                                                                                 |
| 101.SCH* | XBRL Taxonomy Extension Schema. (filed herewith)                                                                                                                                                                         |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase. (filed herewith)                                                                                                                                                           |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase. (filed herewith)                                                                                                                                                            |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase. (filed herewith)                                                                                                                                                                 |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase. (filed herewith)                                                                                                                                                          |

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

- (1) Incorporated by reference to EMC Corporation's Annual Report on Form 10-K filed February 27, 2009 (No. 1-9853).
- (2) Incorporated by reference to EMC Corporation's Annual Report on Form 10-K filed February 29, 2008 (No. 1-9853).
- (3) Incorporated by reference to EMC Corporation's Current Report on Form 8-K filed November 17, 2006 (No. 1-9853).