

EMC CORP  
Form 10-Q  
November 02, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended September 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of  
incorporation or organization)

04-2680009

(I.R.S. Employer  
Identification Number)

176 South Street

Hopkinton, Massachusetts

(Address of principal executive offices)

(508) 435-1000

(Registrant's telephone number, including area code)

01748

(Zip 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 September 30, 2012 was 2,106,655,190.

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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.

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FINANCIAL INFORMATIONItem 1. FINANCIAL STATEMENTS  
EMC CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share amounts)

	September 30, 2012	December 31, 2011
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,160,817	\$ 4,531,036
Short-term investments	1,284,855	1,786,987
Accounts and notes receivable, less allowance for doubtful accounts of \$63,117 and \$61,804	3,164,005	2,937,499
Inventories	1,158,262	1,009,968
Deferred income taxes	802,215	733,308
Other current assets	541,263	583,885
Total current assets	11,111,417	11,582,683
Long-term investments	5,134,328	4,525,106
Property, plant and equipment, net	2,983,446	2,833,149
Intangible assets, net	2,053,360	1,766,115
Goodwill	13,728,256	12,154,970
Other assets, net	1,494,911	1,406,156
Total assets	\$ 36,505,718	\$ 34,268,179
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,074,079	\$ 1,101,659
Accrued expenses	2,317,568	2,354,979
Notes converted and payable (See Note 4)	—	1,699,832
Income taxes payable	286,696	155,909
Convertible debt (See Note 4)	1,636,907	1,605,142
Deferred revenue	4,353,490	3,458,689
Total current liabilities	9,668,740	10,376,210
Income taxes payable	332,289	238,851
Deferred revenue	2,884,240	2,715,361
Deferred income taxes	384,444	250,817
Other liabilities	307,455	287,912
Total liabilities	13,577,168	13,869,151
Convertible debt (See Note 4)	73,280	119,325
Commitments and contingencies (See Note 14)		
Shareholders' equity:		
Preferred stock, par value \$0.01; authorized 25,000 shares; none outstanding	—	—
Common stock, par value \$0.01; authorized 6,000,000 shares; issued and outstanding 2,106,655 and 2,048,890 shares	21,067	20,489
Additional paid-in capital	3,854,545	3,405,513
Retained earnings	17,983,315	16,120,621

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Accumulated other comprehensive loss, net	(155,303	) (235,009	)
Total EMC Corporation's shareholders' equity	21,703,624	19,311,614	
Non-controlling interest in VMware, Inc.	1,151,646	968,089	
Total shareholders' equity	22,855,270	20,279,703	
Total liabilities and shareholders' equity	\$ 36,505,718	\$ 34,268,179	

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

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EMC CORPORATION  
CONSOLIDATED INCOME STATEMENTS  
(in thousands, except per share amounts)  
(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Revenues:				
Product sales	\$3,084,441	\$ 3,074,367	\$9,332,035	\$ 9,049,610
Services	2,193,735	1,905,834	6,351,912	5,383,547
	5,278,176	4,980,201	15,683,947	14,433,157
Costs and expenses:				
Cost of product sales	1,292,756	1,269,323	3,848,634	3,917,028
Cost of services	697,881	644,613	2,087,164	1,870,526
Research and development	652,898	548,021	1,896,656	1,589,020
Selling, general and administrative	1,708,794	1,612,914	5,075,641	4,684,534
Restructuring and acquisition-related charges	27,064	20,302	80,560	68,411
Operating income	898,783	885,028	2,695,292	2,303,638
Non-operating income (expense):				
Investment income	29,850	32,293	85,280	106,506
Interest expense	(21,480 )	(44,322 )	(58,207 )	(135,777 )
Other income (expense), net	(63,055 )	(59,799 )	(157,704 )	(72,616 )
Total non-operating income (expense)	(54,685 )	(71,828 )	(130,631 )	(101,887 )
Income before provision for income taxes	844,098	813,200	2,564,661	2,201,751
Income tax provision	185,434	171,086	590,600	465,456
Net income	658,664	642,114	1,974,061	1,736,295
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(32,326 )	(36,465 )	(111,367 )	(107,004 )
Net income attributable to EMC Corporation	\$626,338	\$ 605,649	\$1,862,694	\$ 1,629,291
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	\$0.30	\$ 0.29	\$0.89	\$ 0.79
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	\$0.28	\$ 0.27	\$0.84	\$ 0.72
Weighted average shares, basic	2,104,205	2,054,007	2,089,516	2,060,242
Weighted average shares, diluted	2,210,421	2,207,099	2,206,805	2,244,508

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME(in thousands)  
(unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net income	\$658,664	\$ 642,114	\$1,974,061	\$ 1,736,295
Other comprehensive income (loss), net of taxes (benefits):				
Foreign currency translation adjustments	15,553	(31,074 )	7,856	(5,317 )
Changes in market value of investments:				
Changes in unrealized gains (losses), net of taxes (benefits) of \$24,514, \$(14,461), \$52,834 and \$(21,429)	43,663	(29,497 )	86,424	(32,020 )
Less: reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of \$(1,499), \$(1,795), \$(3,852) and \$(4,104)	(3,225 )	(1,698 )	(2,332 )	(12,424 )
Net change in market value of investments	40,438	(31,195 )	84,092	(44,444 )
Changes in market value of derivatives:				
Changes in market value of derivatives, net of taxes (benefits) of \$(6,035), \$(39,938), \$(21,081) and \$(51,921)	(14,198 )	(53,857 )	(37,294 )	(81,486 )
Less: reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of \$1,006, \$(1,556), \$15,284 and \$(31)	7,042	(10,891 )	26,505	(217 )
Net change in the market value of derivatives	(7,156 )	(64,748 )	(10,789 )	(81,703 )
Other comprehensive income (loss)	48,835	(127,017 )	81,159	(131,464 )
Comprehensive income	707,499	515,097	2,055,220	1,604,831
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(32,326 )	(36,465 )	(111,367 )	(107,004 )
Less: Other comprehensive income (loss) attributable to the non-controlling interest in VMware, Inc.	(1,032 )	312	(1,453 )	3,779
Comprehensive income attributable to EMC Corporation	\$674,141	\$ 478,944	\$1,942,400	\$ 1,501,606

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Nine Months Ended	
	September 30, 2012	September 30, 2011
Cash flows from operating activities:		
Cash received from customers	\$ 16,556,689	\$ 15,434,151
Cash paid to suppliers and employees	(11,950,620	) (11,577,038
Dividends and interest received	64,780	77,706
Interest paid	(16,880	) (54,683
Income taxes paid	(290,888	) (395,539
Net cash provided by operating activities	4,363,081	3,484,597
Cash flows from investing activities:		
Additions to property, plant and equipment	(523,459	) (601,177
Capitalized software development costs	(315,798	) (342,091
Purchases of short- and long-term available-for-sale securities	(5,011,791	) (5,589,382
Sales of short- and long-term available-for-sale securities	4,153,617	3,945,683
Maturities of short- and long-term available-for-sale securities	844,287	877,510
Business acquisitions, net of cash acquired	(1,878,051	) (536,624
Decrease (increase) in strategic and other related investments, net	18,648	(268,087
Joint venture funding	(217,881	) (191,624
Purchase of leasehold interest	—	(151,083
Net cash used in investing activities	(2,930,428	) (2,856,875
Cash flows from financing activities:		
Issuance of EMC's common stock from the exercise of stock options	387,782	501,627
Issuance of VMware's common stock from the exercise of stock options	214,223	285,286
EMC repurchase of EMC's common stock	(379,997	) (1,899,208
EMC purchase of VMware's common stock	(131,917	) (342,201
VMware repurchase of VMware's common stock	(307,012	) (490,916
Excess tax benefits from stock-based compensation	212,280	318,717
Payment of long-term and short-term obligations	(14,677	) (1,263
Proceeds from long-term and short-term obligations	4,279	1,253
Payment of convertible debt	(1,699,816	) —
Interest rate contract settlement	(69,905	) —
Net cash used in financing activities	(1,784,760	) (1,626,705
Effect of exchange rate changes on cash and cash equivalents	(18,112	) 5,455
Net decrease in cash and cash equivalents	(370,219	) (993,528
Cash and cash equivalents at beginning of period	4,531,036	4,119,138
Cash and cash equivalents at end of period	\$ 4,160,817	\$ 3,125,610
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 1,974,061	\$ 1,736,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,127,881	1,048,151
Non-cash interest expense on convertible debt	33,871	76,398
Non-cash restructuring and other special charges	8,990	(2,325
Stock-based compensation expense	658,455	613,233



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Provision for doubtful accounts	21,339	8,525	
Deferred income taxes, net	(72,657)	) 83,657	
Excess tax benefits from stock-based compensation	(212,280)	) (318,717	)
Other, net	(19,555)	) (28,740	)
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable	(207,395)	) (56,076	)
Inventories	(336,748)	) (416,898	)
Other assets	62,820	(157,024	)
Accounts payable	118,950	(75,263	)
Accrued expenses	(225,725)	) 51,747	
Income taxes payable	372,369	(13,740	)
Deferred revenue	1,058,798	1,048,545	
Other liabilities	(93)	) (113,171	)
Net cash provided by operating activities	\$4,363,081	\$3,484,597	

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

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

(unaudited)

For the nine months ended September 30, 2012:

	Common Stock		Additional	Retained	Accumulated	Non-controlling	Shareholders'
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Loss	Interest in VMware	Equity
Balance, January 1, 2012	2,048,890	\$20,489	\$3,405,513	\$16,120,621	\$(235,009 )	\$ 968,089	\$20,279,703
Stock issued through stock option and stock purchase plans	30,336	303	387,479	—	—	—	387,782
Tax benefit from stock options exercised	—	—	257,052	—	—	—	257,052
Restricted stock grants, cancellations and withholdings, net	10,427	105	(120,434 )	—	—	—	(120,329 )
Repurchase of common stock	(15,343 )	(153 )	(409,844 )	—	—	—	(409,997 )
EMC purchase of VMware stock	—	—	(114,033 )	—	—	(17,884 )	(131,917 )
Stock options issued in business acquisitions	—	—	17,994	—	—	—	17,994
Stock-based compensation	—	—	660,462	—	—	—	660,462
Impact from equity transactions of VMware, Inc.	—	—	(274,662 )	—	—	88,621	(186,041 )
Change in market value of investments	—	—	—	—	82,905	1,187	84,092
Change in market value of derivatives	—	—	—	—	(11,055 )	266	(10,789 )
Translation adjustment	—	—	—	—	7,856	—	7,856
Convertible debt conversions and warrant settlement	32,345	323	(1,027 )	—	—	—	(704 )
Reclassification of convertible debt (to)/from mezzanine (Note 4)	—	—	46,045	—	—	—	46,045
Net income	—	—	—	1,862,694	—	111,367	1,974,061
Balance, September 30, 2012	2,106,655	\$21,067	\$3,854,545	\$17,983,315	\$(155,303 )	\$ 1,151,646	\$22,855,270

For the nine months ended September 30, 2011:

	Common Stock		Additional	Retained	Accumulated	Non-controlling	Shareholders'
	Shares	Par Value	Paid-in	Earnings	Other	Interest in	Equity

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	Capital				Comprehensive VMware Loss		
Balance, January 1, 2011	2,069,246	\$ 20,692	\$ 4,283,830	\$ 13,659,284	\$(92,617)	\$ 762,736	\$ 18,633,925
Stock issued through stock option and stock purchase plans	39,010	391	501,236	—	—	—	501,627
Tax benefit from stock options exercised	—	—	362,495	—	—	—	362,495
Restricted stock grants, cancellations and withholdings, net	8,894	89	(110,247)	—	—	—	(110,158)
Repurchase of common stock	(77,193)	(772)	(1,898,436)	—	—	—	(1,899,208)
EMC purchase of VMware stock	—	—	(304,022)	—	—	(38,179)	(342,201)
Stock options issued in business acquisitions	—	—	3,224	—	—	—	3,224
Stock-based compensation	—	—	629,301	—	—	—	629,301
Impact from equity transactions of VMware, Inc.	—	—	(380,821)	—	—	70,203	(310,618)
Change in market value of investments	—	—	—	—	(40,665)	(3,779)	(44,444)
Change in market value of derivatives	—	—	—	—	(81,703)	—	(81,703)
Translation adjustment	—	—	—	—	(5,317)	—	(5,317)
Reclassification of convertible debt (to)/from mezzanine (Note 4)	—	—	90,367	—	—	—	90,367
Net income	—	—	—	1,629,291	—	107,004	1,736,295
Balance, September 30, 2011	2,039,957	\$ 20,400	\$ 3,176,927	\$ 15,288,575	\$(220,302)	\$ 897,985	\$ 19,163,585

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

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Company

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

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

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

General

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

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

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any future period or the entire fiscal year. The interim consolidated financial statements, in the opinion of management, reflect all adjustments necessary to fairly state the results as of and for the three- and nine-month periods ended September 30, 2012 and 2011.

Net Income Per Share

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

Adjustments for Immaterial Prior Period Accounting Error

During the second quarter of 2012, we determined that since VMware’s public offering in 2007, we have incorrectly recorded deferred tax liabilities on the gains and losses associated with changes in the non-controlling interest. These deferred tax liabilities were recorded as a reduction to additional paid-in capital and therefore had no impact on our previously reported consolidated income statements. The error resulted in an overstatement of our deferred tax liability and an understatement of our additional paid-in capital of \$352.6 million in our December 31, 2011 consolidated balance sheet and an understatement of additional paid-in capital of \$357.2 million in our statement of shareholders’ equity for the nine months ended September 30, 2011. These corrections are reflected in the

consolidated balance sheets as of December 31, 2011 and in the statement of shareholders' equity for the nine months ended September 30, 2011 and are not material to the consolidated balance sheets or statements of shareholders' equity for the years ended December 31, 2011, 2010, 2009, 2008 or 2007 or any related interim

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

periods. In addition, the error resulted in an overstatement of our deferred tax liability and an understatement of our additional paid-in capital of \$467.1 million in our December 31, 2010 consolidated balance sheet and statement of shareholders' equity and an understatement of additional paid-in capital of \$499.6 million in our statement of shareholders' equity at December 31, 2009. These adjusted prior-period balances will be reflected in our future filings.

## Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued new guidance intended to simplify the impairment testing of indefinite-lived intangible assets other than goodwill. Under this guidance, an entity is allowed to perform a qualitative assessment about the likelihood of impairment of an indefinite-lived intangible asset to determine whether further impairment testing is necessary, similar in approach to the goodwill impairment test. This new guidance is effective for fiscal years beginning after September 15, 2012. We do not believe the adoption of the new guidance will have an impact on our consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued new guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased disclosures regarding valuation inputs and investment categorization. The adoption of this new accounting guidance in 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows.

## 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 \$1,151.6 million and \$968.1 million as of September 30, 2012 and December 31, 2011, respectively. At September 30, 2012, EMC held approximately 97% of the combined voting power of VMware's outstanding common stock and approximately 79% of the economic interest in VMware.

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

	For the Nine Months Ended	
	September 30,	September 30,
	2012	2011
Net income attributable to EMC Corporation	\$1,862,694	\$1,629,291
Transfers (to) from the non-controlling interest in VMware, Inc.:		
Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuances	17,635	160,908
Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity	(392,297)	(541,729)
Net transfers (to) from non-controlling interest	(274,662)	(380,821)
Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	\$1,588,032	\$1,248,470

## 3. Business Combinations, Intangibles and Goodwill

During the nine months ended September 30, 2012, we acquired seven companies. We acquired all of the outstanding capital stock of Pivotal Labs, a provider of services and technology to build Big Data applications; Likewise Software, a provider of technology for managing cross-platform access to data files and software for managing unstructured data; XtremIO, a provider of Flash enterprise storage systems; Watch4Net, a provider of enterprise and carrier-class performance management software; and Tiburon Technologies, a provider of support and modernization services for legacy database management systems. These acquisitions complement and expand our Information Storage segment. We also acquired all of the outstanding capital stock of Syncplicity, a provider of cloud-based synch and share file management which complements and expands our Information Intelligence Group segment, and Silicium Security, a provider of enterprise malware detection solutions which complements and expands our RSA Information Security segment. In connection with our acquisitions, we had adjustments to the fair value of previously held interests in

XtremIO which resulted in a gain of \$31.6 million which was recognized in other income (expense) in the second quarter of 2012. Additionally, during the nine months ended September 30, 2012, VMware acquired six companies, including the acquisition of Nicira, Inc. (“Nicira”), which is discussed further below.

The aggregate consideration for these thirteen acquisitions was \$1,899.2 million which consisted of \$1,878.1 million of cash consideration, net of cash acquired and \$21.1 million for the fair value of our stock options granted in exchange for the acquirees’ stock options. The consideration paid was allocated to the fair value of the assets acquired and liabilities assumed based on estimated fair values as of the respective acquisition dates.

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The aggregate allocation to goodwill, intangibles and net liabilities was approximately \$1,583.7 million, \$553.0 million and \$237.5 million, respectively. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired companies were not material, individually or in the aggregate, to our consolidated results of operations for the three or nine months ended September 30, 2012 or 2011.

## Acquisition of Nicira

On August 24, 2012, VMware acquired all of the outstanding capital stock of Nicira, a developer of software-defined networking solutions. This acquisition expands VMware's product portfolio to provide a suite of software-defined networking capabilities.

The aggregate consideration paid for Nicira was \$1,099.6 million, net of cash acquired, including cash of \$1,083.0 million and the fair value of assumed equity attributed to pre-combination services of \$16.6 million. Additionally, VMware assumed all of Nicira's unvested stock options and restricted stock outstanding. These converted into 1.1 million stock options to purchase VMware Class A common stock. The assumed restricted stock converted into 0.6 million shares of restricted VMware Class A common stock.

The weighted-average acquisition-date fair value of the stock options was determined using the Black-Scholes option pricing model with the following weighted-average assumptions: (i) market price of \$92.21 per share, which was the closing price of VMware's Class A common stock on the acquisition date; (ii) expected term of 2.7 years; (iii) risk-free interest rate of 0.3%; (iv) annualized volatility of 35.7%; and (v) no dividend yield. The assumed restricted stock converted into 0.6 million shares of restricted VMware Class A common stock. The fair value of the restricted stock was based on the acquisition-date closing price of \$92.21 per share for VMware's Class A common stock.

The purchase price has been allocated to the assets acquired and the liabilities assumed based on estimated fair values as of the acquisition date. The following table summarizes the allocation of the Nicira purchase price (table in thousands):

## Intangible assets:

Purchased technology (weighted-average useful life of 7 years)	\$266,000	
Trademarks and tradenames (weighted-average useful life of 10 years)	20,100	
In-process research and development	48,500	
Total intangible assets	334,600	
Goodwill	947,956	
Deferred tax liabilities, net	(78,247	)
Income tax payable	(103,822	)
Other current liabilities, net of current assets	(863	)
Total purchase price	\$1,099,624	

In connection with the Nicira acquisition, we acquired one in-process research and development ("IPR&D") project which is expected to be completed by the end of 2012. The value assigned to the IPR&D project was determined using a discounted cash flow model with a discount rate of 17.0%. Upon completion, the project will be amortized over its projected remaining useful life. The estimated costs to complete the project are not material.





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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Intangible Assets

Intangible assets, excluding goodwill, as of September 30, 2012 and December 31, 2011 consist of (tables in thousands):

	September 30, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$2,085,323	\$(1,153,712)	\$931,611
Patents	225,146	(83,235)	141,911
Software licenses	94,495	(87,456)	7,039
Trademarks and tradenames	194,891	(107,397)	87,494
Customer relationships and customer lists	1,372,665	(700,069)	672,596
In-process research and development	71,700	—	71,700
Leasehold interest	146,757	(5,769)	140,988
Other	25,822	(25,801)	21
Total intangible assets, excluding goodwill	\$4,216,799	\$(2,163,439)	\$2,053,360
	December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$1,620,977	\$(1,020,356)	\$600,621
Patents	225,146	(72,078)	153,068
Software licenses	90,093	(83,999)	6,094
Trademarks and tradenames	172,851	(93,636)	79,215
Customer relationships and customer lists	1,329,775	(597,117)	732,658
In-process research and development	43,900	—	43,900
Leasehold interest	146,757	(2,524)	144,233
Other	30,149	(23,823)	6,326
Total intangible assets, excluding goodwill	\$3,659,648	\$(1,893,533)	\$1,766,115

## Goodwill

Changes in the carrying amount of goodwill, net, on a consolidated basis and by segment, for the nine months ended September 30, 2012 and the year ended December 31, 2011 consist of (tables in thousands):

	Nine Months Ended September 30, 2012				
	Information Storage	Information Intelligence Group	RSA Information Security	VMware Virtual Infrastructure	Total
Balance, beginning of the period	\$7,033,965	\$1,469,216	\$1,849,116	\$1,802,673	\$12,154,970
Goodwill resulting from acquisitions	427,553	14,493	3,751	1,137,914	1,583,711
Tax deduction from exercise of stock options	(6)	—	—	—	(6)
Finalization of purchase price allocations	(659)	—	(6,099)	(3,661)	(10,419)
Balance, end of the period	\$7,460,853	\$1,483,709	\$1,846,768	\$2,936,926	\$13,728,256
	Year Ended December 31, 2011				
	Information Storage	Information Intelligence Group	RSA Information Security	VMware Virtual Infrastructure	Total
Balance, beginning of the year	\$7,029,341	\$1,467,903	\$1,663,213	\$1,612,193	\$11,772,650

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Goodwill resulting from acquisitions	—	—	187,445	188,395	375,840
Tax deduction from exercise of stock options	(73 )	(852 )	(95 )	—	(1,020 )
Finalization of purchase price allocations	4,697	2,165	(1,447 )	2,085	7,500
Balance, end of the year	\$7,033,965	\$1,469,216	\$1,849,116	\$1,802,673	\$12,154,970

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EMC CORPORATION

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4. Convertible Debt

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

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

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

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

At September 30, 2012, the contingent conversion thresholds on the 2013 Notes were exceeded. As a result, the 2013 Notes became convertible at the option of the holder through December 31, 2012. Accordingly, since the terms of the 2013 Notes require the principal to be settled in cash, we reclassified from shareholders’ equity the portion of the 2013 Notes attributable to the conversion feature which had not yet been accreted to its face value, and the 2013 Notes were classified as a current liability. Contingencies continue to exist regarding the holders’ ability to convert the 2013 Notes in future quarters. The determination of whether the 2013 Notes are convertible will be performed on a quarterly basis. Consequently, the 2013 Notes might not be convertible in future quarters and may be reclassified as long-term debt if the contingent conversion thresholds are not met. Approximately \$14.8 million of the 2013 Notes have been converted as of September 30, 2012.

The carrying amount of the 2013 Notes reported in the consolidated balance sheets as of September 30, 2012 was \$1,636.9 million and the fair value was \$2,938.1 million. The carrying amount of the equity component of the 2013 Notes was \$309.5 million at September 30, 2012. As of September 30, 2012, the unamortized discount on the 2013 Notes consists of \$73.3 million, which will be fully amortized by December 1, 2013.

The 2013 Notes pay interest in cash at a rate of 1.75% semi-annually in arrears on December 1 and June 1 of each year. The effective interest rate on the 2011 Notes and 2013 Notes was 5.6% for both the three months ended September 30, 2012 and 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	For the Three Months Ended	
	September 30, 2012	September 30, 2011
Contractual interest expense on the coupon	\$7,482	\$15,078
Amortization of the discount component recognized as interest expense	15,405	30,852
Total interest expense on the convertible debt	\$22,887	\$45,930

	For the Nine Months Ended	
	September 30, 2012	September 30, 2011
Contractual interest expense on the coupon	\$22,427	\$45,266
Amortization of the discount component recognized as interest expense	45,059	90,174
Total interest expense on the convertible debt	\$67,486	\$135,440

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

We also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. We received aggregate proceeds of \$391.1 million from the sale of the associated warrants. Upon exercise, the value of the warrants is required to be settled in shares. Half of the associated warrants were exercised between February 15, 2012 and March 14, 2012 and the remaining half of the associated warrants have expiration dates between February 18, 2014 and March 18, 2014. During the first quarter of 2012, the exercised warrants were settled with 32.3 million shares of our common stock.

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

In 2010, EMC entered into interest rate swap contracts with an aggregate notional amount of approximately \$900 million. These swaps were designated as cash flow hedges of the semi-annual interest payments of the forecasted issuance of debt in 2011 when our 2011 Notes were scheduled to become due. As such, the unrealized loss on these hedges was recognized in other comprehensive loss. In November 2011, we settled the swaps and replaced them with new interest rate swap contracts for the forecasted issuance of debt in 2012. In April 2012, we settled the swaps and replaced them with new interest rate swap contracts for the forecasted issuance of debt in 2012. Each of these new swaps was deemed as an effective hedge as the notional amounts and other terms matched the underlying hedged item. Losses on the interest rate swap contracts at the time of settlement of \$141.0 million in November 2011 and \$23.0 million in April 2012 were deferred as they were expected to be realized over the life of the new debt issued

under the related interest rate swap contracts and recognized as a component of interest expense in the consolidated income statements.

In June 2012, management changed its forecast date for the issuance of debt from 2012 to the first quarter of 2014. Consequently, hedge accounting effectively ceased as the terms of the swaps no longer matched the terms of the underlying hedged item resulting in changes in the fair value of the swaps being recorded in the consolidated income statement. The swaps were subsequently re-designated as cash flow hedges and achieved hedge accounting. The change in the forecasted timeframe for the issuance of debt resulted in certain previously-anticipated hedge interest payments no longer being expected to occur within the window covered by the hedge designation. As a result, \$39.5 million of accumulated realized losses in other

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

comprehensive income related to these previously-anticipated interest payments was reclassified from other comprehensive income and recognized in the consolidated income statements for the nine months ended September 30, 2012.

In July 2012, we settled the interest rate swap contracts and did not replace them. Losses on the interest rate swap contracts at the time of settlement of \$45.5 million were deferred as they are expected to be realized over the life of the new debt issued under the related interest rate swap contracts and recognized as a component of interest expense in the consolidated income statements.

5. Fair Value of Financial Assets and Liabilities

Our fixed income and equity investments are classified as available for sale and recorded at their fair market values. We determine fair value using the following hierarchy:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Most of our fixed income securities are classified as Level 2, with the exception of some of our U.S. government and agency obligations and our investments in publicly traded equity securities, which are classified as Level 1, and all of our auction rate securities, which are classified as Level 3. In addition, our strategic investments held at cost are classified as Level 3. At September 30, 2012, the vast majority of our Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. In the event observable inputs are not available, we assess other factors to determine the security's market value, including broker quotes or model valuations. Each month, we perform independent price verifications of all of our fixed income holdings. In the event a price fails a pre-established tolerance check, it is researched so that we can assess the cause of the variance to determine what we believe is the appropriate fair market value.

In general, investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. Our publicly traded equity securities are classified as long-term investments and our strategic investments held at cost are classified as other assets. As a result of the lack of liquidity for auction rate securities, we have classified these as long-term investments as of September 30, 2012 and December 31, 2011. At September 30, 2012 and December 31, 2011, all of our short- and long-term investments, excluding auction rate securities, were recognized at fair value, which was determined based upon observable inputs from our pricing vendors for identical or similar assets. At September 30, 2012 and December 31, 2011, auction rate securities were valued using a discounted cash flow model.



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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables summarize the composition of our short- and long-term investments at September 30, 2012 and December 31, 2011 (tables in thousands):

	September 30, 2012			Aggregate Fair Value
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
U.S. government and agency obligations	\$2,033,500	\$11,321	\$(1,005)	) \$2,043,816
U.S. corporate debt securities	1,360,511	12,772	(97)	) 1,373,186
High yield corporate debt securities	468,285	31,408	(1,076)	) 498,617
Asset-backed securities	3,227	8	—	) 3,235
Municipal obligations	1,023,504	4,379	(366)	) 1,027,517
Auction rate securities	80,706	—	(5,860)	) 74,846
Foreign debt securities	1,243,175	10,013	(198)	) 1,252,990
Total fixed income securities	6,212,908	69,901	(8,602)	) 6,274,207
Publicly traded equity securities	47,786	97,815	(625)	) 144,976
Total	\$6,260,694	\$167,716	\$(9,227)	) \$6,419,183

We held approximately \$1.3 billion in foreign debt securities at September 30, 2012. These securities have an average credit rating of A+, and approximately 5% of these securities are deemed sovereign debt with an average credit rating of AA. None of the securities deemed sovereign debt are from Greece, Italy, Ireland, Portugal or Spain. Additionally, we have an immaterial amount of exposure to French agencies and financial institutions.

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

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table represents our fair value hierarchy for our financial assets and liabilities measured at fair value as of September 30, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
Cash	\$1,441,347	\$—	\$—	\$1,441,347
Cash equivalents	2,715,470	4,000	—	2,719,470
U.S. government and agency obligations	1,128,224	915,592	—	2,043,816
U.S. corporate debt securities	—	1,373,186	—	1,373,186
High yield corporate debt securities	—	498,617	—	498,617
Asset-backed securities	—	3,235	—	3,235
Municipal obligations	—	1,027,517	—	1,027,517
Auction rate securities	—	—	74,846	74,846
Foreign debt securities	—	1,252,990	—	1,252,990
Publicly traded equity securities	144,976	—	—	144,976
Total cash and investments	\$5,430,017	\$5,075,137	\$74,846	\$10,580,000
Other items:				
Strategic investments held at cost	\$—	\$—	\$254,338	\$254,338
Convertible debt	—	(2,938,101 )	—	(2,938,101 )
Foreign exchange derivative assets	—	47,311	—	47,311
Foreign exchange derivative liabilities	—	(23,426 )	—	(23,426 )
Commodity derivative liabilities	—	(1,502 )	—	(1,502 )

Our auction rate securities are predominantly rated investment grade and are primarily collateralized by student loans. The underlying loans of all but two of our auction rate securities, with a market value of \$16.6 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. We believe the quality of the collateral underlying most of our auction rate securities will enable us to recover our principal balance.

To determine the estimated fair value of our investment in auction rate securities, we used a discounted cash flow model using a five year time horizon. As of September 30, 2012, the coupon rates used ranged from 0% to 4% and the discount rate was 1%, which rate represents the rate at which similar FFELP backed securities with a five year time horizon outside of the auction rate securities market were trading at September 30, 2012. The assumptions used in preparing the discounted cash flow model include an incremental discount rate for the lack of liquidity in the market (“liquidity discount margin”) for an estimated period of time. The discount rate we selected was based on AA-rated banks as the majority of our portfolio is invested in student loans where EMC acts as a financier to these lenders. The liquidity discount margin represents an estimate of the additional return an investor would require for the lack of liquidity of these securities over an estimated five-year holding period. The rate used for the discount margin was 1% at September 30, 2012 compared to 2% at December 31, 2011 due to the narrowing of credit spreads on AA-rated banks during 2012.

The following table provides a summary of changes in fair value of our Level 3 auction rate securities for the three and nine months ended September 30, 2012 (table in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Balance, beginning of the period	\$73,896	\$99,154	\$74,596	\$146,044
Calls at par value	—	(13,100 )	(225 )	(64,600 )
Other-than-temporary impairment loss	—	—	(1,969 )	—

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(Increase) decrease in previously recognized unrealized losses included in other comprehensive income	950	(4,963	) 2,444	(353	)
Balance, end of the period	\$74,846	\$81,091	\$74,846	\$81,091	

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

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

fair value measurement and a decrease in the discount rate, liquidity discount margin or coupon rate results in an increase in our fair value measurement.

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

## Investment Losses

Unrealized losses on investments at September 30, 2012 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (table in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	\$247,834	\$(906)	\$9,186	\$(99)	\$257,020	\$(1,005)
U.S. corporate debt securities	96,205	(91)	2,234	(6)	98,439	(97)
High yield corporate debt securities	30,208	(697)	1,354	(379)	31,562	(1,076)
Municipal obligations	192,338	(362)	2,614	(4)	194,952	(366)
Auction rate securities	—	—	74,846	(5,860)	74,846	(5,860)
Foreign debt securities	98,849	(198)	—	—	98,849	(198)
Publicly traded equity securities	1,097	(625)	—	—	1,097	(625)
Total	\$666,531	\$(2,879)	\$90,234	\$(6,348)	\$756,765	\$(9,227)

For all of our securities for which the amortized cost basis was greater than the fair value at September 30, 2012, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating, the underlying value and performance of the collateral, third party guarantees and the time to maturity.

## Contractual Maturities

The contractual maturities of fixed income securities held at September 30, 2012 are as follows (table in thousands):

	September 30, 2012	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	\$1,271,478	\$1,275,151
Due after 1 year through 5 years	4,083,712	4,118,038
Due after 5 years through 10 years	463,518	488,630
Due after 10 years	394,200	392,388
Total	\$6,212,908	\$6,274,207

Short-term investments on the consolidated balance sheet include a \$9.7 million variable rate note which has a contractual maturity in 2014, and is not classified within investments due within one year above.

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 6. Inventories

Inventories consist of (table in thousands):

	September 30, 2012	December 31, 2011
Work-in-process	\$595,380	\$492,064
Finished goods	562,882	517,904
	\$1,158,262	\$1,009,968

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

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

The contractual amounts due under the leases we retained as of September 30, 2012 were as follows (table in thousands):

Year	Contractual Amounts Due Under Leases
Due within one year	\$154,858
Due within two years	98,920
Due within three years	88,997
Thereafter	1,524
Total	344,299
Less amounts representing interest	(9,049)
Present value	335,250
Current portion (included in accounts and notes receivable)	153,013
Long-term portion (included in other assets, net)	\$182,237

Subsequent to September 30, 2012, we sold \$54.8 million of these notes to third parties without recourse.

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

In the event we determine that a lease may not be paid, we include in our allowance an amount for the outstanding balance related to the lease receivable. As of September 30, 2012, 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 nine months ended September 30, 2012 and 2011 (table in thousands):

	September 30, 2012	September 30, 2011
Balance, beginning of the period	\$24,247	\$44,661
Recoveries	(15,923)	(27,539)
Provisions	8,634	10,066
Balance, end of the period	\$16,958	\$27,188

Gross lease receivables totaled \$344.3 million and \$335.5 million as of September 30, 2012 and December 31, 2011, respectively, before the allowance. The components of these balances were individually evaluated for impairment.



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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 8. Property, Plant and Equipment

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

	September 30, 2012	December 31, 2011
Furniture and fixtures	\$ 185,933	\$ 180,800
Equipment and software	5,129,879	4,680,118
Buildings and improvements	1,806,957	1,748,214
Land	123,334	117,513
Building construction in progress	190,934	146,650
	7,437,037	6,873,295
Accumulated depreciation	(4,453,591	) (4,040,146
	\$ 2,983,446	\$ 2,833,149

Building construction in progress at September 30, 2012 includes \$66.5 million for facilities not yet placed in service that we are holding for future use.

## 9. Joint Ventures

## VCE Company LLC

In 2009, Cisco and EMC formed VCE Company LLC (“VCE”), with investments from VMware and Intel. VCE, through Vblock infrastructure platforms, delivers an integrated IT offering that combines network, computing, storage, management, security and virtualization technologies for converged infrastructures and cloud based computing models. As of September 30, 2012, we have contributed \$667.2 million in funding and \$13.2 million in 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 determined by its board of directors, which is comprised of equal representation of EMC and Cisco, and all significant decisions require the approval of the minority shareholders, we have determined we are not the primary beneficiary, and as such we account for the investment under the equity method.

Our portion of VCE’s gains and losses is recognized in other income (expense), net, in the consolidated income statements. Our consolidated share of VCE’s losses, based upon our portion of the overall funding, was approximately 63.2% for the three and nine months ended September 30, 2012 and 2011. As of September 30, 2012, we have recorded net accumulated losses from VCE of \$430.2 million since inception, of which \$61.9 million and \$176.9 million were recorded in the three and nine months ended September 30, 2012, respectively, and \$50.2 million and \$138.7 million were recorded in the three and nine months ended September 30, 2011, respectively.

We recognized \$65.3 million and \$41.9 million in revenue from sales of product and services to VCE during the three months ended September 30, 2012 and 2011, respectively, and \$210.8 million and \$86.4 million for the nine months ended September 30, 2012 and 2011, respectively. We perform certain administrative services, pursuant to an administrative services agreement, on behalf of VCE and we pay certain operating expenses on behalf of VCE. Accordingly, we have a receivable from VCE related to the administrative services agreement of \$28.8 million and \$27.0 million as of September 30, 2012 and December 31, 2011, respectively, which is included in other current assets



in the consolidated balance sheets.

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 10. Accrued Expenses

Accrued expenses consist of (table in thousands):

	September 30, 2012	December 31, 2011
Salaries and benefits	\$938,841	\$961,587
Product warranties	264,817	254,554
Partner rebates	153,552	167,813
Restructuring, current (See Note 13)	69,578	61,541
Derivatives	29,589	50,963
Other	861,191	858,521
	\$2,317,568	\$2,354,979

## Product Warranties

Systems sales include a standard product warranty. At the time of the sale, we accrue for systems' warranty costs. The initial systems' warranty accrual is based upon our historical experience, expected future costs and specific identification of systems' requirements. Upon sale or expiration of the initial warranty, we may sell additional maintenance contracts to our customers. Revenue from these additional maintenance contracts is included in deferred revenue and recognized ratably over the service period. The following represents the activity in our warranty accrual for the three and nine months ended September 30, 2012 and 2011 (table in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Balance, beginning of the period	\$262,059	\$ 248,395	\$254,554	\$ 236,131
Provision	41,303	42,535	129,358	130,775
Amounts charged to the accrual	(38,545 )	(41,955 )	(119,095 )	(117,931 )
Balance, end of the period	\$264,817	\$ 248,975	\$264,817	\$ 248,975

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

## 11. Income Taxes

Our effective income tax rates were 22.0% and 23.0% for the three and nine months ended September 30, 2012, respectively. Our effective income tax rates were 21.0% and 21.1% for the three and nine months ended September 30, 2011, respectively. Our effective income tax rate is based upon estimated income before tax for the year, composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for potential tax consequences, benefits and/or resolutions of tax audits or other tax contingencies. For the three and nine months ended September 30, 2012 and 2011, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish subsidiaries. We do not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on our effective income rate.

Our effective income tax rate increased in the three and nine months ended September 30, 2012 from the three and nine months ended September 30, 2011 due primarily to the expiration of the U.S. federal research and development

tax credit for 2012 partially offset by a difference in composition of income before tax in different countries. The U.S. federal research and development tax credit reduced our effective income tax rate by approximately 2.2% for the three and nine months ended September 30, 2011. There were also differences in change in tax contingency reserves and discrete items, the net impact of which is immaterial.

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

During the second quarter of 2012, we determined that since VMware's public offering in 2007, we have incorrectly recorded deferred tax liabilities on the gains and losses associated with changes in the non-controlling interest. These deferred tax liabilities were recorded as a reduction to additional paid-in capital and therefore had no impact on our previously reported consolidated income statements. The error resulted in an overstatement of our deferred tax liability and an understatement of our additional paid-in capital of \$352.6 million in our December 31, 2011 consolidated balance sheet and an understatement of additional paid-in capital of \$357.2 million in our statement of shareholders' equity for the nine months ended September 30, 2011. These corrections, which have been recorded herein, did not impact our income tax provision in any current or prior period. See Note 1.

We are routinely under audit by the Internal Revenue Service (the "IRS"). We have concluded all U.S. federal income tax matters for years through 2008. The IRS commenced a federal income tax audit for the tax years of 2009 and 2010 in the third quarter of 2012. We also have income tax audits in process in numerous state, local and international jurisdictions.

As of September 30, 2012, we had gross unrecognized tax benefits totaling \$314.6 million. We recorded a net increase in gross unrecognized tax benefits of \$112.6 million in the quarter ended September 30, 2012. If recognized, approximately \$308.9 million of our gross unrecognized tax benefits, not including interest, would affect income tax expense and lower our effective tax rate in the period or periods recognized. Our net unrecognized tax benefits and related accrued interest were classified as non-current liabilities on the consolidated balance sheet. Based on the timing and outcome of examinations of EMC, the result of the expiration of statutes of limitations for specific jurisdictions and/or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our statement of financial position. We anticipate that several of these audits may be finalized within the next 12 months. Based on the status of these examinations, and the protocol of finalizing such audits, it is not possible to estimate the impact of the amount of such changes, if any, to our previously recorded uncertain tax positions.

## 12. Stockholders' Equity

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Numerator:				
Net income attributable to EMC Corporation	\$626,338	\$ 605,649	\$1,862,694	\$ 1,629,291
Incremental dilution from VMware	(1,766 )	(3,233 )	(7,425 )	(11,178 )
Net income – dilution attributable to EMC Corporation	\$624,572	\$ 602,416	\$1,855,269	\$ 1,618,113
Denominator:				
Weighted average shares, basic	2,104,205	2,054,007	2,089,516	2,060,242
Weighted common stock equivalents	38,043	46,629	41,974	55,418
Assumed conversion of the 2013 Notes and associated warrants	68,173	106,463	75,315	128,848
Weighted average shares, diluted	2,210,421	2,207,099	2,206,805	2,244,508

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

Concurrent with the issuance of the 2011 Notes and 2013 Notes, we also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. Half of the associated warrants were exercised during the nine months ended September 30, 2012. We include the impact of the remaining outstanding sold warrants in our diluted earnings per share calculation when the average stock price exceeds the exercise price.

Restricted stock awards, restricted stock units and options to acquire shares of our common stock in the amount of 5.2 million and 4.3 million for the three and nine months ended September 30, 2012, respectively, and 17.6 million and 15.4 million for the three and nine months ended September 30, 2011, respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive. The incremental dilution from VMware represents the impact of VMware's

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 nine months ended September 30, 2012, we spent \$410.0 million to repurchase 15.3 million shares of our common stock. Of the 250.0 million shares authorized for repurchase, we have repurchased 211.2 million shares at a total cost of \$4.1 billion, leaving a remaining balance of 38.8 million shares authorized for future repurchases. We plan to spend up to \$700.0 million in 2012 on common stock repurchases.

**Accumulated Other Comprehensive Loss**

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

	September 30, 2012	December 31, 2011
Foreign currency translation adjustments	\$(2,924 )	\$(10,780 )
Unrealized losses on temporarily impaired investments, net of tax benefits of \$(3,128) and \$(8,492)	(6,099 )	(15,044 )
Unrealized gains on investments, net of taxes of \$61,961 and \$18,343	105,755	30,608
Unrealized losses on derivatives, net of tax benefits of \$(68,007) and \$(62,210)	(111,235 )	(100,446 )
Recognition of actuarial net loss from pension and other postretirement plans, net of tax benefits of \$(81,798) and \$(81,798)	(139,108 )	(139,108 )
	(153,611 )	(234,770 )
Less: accumulated other comprehensive income attributable to the non-controlling interest in VMware, Inc.	(1,692 )	(239 )
	\$(155,303 )	\$(235,009 )

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

For the three and nine months ended September 30, 2012, we incurred restructuring and acquisition-related charges of \$27.1 million and \$80.6 million, respectively. For the three and nine months ended September 30, 2011, we incurred restructuring and acquisition-related charges of \$20.3 million and \$68.4 million, respectively. For the three and nine months ended September 30, 2012, we incurred \$22.3 million and \$70.1 million, respectively, of restructuring charges, primarily related to our current year restructuring programs and \$4.8 million and \$10.5 million, respectively, of charges in connection with acquisitions for financial advisory, legal and accounting services. For the three and nine months ended September 30, 2011, we incurred \$16.9 million and \$58.1 million, respectively, of restructuring charges, primarily related to our 2011 restructuring programs and \$3.4 million and \$10.3 million, respectively, of costs in connection with acquisitions for financial advisory, legal and accounting services.

In the first, second and third quarters of 2012, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 298, 279 and 292 positions, respectively. The actions will impact positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions are expected to be completed within a year of the start of each program.

During 2011, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 787 positions, of which 208 positions were identified in the three months ended

September 30, 2011. The actions will impact positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions are expected to be completed by the end of 2012.

For the three and nine months ended September 30, 2012, we recognized \$6.6 million and \$14.9 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. For the three and nine months ended September 30, 2011, we recognized \$1.9 million and \$24.3 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs. These costs are expected to be utilized by the end of 2015.

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

Three Months Ended September 30, 2012:

## 2012 Programs

Category	Balance as of June 30, 2012	2012 Charges	Utilization	Balance as of September 30, 2012
Workforce reductions	\$33,908	\$16,888	\$(10,993 )	\$39,803
Consolidation of excess facilities and other contractual obligations	2,926	8,317	(3,400 )	7,843
Total	\$36,834	\$25,205	\$(14,393 )	\$47,646

## Other Programs

Category	Balance as of June 30, 2012	Adjustments to the Provision	Utilization	Balance as of September 30, 2012
Workforce reductions	\$20,151	\$(1,156 )	\$(4,675 )	\$14,320
Consolidation of excess facilities and other contractual obligations	25,624	(1,763 )	(2,267 )	21,594
Total	\$45,775	\$(2,919 )	\$(6,942 )	\$35,914

Nine Months Ended September 30, 2012:

## 2012 Programs

Category	Balance as of December 31, 2011	2012 Charges	Utilization	Balance as of September 30, 2012
Workforce reductions	\$—	\$62,624	\$(22,821 )	\$39,803
Consolidation of excess facilities and other contractual obligations	—	13,879	(6,036 )	7,843
Total	\$—	\$76,503	\$(28,857 )	\$47,646

## Other Programs

Category	Balance as of December 31, 2011	Adjustments to the Provision	Utilization	Balance as of September 30, 2012
Workforce reductions	\$49,863	\$(7,396 )	\$(28,147 )	\$14,320
Consolidation of excess facilities and other contractual obligations	30,112	1,000	(9,518 )	21,594
Total	\$79,975	\$(6,396 )	\$(37,665 )	\$35,914

Three Months Ended September 30, 2011:

Category	Balance as of June 30, 2011	2011 Charges	Utilization	Balance as of September 30, 2011
Workforce reductions	\$36,562	\$14,977	\$(13,732 )	\$37,807
Consolidation of excess facilities and other contractual obligations	35,386	1,904	(4,123 )	33,167
Total	\$71,948	\$16,881	\$(17,855 )	\$70,974





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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Nine Months Ended September 30, 2011:

Category	Balance as of December 31, 2010	2011 Charges	Utilization	Balance as of September 30, 2011
Workforce reductions	\$53,946	\$33,752	\$(49,891 )	\$37,807
Consolidation of excess facilities and other contractual obligations	27,818	24,326	(18,977 )	33,167
Total	\$81,764	\$58,078	\$(68,868 )	\$70,974

## 14. Commitments and Contingencies

## Line of Credit

We have available for use a credit line of \$50.0 million in the United States. As of September 30, 2012, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At September 30, 2012, we were in compliance with the covenants.

## RSA Special Charge

In March 2011, RSA was the target of a sophisticated cyber attack which resulted in information related to RSA's SecurID products being compromised. In the first quarter of 2011, we incurred and accrued costs associated with investigating the attack, hardening our systems and working with our customers to implement remediation programs. In the second quarter of 2011, we recorded a \$66.3 million charge in cost of sales related to the expansion of the customer remediation programs. We expanded our customer remediation programs in June 2011 to respond to heightened customer concerns resulting from press coverage relating to an unsuccessful cyber attack on one of our defense sector customers, as well as broad media coverage of cyber attacks on other high profile organizations. As of June 30, 2012, we had substantially completed the remediation efforts and concluded that no additional material losses related to the remediation efforts were reasonably possible. Accordingly, we released the excess reserve against cost of sales during the second quarter of 2012.

## Litigation

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

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 15. Segment Information

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

Our segment information for the three and nine months ended September 30, 2012 and 2011 is as follows (tables in thousands, except percentages):

	EMC Information Infrastructure				VMware	Corp		
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	Virtual Infrastructure within EMC	Reconciling Items	Consolidated	
Three Months Ended:								
September 30, 2012								
Revenues:								
Product revenues	\$2,438,665	\$49,881	\$106,020	\$2,594,566	\$489,875	\$—	\$3,084,441	
Services revenues	1,324,110	108,117	120,918	1,553,145	640,590	—	2,193,735	
Total consolidated revenues	3,762,775	157,998	226,938	4,147,711	1,130,465	—	5,278,176	
Cost of sales	1,625,910	50,471	81,330	1,757,711	135,588	97,338	1,990,637	
Gross profit	\$2,136,865	\$107,527	\$145,608	2,390,000	994,877	(97,338)	3,287,539	
Gross profit percentage	56.8	% 68.1	% 64.2	% 57.6	% 88.0	% —	62.3	%
Research and development				367,792	196,888	88,218	652,898	
Selling, general and administrative				1,102,888	435,454	170,452	1,708,794	
Restructuring and acquisition-related charges				—	—	27,064	27,064	
Total costs and expenses				1,470,680	632,342	285,734	2,388,756	
Operating income				919,320	362,535	(383,072)	898,783	
Other income (expense), net				(49,863)	8,498	(13,320)	(54,685)	
				869,457	371,033	(396,392)	844,098	

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Income before provision for income taxes				
Income tax provision	210,517	82,920	(108,003 )	185,434
Net income	658,940	288,113	(288,389 )	658,664
Net income attributable to the non-controlling interest in VMware, Inc.	—	(57,912 )	25,586	(32,326 )
Net income attributable to EMC Corporation	\$658,940	\$230,201	\$(262,803)	\$626,338

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Infrastructure			EMC	VMware	Corp	Consolidated
	Information	Information	RSA	Information	Virtual	Reconciling	
	Storage	Intelligence	Information	Infrastructure	Infrastructure	Items	
		Group	Security		within EMC		
Three Months Ended: September 30, 2011							
Revenues:							
Product revenues	\$2,465,339	\$50,439	\$115,685	\$2,631,463	\$442,904	\$—	\$3,074,367
Services revenues	1,197,581	111,157	99,215	1,407,953	497,881	—	1,905,834
Total consolidated revenues	3,662,920	161,596	214,900	4,039,416	940,785	—	4,980,201
Cost of sales	1,583,727	59,436	69,664	1,712,827	130,683	70,426	1,913,936
Gross profit	\$2,079,193	\$102,160	\$145,236	2,326,589	810,102	(70,426)	3,066,265
Gross profit percentage	56.8	% 63.2	% 67.6	% 57.6	% 86.1	% —	61.6
Research and development				316,380	148,576	83,065	548,021
Selling, general and administrative				1,099,329	368,187	145,398	1,612,914
Restructuring and acquisition-related charges				—	—	20,302	20,302
Total costs and expenses				1,415,709	516,763	248,765	2,181,237
Operating income				910,880	293,339	(319,191)	885,028
Other income (expense), net				(43,223)	197	(28,802)	(71,828)
Income before provision for income taxes				867,657	293,536	(347,993)	813,200
Income tax provision				237,936	22,949	(89,799)	171,086
Net income				629,721	270,587	(258,194)	642,114
Net income attributable to the non-controlling interest in VMware, Inc.				—	(54,622)	18,157	(36,465)
Net income attributable to EMC Corporation				\$629,721	\$215,965	\$(240,037)	\$605,649

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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Infrastructure				VMware	Corp	Consolidated
	Information	Information	RSA	EMC	Virtual	Reconciling	Consolidated
	Storage	Intelligence	Information	Information	Infrastructure	Items	
		Group	Security	Infrastructure	within EMC		
Nine Months Ended: September 30, 2012							
Revenues:							
Product revenues	\$7,406,314	\$131,440	\$305,967	\$7,843,721	\$1,488,314	\$—	\$9,332,035
Services revenues	3,862,593	324,884	348,258	4,535,735	1,816,177	—	6,351,912
Total consolidated revenues	11,268,907	456,324	654,225	12,379,456	3,304,491	—	15,683,947
Cost of sales	4,893,097	156,839	196,104	5,246,040	400,327	289,431	5,935,798
Gross profit	\$6,375,810	\$299,485	\$458,121	7,133,416	2,904,164	(289,431 )	9,748,149
Gross profit percentage	56.6	% 65.6	% 70.0	% 57.6	% 87.9	% —	62.2
Research and development				1,077,907	574,282	244,467	1,896,656
Selling, general and administrative				3,325,212	1,273,696	476,733	5,075,641
Restructuring and acquisition-related charges				—	—	80,560	80,560
Total costs and expenses				4,403,119	1,847,978	801,760	7,052,857
Operating income				2,730,297	1,056,186	(1,091,191)	2,695,292
Other income (expense), net				(107,276 )	20,337	(43,692 )	(130,631 )
Income before provision for income taxes				2,623,021	1,076,523	(1,134,883)	2,564,661
Income tax provision				706,003	194,699	(310,102 )	590,600
Net income				1,917,018	881,824	(824,781 )	1,974,061
Net income attributable to the non-controlling interest in VMware, Inc.				—	(179,699 )	68,332	(111,367 )
Net income attributable to EMC Corporation				\$1,917,018	\$702,125	\$(756,449)	\$1,862,694



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## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Infrastructure				VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure			
Nine Months Ended: September 30, 2011							
Revenues:							
Product revenues	\$7,282,052	\$135,797	\$305,138	\$7,722,987	\$1,326,623	\$—	\$9,049,610
Services revenues	3,388,839	336,846	280,150	4,005,835	1,377,712	—	5,383,547
Total consolidated revenues	10,670,891	472,643	585,288	11,728,822	2,704,335	—	14,433,157
Cost of sales	4,733,529	176,361	277,817	5,187,707	390,438	209,409	5,787,554
Gross profit	\$5,937,362	\$296,282	\$307,471	6,541,115	2,313,897	(209,409 )	8,645,603
Gross profit percentage	55.6	% 62.7	% 52.5	% 55.8	% 85.6	% —	59.9
Research and development				932,581	412,575	243,864	1,589,020
Selling, general and administrative				3,179,639	1,057,615	447,280	4,684,534
Restructuring and acquisition-related charges				—	—	68,411	68,411
Total costs and expenses				4,112,220	1,470,190	759,555	6,341,965
Operating income				2,428,895	843,707	(968,964 )	2,303,638
Other income (expense), net				(76,169 )	4,466	(30,184 )	(101,887 )
Income before provision for income taxes				2,352,726	848,173	(999,148 )	2,201,751
Income tax provision				620,453	103,711	(258,708 )	465,456
Net income				1,732,273	744,462	(740,440 )	1,736,295
Net income attributable to the non-controlling interest in VMware, Inc.				—	(151,612 )	44,608	(107,004 )
Net income attributable to EMC Corporation				\$1,732,273	\$592,850	\$(695,832)	\$1,629,291

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

For the Nine Months Ended



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	For the Three Months			
	Ended		September 30, September 30,	
	September 30,	September 30,	September 30,	September 30,
	2012	2011	2012	2011
United States	\$2,885,968	\$ 2,674,626	\$8,376,276	\$ 7,552,800
Europe, Middle East and Africa	1,351,753	1,355,474	4,216,384	4,149,828
Asia Pacific and Japan	733,157	695,443	2,192,411	1,944,808
Latin America, Mexico and Canada	307,298	254,658	898,876	785,721
Total	\$5,278,176	\$ 4,980,201	\$15,683,947	\$ 14,433,157

No country other than the United States accounted for 10% or more of revenues during the three and nine months ended September 30, 2012 or 2011.

Long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, in the United States were \$3,851.6 million at September 30, 2012 and \$3,622.8 million at December 31, 2011. Internationally, long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, were \$626.8 million at September 30, 2012 and \$616.5 million at December 31, 2011. No country other than the United States accounted for 10% or more of total long-lived assets, excluding financial instruments and deferred tax assets, at September 30, 2012 or December 31, 2011.

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

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

Our go to market model, where we continue to leverage our direct sales force and services organization, as well as our channel and services partners and service providers, positions us well to help customers transition to Cloud Computing and benefit from Big Data. We offer three alternatives to help our customers transition to Cloud architectures and leverage Big Data: our best of breed infrastructure components, proven infrastructure through VSPEX and converged infrastructure with Vblock from VCE Company LLC, our joint venture with Cisco, and other investors VMware and Intel. Our service provider program is another important part of our strategy to get our customers to the Public Cloud.

VMware Virtual Infrastructure

VMware's financial focus is on long-term revenue growth to generate cash flows to fund its expansion of industry segment share and evolve its virtualization-based products for data centers, end-user devices and cloud computing through a combination of internal development and acquisitions. VMware expects to grow its business by broadening

its virtualization infrastructure software solutions technology and product portfolio, increasing product awareness, promoting the adoption of virtualization and building long-term relationships with its customers through the adoption of enterprise license agreements (“ELAs”). Since the introduction of VMware vSphere in 2009, VMware has introduced more products that build on the vSphere foundation including VMware vSphere 5 and a comprehensive suite of cloud infrastructure technologies, as well as VMware View 5. Additionally, in the third quarter of 2012, VMware released VMware vCloud Suite 5.1, which integrates its virtualization, cloud infrastructure and management portfolio into a comprehensive solution consisting of cloud infrastructure

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

and management products, expertise and ecosystem support. VMware vCloud Suite 5.1 is its first solution to deliver a software-defined data center ("SDDC"). The SDDC architecture abstracts all hardware resources and pools them into aggregate capacity, enabling automation to safely and efficiently parcel it out as needed for applications. VMware plans to continue to introduce additional products in the future that expand and promote the use of the vSphere foundation and the SDDC. In addition, VMware has made, and expects to continue to make, acquisitions that strengthen its product offerings or extend its strategy to deliver broader virtualized solutions.

We believe that on a consolidated basis, our comprehensive portfolio of best-of-breed highly integrated solutions, wealth of experience and proven track record will allow us to leverage our strengths and position us to capitalize on the evolving trends of Cloud Computing, Big Data and Trust, even if the economic landscape remains cautious. Going forward, we believe we will grow faster than our addressable markets and take share while simultaneously investing in the business and growing earnings per share at a rate faster than the rate at which we will grow our revenue.

## RESULTS OF OPERATIONS

## Revenues

The following tables present revenue by our segments:

	For the Three Months Ended				
	September 30, 2012	September 30, 2011	\$ Change	% Change	
Information Storage	\$3,762.8	\$3,662.9	\$99.9	2.7	%
Information Intelligence Group	158.0	161.6	(3.6)	(2.2)	)
RSA Information Security	226.9	214.9	12.0	5.6	
VMware Virtual Infrastructure	1,130.5	940.8	189.7	20.2	
Total revenues	\$5,278.2	\$4,980.2	\$298.0	6.0	%
	For the Nine Months Ended				
	September 30, 2012	September 30, 2011	\$ Change	% Change	
Information Storage	\$11,268.9	\$10,670.9	\$598.0	5.6	%
Information Intelligence Group	456.3	472.6	(16.3)	(3.4)	)
RSA Information Security	654.2	585.3	68.9	11.8	
VMware Virtual Infrastructure	3,304.5	2,704.3	600.2	22.2	
Total revenues	\$15,683.9	\$14,433.2	\$1,250.7	8.7	%

Consolidated product revenues increased 0.3% and 3.1% to \$3,084.4 and \$9,332.0 for the three and nine months ended September 30, 2012, respectively. Consolidated product revenues increased slightly during the three month period due to increases in VMware Virtual Infrastructure product revenues, somewhat offset by decreases in Information Storage product revenues resulting from macro economic uncertainty leading to more deal scrutiny, which caused customers to delay procurement decisions and to channel orders coming in too late in the quarter to allow for third quarter shipments. The consolidated product revenues increase for the nine month period was primarily driven by the Information Storage and VMware Virtual Infrastructure segments' product revenues due to continued higher demand for our portfolio of offerings to address the storage, data analysis and virtualization needs for continued information growth, particularly as customers continue to build out their own data centers to develop and support their private or public cloud infrastructures and analyze and protect the data within their data centers.

The Information Storage segment's product revenues decreased 1.1% and increased 1.7% to \$2,438.7 and \$7,406.3 for the three and nine months ended September 30, 2012, respectively. Within the networked storage platforms portfolio, which includes our high-end and mid-tier storage platform products, product revenues increased 1.7% and 5.7% for the three and nine months ended September 30, 2012, respectively. Within the high-end of the Information Storage segment, product revenues increased 4.6% and decreased 1.1% for the three and nine months ended September 30,

2012, respectively. The increase in revenues for the three months ended September 30, 2012 was largely due to demand for our Symmetrix scale-out block solutions that had their first full quarter of availability for the refreshed family of VMAX systems. The decrease in revenues for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, was primarily driven by the strong growth in the nine months ended September 30, 2011 associated with the introduction of FAST VP in conjunction with VMAX in the first quarter of 2011. Within the mid-tier of the Information Storage segment, which includes the VNX

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

family, Backup and Recovery Systems, EMC Isilon and EMC Atmos, product revenues decreased 0.2% and increased 10.9% for the three and nine months ended September 30, 2012, respectively. Demand for our VNX family continued despite a difficult market environment which led to later-than-expected timing of some channel orders which we could not fulfill in the third quarter resulting in an overall decrease in revenue. Our Data Domain and Avamar product revenue grew, however revenue from our purpose-built backup appliances in the third quarter of 2012 was negatively impacted by delayed procurement decisions by customers which delayed some deals beyond our third quarter. The scale-out file offering from EMC Isilon continues to deliver strong revenue growth in its traditional areas of strength and it expands its presence in enterprise environments. Finally, our EMC Greenplum Big Data analytics solutions portfolio continues to grow at strong double-digit rates resulting from demand from new customers as well as repeat customers adding on to their existing analytics implementations.

The VMware Virtual Infrastructure segment's product revenues increased 10.6% and 12.2% to \$489.9 and \$1,488.3 for the three and nine months ended September 30, 2012, respectively. VMware's license revenues increased primarily due to demand for product offerings. During the three months ended September 30, 2012 and 2011, respectively, ELAs comprised 24% and 22% of total sales and during the nine months ended September 30, 2012 and 2011, respectively, ELAs comprised 25% and 24% of total sales.

The RSA Information Security segment's product revenues decreased 8.4% and increased 0.3% to \$106.0 and \$306.0 for the three and nine months ended September 30, 2012, respectively. The decrease in product revenues during the three month period was primarily due to the slowdown of hiring and employment, especially in Europe and Asia, which negatively impacted our Identity and Data Protection business as well as the prior year remediation of tokens which disrupted the normal renewal cycles. The slight increase in product revenues during the nine month period was primarily attributable to increased demand for our Security Management and Compliance products.

The Information Intelligence Group segment's product revenues decreased 1.1% and 3.2% to \$49.9 and \$131.4 for the three and nine months ended September 30, 2012, respectively. The decrease in product revenues was largely due to changing customer demand, primarily in the first quarter of 2012. The Information Intelligence Group segment continues to innovate, creating solutions that we believe will be easier to deploy, easier to use and more aligned with customer needs.

Consolidated services revenues increased 15.1% and 18.0% to \$2,193.7 and \$6,351.9 for the three and nine months ended September 30, 2012, respectively. The consolidated services revenues increase was primarily driven by the Information Storage and VMware Virtual Infrastructure segments' services revenues resulting from increased demand for maintenance-related services. In addition, we continue to provide expertise to customers on effective ways to enable Cloud Computing and to leverage their Big Data assets.

The Information Storage segment's services revenues increased 10.6% and 14.0% to \$1,324.1 and \$3,862.6 for the three and nine months ended September 30, 2012, respectively. The increase in services revenues was primarily attributable to higher demand for maintenance-related services associated with a larger installed base as well as increased maintenance renewals. In addition, a growing demand for professional services as we assist with customers' transitions to cloud architectures, transforming IT infrastructures and virtualizing mission-critical applications also contributed to the increase in services revenues. The increase in services revenue growth for the three months ended September 30, 2012 was lower than the increase in growth in the nine month period due to macro economic conditions in the third quarter resulting in customers deferring some discretionary consulting projects and in fewer implementation services caused by lighter storage product revenue.

The VMware Virtual Infrastructure segment's services revenues increased 28.7% and 31.8% to \$640.6 and \$1,816.2 for the three and nine months ended September 30, 2012, respectively. The increase in services revenues was primarily attributable to growth in VMware's software maintenance revenues. Software maintenance revenues benefited from strong renewals, multi-year software maintenance contracts sold in previous periods and additional maintenance contracts sold in conjunction with new software license sales. Additionally, VMware experienced increased demand in their professional services, driven by the growth in their license sales and installed base.

The RSA Information Security segment's services revenues increased 21.9% and 24.3% to \$120.9 and \$348.3 for the three and nine months ended September 30, 2012, respectively. Services revenues increased due to an increase in maintenance revenues and professional services resulting from continued demand for support from our installed base. The Information Intelligence Group segment's services revenues decreased 2.7% and 3.6% to \$108.1 and \$324.9 for the three and nine months ended September 30, 2012, respectively.

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

Consolidated revenues by geography were as follows:

	For the Three Months Ended		% Change	
	September 30, 2012	September 30, 2011		
United States	\$2,886.0	\$2,674.6	7.9	%
Europe, Middle East and Africa	1,351.8	1,355.5	(0.3	)
Asia Pacific and Japan	733.2	695.4	5.4	
Latin America, Mexico and Canada	307.3	254.7	20.7	
Total revenues	\$5,278.2	\$4,980.2	6.0	%
	For the Nine Months Ended		% Change	
	September 30, 2012	September 30, 2011		
United States	\$8,376.3	\$7,552.8	10.9	%
Europe, Middle East and Africa	4,216.4	4,149.8	1.6	
Asia Pacific and Japan	2,192.4	1,944.8	12.7	
Latin America, Mexico and Canada	898.9	785.7	14.4	
Total revenues	\$15,683.9	\$14,433.2	8.7	%

Revenues increased for the three and nine months ended September 30, 2012 compared to the same periods in 2011 in all of our geographic markets, excluding Europe, Middle East and Africa.

Changes in exchange rates negatively impacted revenue growth by 1.5% and 1.4% for the three and nine months ended September 30, 2012, respectively. The impact of the change in rates was most significant in the Euro zone for the three and nine months ended September 30, 2012.



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

## Costs and Expenses

The following tables present our costs and expenses, other income and net income attributable to EMC Corporation:

	For the Three Months Ended				
	September 30, 2012	September 30, 2011	\$ Change	% Change	
Cost of revenue:					
Information Storage	\$ 1,625.9	\$ 1,583.7	\$ 42.2	2.7	%
Information Intelligence Group	50.5	59.4	(8.9 )	(15.0 )	
RSA Information Security	81.3	69.7	11.6	16.6	
VMware Virtual Infrastructure	135.6	130.7	4.9	3.7	
Corporate reconciling items	97.3	70.4	26.9	38.2	
Total cost of revenue	1,990.6	1,913.9	76.7	4.0	
Gross margins:					
Information Storage	2,136.9	2,079.2	57.7	2.8	
Information Intelligence Group	107.5	102.2	5.3	5.2	
RSA Information Security	145.6	145.2	0.4	0.3	
VMware Virtual Infrastructure	994.9	810.1	184.8	22.8	
Corporate reconciling items	(97.3 )	(70.4 )	(26.9 )	38.2	
Total gross margin	3,287.5	3,066.3	221.2	7.2	
Operating expenses:					
Research and development <sup>(1)</sup>	652.9	548.0	104.9	19.1	
Selling, general and administrative <sup>(2)</sup>	1,708.8	1,612.9	95.9	5.9	
Restructuring and acquisition-related charges	27.1	20.3	6.8	33.5	
Total operating expenses	2,388.8	2,181.2	207.6	9.5	
Operating income	898.8	885.0	13.8	1.6	
Investment income, interest expense and other expenses, net	(54.7 )	(71.8 )	17.1	(23.8 )	
Income before income taxes	844.1	813.2	30.9	3.8	
Income tax provision	185.4	171.1	14.3	8.4	
Net income	658.7	642.1	16.6	2.6	
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(32.3 )	(36.5 )	4.2	(11.5 )	
Net income attributable to EMC Corporation	\$ 626.3	\$ 605.6	\$ 20.7	3.4	%

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

	For the Nine Months Ended				
	September 30, 2012	September 30, 2011	\$ Change	% Change	
Cost of revenue:					
Information Storage	\$4,893.1	\$4,733.5	\$159.6	3.4	%
Information Intelligence Group	156.8	176.4	(19.6)	(11.1)	)
RSA Information Security	196.1	277.8	(81.7)	(29.4)	)
VMware Virtual Infrastructure	400.3	390.4	9.9	2.5	
Corporate reconciling items	289.4	209.4	80.0	38.2	
Total cost of revenue	5,935.8	5,787.6	148.2	2.6	
Gross margins:					
Information Storage	6,375.8	5,937.4	438.4	7.4	
Information Intelligence Group	299.5	296.3	3.2	1.1	
RSA Information Security	458.1	307.5	150.6	49.0	
VMware Virtual Infrastructure	2,904.2	2,313.9	590.3	25.5	
Corporate reconciling items	(289.4)	(209.4)	(80.0)	38.2	)
Total gross margin	9,748.1	8,645.6	1,102.5	12.8	
Operating expenses:					
Research and development <sup>(3)</sup>	1,896.7	1,589.0	307.7	19.4	
Selling, general and administrative <sup>(4)</sup>	5,075.6	4,684.5	391.1	8.3	
Restructuring and acquisition-related charges	80.6	68.4	12.2	17.8	
Total operating expenses	7,052.9	6,342.0	710.9	11.2	
Operating income	2,695.3	2,303.6	391.7	17.0	
Investment income, interest expense and other expenses, net	(130.6)	(101.9)	(28.7)	28.2	)
Income before income taxes	2,564.7	2,201.8	362.9	16.5	
Income tax provision	590.6	465.5	125.1	26.9	
Net income	1,974.1	1,736.3	237.8	13.7	
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(111.4)	(107.0)	(4.4)	4.1	)
Net income attributable to EMC Corporation	\$1,862.7	\$1,629.3	\$233.4	14.3	%

(1) Amount includes corporate reconciling items of \$88.2 and \$83.1 for the three months ended September 30, 2012 and 2011, respectively.

(2) Amount includes corporate reconciling items of \$170.5 and \$145.4 for the three months ended September 30, 2012 and 2011, respectively.

(3) Amount includes corporate reconciling items of \$244.5 and \$243.9 for the nine months ended September 30, 2012 and 2011, respectively.

(4) Amount includes corporate reconciling items of \$476.7 and \$447.3 for the nine months ended September 30, 2012 and 2011, respectively.

Gross Margins

Overall our gross margin percentages were 62.3% and 61.6% for the three months ended September 30, 2012 and 2011, respectively. The increase in the gross margin percentage in the third quarter of 2012 compared to 2011 was attributable to the VMware Virtual Infrastructure segment, which increased overall gross margins by 132 basis points and the Information Intelligence Group segment, which increased overall gross margins by 15 basis points, partially offset by the RSA Information Security segment, which decreased overall gross margins by 14 basis points, and the Information Storage segment, which decreased overall gross margins by 8 basis points. The increase in corporate

reconciling items, consisting of stock-based compensation, restructuring and acquisition-related charges, acquisition-related intangible asset amortization, amortization of VMware's capitalized software from prior periods and transition costs, decreased the consolidated gross margin percentage by 53 basis points. Transition costs represent the incremental costs incurred to streamline our current cost structure.

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

Our gross margin percentages were 62.2% and 59.9% for the nine months ended September 30, 2012 and 2011, respectively. The increase in the gross margin percentage for the nine months ended September 30, 2012 compared to 2011 was attributable to the VMware Virtual Infrastructure segment, which increased overall gross margins by 150 basis points, the RSA Information Security segment, which increased overall gross margins by 73 basis points, the Information Storage segment, which increased overall gross margins by 47 basis points and the Information Intelligence Group segment, which increased overall gross margins by 9 basis points. Additionally, the increase in corporate reconciling items decreased the consolidated gross margin percentage by 54 basis points.

For segment reporting purposes, stock-based compensation, restructuring and acquisition-related charges, acquisition-related intangible asset amortization, amortization of VMware's capitalized software from prior periods and transition costs are recognized as corporate expenses and are not allocated among our various operating segments. The increase of \$26.9 in the corporate reconciling items for the three months ended September 30, 2012 compared to the same period in 2011 was attributable to a \$12.7 increase in amortization of VMware's capitalized software from prior periods, a \$10.7 increase in acquisition-related intangible asset amortization expense and a \$4.3 increase in stock-based compensation expense, partially offset by a \$0.8 decrease in transition costs. The increase of \$80.0 in the corporate reconciling items for the nine months ended September 30, 2012 compared to the same period in 2011 was attributable to a \$49.0 increase in amortization of VMware's capitalized software from prior periods, a \$2.7 increase in transition costs, a \$2.7 increase in stock-based compensation expense and a \$25.6 increase in acquisition-related intangible asset amortization expense.

The gross margin percentages for the Information Storage segment were 56.8% for both the three months ended September 30, 2012 and 2011, and were 56.6% and 55.6% for the nine months ended September 30, 2012 and 2011, respectively. The increase in gross margin percentage for the nine months ended September 30, 2012 compared to the same period in 2011 was attributable to improved product and service gross margins, driven by a shift in mix towards higher margin products and services, higher sales volume and an improved cost structure.

The gross margin percentages for the VMware Virtual Infrastructure segment were 88.0% and 86.1% for the three months ended September 30, 2012 and 2011, respectively, and were 87.9% and 85.6% for the nine months ended September 30, 2012 and 2011, respectively. The increase in gross margin percentage for both the three and nine months ended September 30, 2012 compared to the same periods in 2011 was primarily attributable to improvements in services gross margins due to growth in maintenance revenue.

The gross margin percentages for the RSA Information Security segment were 64.2% and 67.6% for the three months ended September 30, 2012 and 2011, respectively, and were 70.0% and 52.5% for the nine months ended September 30, 2012 and 2011, respectively. The decrease in gross margin percentage for the three months ended September 30, 2012 compared to the same period in 2011 was due to a decrease in product margins resulting from slower than expected sales, somewhat offset by increases in services margins. The increase in gross margin percentage for the nine months ended September 30, 2012 compared to the same period in 2011 was due to an increase in product margins. The increase in product margins was primarily due to the one-time impact of RSA remediation associated with working with our customers to implement remediation programs which negatively impacted gross margin in the first quarter of 2011 as well as a release of the excess reserve, which positively impacted gross margin in the second quarter of 2012.

The gross margin percentages for the Information Intelligence Group segment were 68.1% and 63.2% for three months ended September 30, 2012 and 2011, respectively, and were 65.6% and 62.7% for the nine months ended September 30, 2012 and 2011, respectively. The increase in gross margin percentage for both the three and nine months ended September 30, 2012 compared to the same periods in 2011 was attributable to a reduction in fixed costs in the second and third quarters of 2012 and services margin improvement.

**Research and Development**

As a percentage of revenues, R&D expenses were 12.4% and 11.0% for the three months ended September 30, 2012 and 2011, respectively, and were 12.1% and 11.0% for the nine months ended September 30, 2012 and 2011,

respectively. R&D expenses increased \$104.9 and \$307.6 for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 primarily due to an increase in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, infrastructure costs and depreciation expense. Personnel-related costs increased by \$93.9 and \$252.8, infrastructure costs increased by \$3.1 and \$14.3 and depreciation expense increased by \$2.7 and \$8.8 for the three and nine months ended September 30, 2012, respectively, when compared to the same periods in 2011. Also increasing these costs was a decrease in capitalized software development costs of \$3.8 and \$27.7 for the three and nine months ended September 30, 2012, respectively.

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

Corporate reconciling items within R&D, which consist of stock-based compensation, intangible asset amortization and transition costs, increased \$5.2 and \$0.6 for the three and nine months ended September 30, 2012, respectively, when compared to the same periods in 2011. Stock-based compensation expense increased \$9.4 and \$5.7, intangible asset amortization decreased \$1.7 and \$4.8 and transition costs decreased \$2.5 and \$0.2 for the three and nine months ended September 30, 2012, respectively, when compared to the same periods in 2011.

R&D expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 8.9% and 7.8% for the three months ended September 30, 2012 and 2011, respectively, and were 8.7% and 8.0% for the nine months ended September 30, 2012 and 2011, respectively. R&D expenses increased \$51.4 and \$145.3 for the three and nine months ended September 30, 2012, respectively, primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions and depreciation expense, partially offset by capitalized software development costs. Personnel-related costs increased by \$58.9 and \$162.4 and depreciation expense increased by \$4.3 and \$12.6 for the three and nine months ended September 30, 2012, respectively. Partially offsetting these increased costs was an increase in capitalized software development costs of \$17.3 and \$46.3 for the three and nine months ended September 30, 2012, respectively. The increase in capitalized software development costs is primarily due to the timing of products reaching technological feasibility.

R&D expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 17.4% and 15.8% for the three months ended September 30, 2012 and 2011, respectively, and were 17.4% and 15.3% for the nine months ended September 30, 2012 and 2011, respectively. R&D expenses increased \$48.3 and \$161.7 for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 largely due to increases in personnel-related costs of \$28.0 and \$85.0 driven by incremental headcount from strategic hiring and business acquisitions and a decrease in capitalized software development costs of \$21.1 and \$74.0 as VMware ceased capitalization of software development costs. Following the release of vSphere 5 and the comprehensive suite of cloud infrastructure technologies in the third quarter of 2011, VMware determined that its go-to-market strategy had changed from single solutions to product suite solutions. As a result of this change in strategy, and the related increased importance of interoperability between VMware's products, the length of time between achieving technological feasibility and general release to customers significantly decreased. VMware expects its products to be available for general release soon after technological feasibility has been established.

## Selling, General and Administrative

As a percentage of revenues, selling, general and administrative ("SG&A") expenses were 32.4% for both the three months ended September 30, 2012 and 2011 and were 32.4% and 32.5% for the nine months ended September 30, 2012 and 2011, respectively. SG&A expenses increased by \$95.9 and \$391.1 for the three and nine months ended September 30, 2012, respectively, compared to the same periods in 2011 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, commissions, business development, infrastructure and depreciation expense. Personnel-related costs increased by \$34.8 and \$99.8, commissions increased by \$14.0 and \$76.6, business development costs increased by \$16.3 and \$50.6, infrastructure costs increased by \$10.5 and \$30.5 and depreciation expense increased by \$3.8 and \$16.0 for the three and nine months ended September 30, 2012, respectively.

Corporate reconciling items within SG&A, which consist of stock-based compensation, intangible asset amortization and transition costs, increased \$25.0 and \$29.4 for the three and nine months ended September 30, 2012, respectively, when compared to the same periods in 2011. Stock-based compensation expense increased \$36.0 and \$42.8, intangible asset amortization decreased \$4.1 and \$9.9 and transition costs decreased \$6.9 and \$3.5 for the three and nine months ended September 30, 2012, respectively. The increase in stock-based compensation expense was primarily due to strategic hiring and business acquisitions.

SG&A expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 26.6% and 27.2% for the three months ended September 30, 2012 and 2011, respectively, and were 26.9% and 27.1% for the nine months ended September 30, 2012 and 2011, respectively. SG&A expenses increased \$3.6 and \$145.6 for the three and nine months ended September 30, 2012, respectively, when compared to the same periods in 2011 primarily due to decreases in personnel-related costs, offset by increases in commissions, business development, infrastructure and depreciation expense. Personnel-related costs decreased due to careful discretionary spending exceeding increases in salary resulting from strategic hiring and business acquisitions. Personnel-related costs decreased by \$44.5 and \$101.0, commissions increased by \$13.7 and \$68.6, business development costs increased \$10.5 and \$20.5, infrastructure costs increased \$5.6 and \$16.0 and depreciation expense increased by \$8.6 and \$25.1 for the three and nine months ended September 30, 2012, respectively.

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

SG&A expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 38.5% and 39.1% for the three months ended September 30, 2012 and 2011, respectively, and were 38.5% and 39.1% for the nine months ended September 30, 2012 and 2011, respectively. SG&A expenses increased \$67.3 and \$216.1 for the three and nine months ended September 30, 2012, respectively, when compared to the same periods in 2011 primarily due to growth in personnel-related expenses driven by incremental headcount as well as an increase in the costs of marketing programs.

**Restructuring and Acquisition-Related Charges**

For the three months ended September 30, 2012 and 2011, we incurred restructuring and acquisition-related charges of \$27.1 and \$20.3, respectively. For the nine months ended September 30, 2012 and 2011, we incurred restructuring and acquisition-related charges of \$80.6 and \$68.4, respectively. For the three and nine months ended September 30, 2012, we incurred \$22.3 and \$70.1, respectively, of restructuring charges, primarily related to our current year restructuring programs and \$4.8 and \$10.5, respectively, of charges in connection with acquisitions for financial advisory, legal and accounting services. For the three and nine months ended September 30, 2011, we incurred \$16.9 and \$58.1, respectively, of restructuring charges, primarily related to our 2011 restructuring programs and \$3.4 and \$10.3, respectively, of charges in connection with acquisitions for financial advisory, legal and accounting services.

**Investment Income**

Investment income was \$29.9 and \$32.3 for the three months ended September 30, 2012 and 2011, respectively, and was \$85.3 and \$106.5 for the nine months ended September 30, 2012 and 2011, respectively. Investment income decreased for the three and nine months ended September 30, 2012 when compared to the same periods in 2011 primarily due to lower interest income. For the three months ended September 30, 2012, interest income was \$25.0 and net realized gains were \$4.8. For the nine months ended September 30, 2012, interest income was \$77.4 and net realized gains were \$6.3. Additionally, interest income was \$28.1 and \$88.1 and net realized gains were \$3.5 and \$16.5 for the three and nine months ended September 30, 2011, respectively.

**Interest Expense**

Interest expense was \$21.5 and \$44.3 for the three months ended September 30, 2012 and 2011, respectively, and was \$58.2 and \$135.8 for the nine months ended September 30, 2012 and 2011, respectively. Interest expense consists primarily of interest on the 2011 Notes and 2013 Notes. Included in interest expense are non-cash interest charges related to amortization of the debt discount attributable to the conversion feature of \$15.4 and \$30.9 for the three months ended September 30, 2012 and 2011, respectively, and \$45.1 and \$90.2 for the nine months ended September 30, 2012 and 2011, respectively, as we are accreting the 2011 Notes and 2013 Notes to their stated values over their term. See Note 4 to the consolidated financial statements. The decrease in interest expense was driven by the settlement of the 2011 Notes at the end of 2011.

**Other Income (Expense), Net**

Other expense, net was \$63.1 and \$59.8 for the three months ended September 30, 2012 and 2011, respectively, and was \$157.7 and \$72.6 for the nine months ended September 30, 2012 and 2011, respectively. Other expense in 2012 primarily consists of our consolidated share of the losses from our converged infrastructure joint venture, VCE Company LLC, and losses on interest rate swaps, partially offset by our net gains from the sale of strategic investments held at cost, which includes the gain on our investment in XtremIO of \$31.6 in the second quarter of 2012. Our consolidated share of the losses from VCE was \$61.9 and \$50.2 for the three months ended September 30, 2012 and 2011, respectively, and was \$176.9 and \$138.7 for the nine months ended September 30, 2012 and 2011, respectively. This joint venture is accounted for under the equity method. See Note 9 to the consolidated financial statements. Losses on interest rate swaps were \$39.5 for the three and nine months ended September 30, 2012. See Note 4 to the consolidated financial statements. Net gains from the sale of strategic investments were \$3.3 and \$0.1 for the three months ended September 30, 2012 and 2011, respectively, and were \$70.9 and \$65.2 for the nine months ended September 30, 2012 and 2011, respectively.

**Provision for Income Taxes**



Our effective income tax rates were 22.0% and 23.0% for the three and nine months ended September 30, 2012, respectively. Our effective income tax rates were 21.0% and 21.1% for the three and nine months ended September 30, 2011, respectively. Our effective income tax rate is based upon estimated income before tax for the year, composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for potential tax consequences, benefits and/or resolutions of tax audits or other tax contingencies. For the three and nine months ended September 30, 2012 and 2011, the effective income tax rate varied from the statutory income 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

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

the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish subsidiaries. We do not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on our effective income tax rate.

Our effective income tax rate increased in the three and nine months ended September 30, 2012 from the three and nine months ended September 30, 2011 due primarily to the expiration of the U.S. federal research and development tax credit for 2012 partially offset by a difference in composition of income before tax in different countries. The U.S. federal research and development tax credit reduced our effective income tax rate by approximately 2.2% for the three and nine months ended September 30, 2011. There were also differences in change in tax contingency reserves and discrete items, the net impact of which is immaterial.

During the second quarter of 2012, we determined that since VMware's public offering in 2007, we have incorrectly recorded deferred tax liabilities on the gains and losses associated with changes in the non-controlling interest. These deferred tax liabilities were recorded as a reduction to additional paid-in capital and therefore had no impact on our previously reported consolidated income statements. The error resulted in an overstatement of our deferred tax liability and an understatement of our additional paid-in capital of \$352.6 in our December 31, 2011 consolidated balance sheet and an understatement of additional paid-in capital of \$357.2 in our statement of shareholders' equity for the nine months ended September 30, 2011. See Note 1 to the consolidated financial statements.

We are routinely under audit by the Internal Revenue Service (the "IRS"). We have concluded all U.S. federal income tax matters for years through 2008. The IRS commenced a federal income tax audit for the tax years of 2009 and 2010 in Q3 2012. 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 and/or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our statement of financial position. We anticipate that several of these audits may be finalized within the next 12 months. Based on the status of these examinations, and the protocol of finalizing such audits, it is not possible to estimate the impact of the amount of such changes, if any, to our previously recorded uncertain tax positions.

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

Non-controlling Interest in VMware, Inc.

The net income attributable to the non-controlling interest in VMware was \$32.3 and \$36.5 for the three months ended September 30, 2012 and 2011, respectively, and was \$111.4 and \$107.0 for the nine months ended September 30, 2012 and 2011, respectively. The decrease in the three months ended September 30, 2012 compared to the same period in 2011 was due to a decrease in VMware's net income. The increase in the nine months ended September 30, 2012 compared to the same period in 2011 was due to increases in VMware's net income and increases in the weighted average percentage ownership by the non-controlling interest in VMware. VMware's net income was \$156.8 and \$177.5 for the three months ended September 30, 2012 and 2011, respectively, and was \$539.9 and \$523.5 for the nine months ended September 30, 2012 and 2011, respectively. The weighted average non-controlling interest in VMware was approximately 21% for both the three months ended September 30, 2012 and 2011 and was approximately 21% and 20% for the nine months ended September 30, 2012 and 2011, 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. During the nine months ended September 30, 2012, EMC purchased approximately 1.5 million VMware shares for approximately \$131.9.

Financial Condition

Cash provided by operating activities was \$4,363.1 and \$3,484.6 for the nine months ended September 30, 2012 and 2011, respectively. Cash received from customers was \$16,556.7 and \$15,434.2 for the nine months ended September 30, 2012 and 2011, respectively. The increase in cash received from customers was attributable to a general increase in sales volume. Cash paid to suppliers and employees was \$11,950.6 and \$11,577.0 for the nine months ended September 30, 2012 and 2011, respectively. The increase was primarily attributable to a general growth in the business to support the increased revenue base. For the nine months ended September 30, 2012 and 2011, we paid \$290.9 and \$395.5, respectively, in income taxes. These

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

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 \$2,930.4 and \$2,856.9 for the nine months ended September 30, 2012 and 2011, respectively. Cash used for business acquisitions, strategic and other investments was \$1,859.4 and \$804.7 for the nine months ended September 30, 2012 and 2011, respectively. The increase was due to an increase in acquisition activity with EMC and VMware collectively acquiring thirteen companies in the nine months ended September 30, 2012, including the acquisition of Nicira for \$1,099.6, compared to the acquisition of seven businesses during the nine months ended September 30, 2011. Additionally, VMware purchased a leasehold interest for \$151.1 in the nine months ended September 30, 2011. In the nine months ended September 30, 2012 and 2011, we also provided funding of \$217.9 and \$191.6, respectively, to our joint ventures, VCE Company LLC, and Canopy, our joint venture with Atos. Capital additions were \$523.5 and \$601.2 for the nine months ended September 30, 2012 and 2011, respectively. The lower level of capital additions in 2012 was primarily attributable to increased spending in 2011 on facility expansion and information technology infrastructure. Capitalized software development costs were \$315.8 and \$342.1 for the nine months ended September 30, 2012 and 2011, respectively. The decrease was primarily attributable to VMware's change in its go-to-market strategy, somewhat offset by EMC Information Infrastructure's efforts on its software development activities. Net purchases of investments were \$13.9 and \$766.2 for the nine months ended September 30, 2012 and 2011, respectively. This activity varies from period to period based upon our cash collections, cash requirements and maturity dates of our investments.

Cash used in financing activities was \$1,784.8 and \$1,626.7 for the nine months ended September 30, 2012 and 2011, respectively. We spent \$1,699.8 for payment of our convertible debt in the nine months ended September 30, 2012. We spent \$380.0 and \$1,899.2 to repurchase 15.3 million and 77.2 million shares of our common stock for the nine months ended September 30, 2012 and 2011, respectively. We also spent \$131.9 and \$342.2 to purchase 1.5 million and 4.0 million shares of VMware's common stock in the nine months ended September 30, 2012 and 2011, respectively. Additionally, in the nine months ended September 30, 2012 and 2011, respectively, VMware spent \$307.0 and \$490.9 to repurchase 3.3 million and 5.5 million shares of its common stock. We generated \$602.0 and \$786.9 during the nine months ended September 30, 2012 and 2011, respectively, from the exercise of stock options. We generated \$212.3 and \$318.7 during the nine months ended September 30, 2012 and 2011, respectively, of excess tax benefits from stock-based compensation. We spent \$69.9 in the settlement of interest rate contracts during the nine months ended September 30, 2012.

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

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

The remaining \$1,710.2 of the 2013 Notes is due in November 2013. Based upon the closing price of our common stock for the prescribed measurement period during the three months ended September 30, 2012, the contingent conversion thresholds on the 2013 Notes were exceeded. As a result, the 2013 Notes are convertible at the option of the holder through December 31, 2012. Upon conversion, we are obligated to pay cash up to the principal amount of

the debt converted. We have the option to settle any conversion value in excess of the principal amount with cash, shares of our common stock, or a combination thereof. Approximately \$14.8 of the 2013 Notes have been converted as of September 30, 2012.

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

We also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of

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

our common stock. We received aggregate proceeds of \$391.1 from the sale of the associated warrants. Upon exercise, the value of the warrants is required to be settled in shares. Half of the associated warrants were exercised between February 15, 2012 and March 14, 2012 and the remaining half of the associated warrants have expiration dates between February 18, 2014 and March 18, 2014. During the first quarter of 2012, the exercised warrants were settled with 32.3 million shares of our common stock.

We have available for use a credit line of \$50.0 in the United States. As of September 30, 2012, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At September 30, 2012, we were in compliance with the covenants. As of September 30, 2012, the aggregate amount of liabilities of our subsidiaries was approximately \$6,452.5.

At September 30, 2012, our total cash, cash equivalents, and short-term and long-term investments were \$10,580.0. This balance includes approximately \$4,394.6 held by VMware, of which \$2,920.0 is held overseas, and \$2,212.0 held by EMC in overseas entities. If these overseas funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

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

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). EMC used certain non-GAAP financial measures in the three months ended September 30, 2012 which exclude stock-based compensation, amortization of intangible assets, restructuring and acquisition-related charges, amortization of VMware's capitalized software from prior periods, and infrequently occurring gains, losses and charges to measure its gross margin, operating margin, non-operating income (expense), net income and diluted earnings per share for purposes of managing our business. EMC also assesses its financial performance by measuring its free cash flow which is also a non-GAAP financial measure. Free cash flow is defined as net cash provided by operating activities, less additions to capital expenditures and capitalized software development costs. These non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of EMC's financial performance or liquidity prepared in accordance with GAAP. EMC's non-GAAP financial measures may be defined differently from time to time and may be defined differently than similar terms used by other companies, and accordingly, care should be exercised in understanding how EMC defines its non-GAAP financial measures. EMC's management uses the non-GAAP financial measures to gain an understanding of EMC's comparative operating performance (when comparing such results with previous periods or forecasts) and future prospects and excludes these items from its internal financial statements for purposes of its internal budgets and each reporting segment's financial goals. These non-GAAP financial measures are used by EMC's management in their financial and operating decision-making because management believes they reflect EMC's ongoing business in a manner that allows meaningful period-to-period comparisons. EMC's management believes that these non-GAAP financial measures provide useful information to investors and others (a) in understanding and evaluating EMC's current operating performance and future prospects in the same manner as management does, if they so choose, and (b) in comparing in a consistent manner EMC's current financial results with EMC's past financial results.

Our non-GAAP operating results for the three months ended September 30, 2012 and 2011 were as follows:

	For the Three Months Ended	
	September 30, 2012	September 30, 2011
Gross margin	\$3,384.9	\$3,136.0

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Gross margin percentage	64.1	%	63.0	%
Operating income	1,281.9		1,194.2	
Operating income percentage	24.3	%	24.0	%
Non-operating income (expense)	(54.2	)	(70.5	)
Income tax provision	288.5		247.2	
Net income attributable to EMC	881.3		821.8	
Diluted earnings per share attributable to EMC	\$0.40		\$0.37	

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

The improvements in the non-GAAP gross margin and non-GAAP gross margin percentage were attributable to higher sales volume, a change in mix attributable to higher margin products and improved cost control. The improvements in the non-GAAP operating income and non-GAAP operating income percentage were attributable to an improved gross margin percentage.

The reconciliation of the above financial measures from GAAP to non-GAAP is as follows:  
For the Three Months Ended September 30, 2012

	GAAP	Stock-based compensation	Intangible asset amortization	Restructuring and acquisition-related charges	Amortization of VMware's capitalized software from prior periods	Non-GAAP	
Gross margin	\$3,287.5	\$ 33.0	\$ 51.7	\$—	\$12.7	\$3,384.9	
Operating income	898.8	249.9	93.4	27.1	12.7	1,281.9	
Non-operating income (expense)	(54.7	) 0.5	—	—	—	(54.2	)
Income tax provision	185.4	66.7	29.5	2.5	4.3	288.5	
Net income attributable to EMC	626.3	164.0	60.1	24.2	6.7	881.3	
Diluted earnings per share attributable to EMC	\$0.28	\$ 0.07	\$ 0.03	\$0.01	\$—	\$0.40	

For the Three Months Ended September 30, 2011

	GAAP	Stock-based compensation	Intangible asset amortization	Restructuring and acquisition-related charges	Non-GAAP	
Gross margin	\$3,066.3	\$28.7	\$41.0	\$—	\$3,136.0	
Operating income	885.0	200.2	88.6	20.3	1,194.2	
Non-operating income (expense)	(71.8	) 1.3	—	—	(70.5	)
Income tax provision	171.1	45.0	28.4	2.7	247.2	
Net income attributable to EMC	605.6	141.3	57.5	17.4	821.8	
Diluted earnings per share attributable to EMC	\$0.27	\$0.06	\$0.03	\$0.01	\$0.37	

We also monitor our ability to generate free cash flow in relationship to our non-GAAP net income attributable to EMC over comparable periods. For the nine months ended September 30, 2012, our free cash flow was 3,523.8, an increase of 38.7% compared to the free cash flow generated for the nine months ended September 30, 2011. The free cash flow for the nine months ended September 30, 2012 exceeded our same period non-GAAP net income attributable to EMC by \$957.9. 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 Nine Months Ended



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	September 30, 2012		September 30, 2011
Cash Flow from Operations	\$4,363.1		\$3,484.6
Capital Expenditures	(523.5	)	(601.2
Capitalized Software Development Costs	(315.8	)	(342.1
Free Cash Flow	\$3,523.8		\$2,541.3

Free cash flow represents a non-GAAP measure related to operating cash flows. In contrast, our GAAP measure of cash flow consists of three components. These are cash flows provided by operating activities of \$4,363.1 and \$3,484.6 for the nine

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

months ended September 30, 2012 and 2011, respectively, cash used in investing activities of \$2,930.4 and \$2,856.9 for the nine months ended September 30, 2012 and 2011, respectively, and net cash used in financing activities of \$1,784.8 and \$1,626.7 for the nine months ended September 30, 2012 and 2011, respectively.

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

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

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

Changes in Internal Control Over Financial Reporting.

During the third quarter of 2012, we implemented an upgraded enterprise resource planning, or ERP, computer system. This upgraded system is a systems improvement initiative and is not in response to any identified deficiency or weakness in the Company’s internal control over financial reporting. The system implementation is designed to provide more effective management of our business operations as we continue to grow in size and scale.

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

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PART II  
OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

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

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

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

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

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

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

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

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

The costs of third-party components comprise a significant portion of our product costs. While we generally have been able to manage our component and product design costs, we may have difficulty managing such costs if supplies of certain components become limited or component prices increase. Any such limitation could result in an increase in our component costs. An increase in component or design costs relative to our product prices could have a material adverse effect on our gross

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

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

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

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

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

• fluctuations in foreign currency exchange rates;

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

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

• the timing of recognizing revenues in any given quarter, which, as a result of software revenue recognition policies, can be affected by a number of factors, including product announcements, beta programs and product promotions that

can cause revenue recognition of certain orders to be deferred until future products to which customers are entitled become available;

- the sale of VMware's products in the timeframes anticipated, including the number and size of orders in each quarter;
- VMware's ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer demand, certification requirements and technical requirements;
- the introduction of new pricing and packaging models for VMware's product offerings;
- the timing of the announcement or release of upgrades or new products by VMware or by its competitors;
- VMware's ability to maintain scalable internal systems for reporting, order processing, license fulfillment, product delivery, purchasing, billing and general accounting, among other functions;

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- 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 ELA's, as original ELA terms expire;
- the timing and amount of software development costs that are capitalized beginning when technological feasibility has been established and ending when the product is available for general release;
- unplanned events that could affect market perception of the quality or cost-effectiveness of VMware's products and solutions; and
- the recoverability of benefits from goodwill and intangible assets and the potential impairment of these assets.

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

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

- the announcement of acquisitions, new products, services or technological innovations by us or our competitors;
- quarterly variations in our operating results;
- changes in revenue or earnings estimates by the investment community; and
- speculation in the press or investment community.

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

- the trading price for VMware Class A common stock;
- actions taken or statements made by us, VMware, or others concerning the potential separation of VMware from us, including by spin-off, split-off or sale; and
- factors impacting the financial performance of VMware, including those discussed in the prior risk factor.

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

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

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



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

- the difficulty in forecasting customer preferences or demand accurately;
- the inability to expand production capacity to meet demand for new products;

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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;
- meeting our sustainability goals; and
- executing on our plans.

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

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

We held \$6.4 billion in short- and long-term investments as of September 30, 2012. The investments are invested primarily in investment grade debt securities, and we limit the amount of investment with any one issuer. A further deterioration in the economy, including a tightening of credit markets, increased defaults by issuers, or significant volatility in interest rates, including the downgrade of U.S. government debt, could cause the investments to decline in value or could impact the liquidity

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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;
- 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.

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

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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;
- 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.

We operate a Venezuelan sales subsidiary in which the Bolivar is the functional currency. Due to limitations in accessing the dollar at the official exchange rate, we have utilized an implied currency rate derived from actively traded bonds in order to translate the foreign currency denominated balance sheet. This rate is analogous to the "System for Transactions in Foreign Currency Securities" or SITME rate. Our operations in Venezuela include U.S. dollar-denominated assets and liabilities which we remeasure to Bolivars. The remeasurement may result in transaction gains or losses. We have used either the official exchange rate or implied exchange rate to remeasure these balances based upon the expected rate at which we believe the items will be settled. As a result of continued hyper-inflation in Venezuela, effective in 2010, we modified the functional currency to be the U.S. dollar. As a result of this change, Bolivar-denominated transactions will be subject to exchange gains and losses that

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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.

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

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

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

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

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

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

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

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

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



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

From time to time, we receive notices from third parties claiming infringement by our products of third-party patent or other intellectual property rights. Responding to any such claim, regardless of its merit, could be time-consuming, result in costly litigation, divert management's attention and resources and cause us to incur significant expenses. In the event there is a

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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.

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

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

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

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

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

We may have exposure to additional income tax liabilities.

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

In February 2010, President Obama, as part of the Administration's FY 2011 budget, proposed changing certain of the U.S. tax rules for U.S. corporations doing business outside the United States. The proposed changes include limiting the ability of U.S. corporations to deduct certain expenses attributable to offshore earnings, modifying the foreign tax credit rules and taxing currently certain transfers of intangibles offshore. In August 2010, President Obama signed into

law H.R. 1586 (commonly known as the Education Jobs and Medicaid Assistance Act), which included several international tax provisions with minimal impact on the Company's effective tax rate. As part of its FY 2012 budget, the Administration has re-proposed, with certain modifications, a number of tax provisions that were not adopted during the previous Congress. Although the scope of future changes remains unclear, revisions to the taxation of international income continue to be a topic of conversation for the Obama Administration and the U.S. Congress. As the enactment of some or all of these proposals could increase the Company's effective tax rate and adversely affect our profitability, we will continue to monitor them.

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

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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.

Changes in regulations could materially adversely affect us.

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

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

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

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

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

- the effect of the acquisition on our financial and strategic position and reputation;
- the failure of an acquired business to further our strategies;
- the failure of the acquisition to result in expected benefits, which may include benefits relating to enhanced revenues, technology, human resources, cost savings, operating efficiencies and other synergies;
- the difficulty and cost of integrating the acquired business, including costs and delays in implementing common systems and procedures and costs and delays caused by communication difficulties or geographic distances between the two companies’ sites;
- the assumption of known or unknown liabilities of the acquired business, including litigation-related liability;
- the potential impairment of acquired assets;
- the lack of experience in new markets, products or technologies or the initial dependence on unfamiliar supply or distribution partners;
- the diversion of our management’s attention from other business concerns;
- the impairment of relationships with customers or suppliers of the acquired business or our customers or suppliers;
- the recoverability of benefits from goodwill and intangible assets and the potential impairment of these assets;
- 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.

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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.

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 was 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, 2011. We continue to gradually shift the asset allocation to lower the percentage of investment in equity securities and increase the percentage of investments in long-duration 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, 2011, the ten-year historical rate of return on plan assets was 5.5%, and the inception to date return on plan assets was 9.8%. In 2011, we experienced an 8.9% 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, natural disasters or climate change.

Terrorist acts, acts of war, natural disasters, or the direct and indirect effects of climate change (such as sea level rise, increased storm severity, drought, flooding, wildfires, pandemics, and social unrest from resource depletion and rising food prices) 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.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS  
ISSUER PURCHASES OF EQUITY SECURITIES IN THE THIRD QUARTER OF 2012**

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under
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				the Plans or Programs
July 1, 2012 – July 31, 2012	29,108	\$26.21	—	44,273,109
August 1, 2012 – August 31, 2012	1,975,079	26.73	—	44,273,109
September 1, 2012 – September 30, 2012	3,444,118	27.55	5,443,970	38,829,139
Total	7,448,305	(2) \$27.33	5,443,970	38,829,139

Except as noted in note (2), all shares were purchased in open-market transactions pursuant to our previously (1) 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 2,004,335 shares withheld from employees for the payment of taxes.

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Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits

See index to Exhibits on page 56 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.

Date: November 2, 2012

EMC CORPORATION

By: /s/ David I. Goulden  
David I. Goulden  
President and Chief Operating 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. (2)
4.1	Form of Stock Certificate. (3)
4.2	Indenture with Wells Fargo Bank, N.A., as trustee, dated as of November 17, 2006. (4)
4.3	Registration Rights Agreement with Goldman, Sachs & Co., Lehman Brothers Inc. and Citigroup Global Markets Inc., dated as of November 17, 2006. (4)
10.1*	Form of Change in Control Severance Agreement for Executive Officers. (filed herewith)
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)

\* Identifies an exhibit that is a management contract or compensatory plan or arrangement. 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.

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- (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 Quarterly Report on Form 10-Q filed May 5, 2011 (No. 1-9853).
  - (3) Incorporated by reference to EMC Corporation’s Annual Report on Form 10-K filed February 29, 2008 (No. 1-9853).
  - (4) Incorporated by reference to EMC Corporation’s Current Report on Form 8-K filed November 17, 2006 (No. 1-9853).