

EMC CORP  
Form 10-K  
February 24, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2011

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)

**176 South Street**

**Hopkinton, Massachusetts**

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

**01748**

Edgar Filing: EMC CORP - Form 10-K

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (508) 435-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No "

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes " No x

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 x 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 x No "

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by non-affiliates of the registrant was \$56,727,987,796 based upon the closing price on the New York Stock Exchange on the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2011).

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of January 31, 2012 was 2,053,084,362.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to the specified portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 1, 2012.



**Table of Contents****EMC CORPORATION**

	<b>Page No.</b>
<b>PART I</b>	
ITEM 1. <u>Business</u>	3
ITEM 1A. <u>Risk Factors</u>	11
ITEM 1B. <u>Unresolved Staff Comments</u>	20
ITEM 2. <u>Properties</u>	20
ITEM 3. <u>Legal Proceedings</u>	21
ITEM 4. <u>Mine Safety Disclosures</u>	21
<b>PART II</b>	
ITEM 5. <u>Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	23
ITEM 6. <u>Selected Consolidated Financial Data</u>	24
ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
ITEM 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
ITEM 8. <u>Financial Statements and Supplementary Data</u>	43
ITEM 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	94
ITEM 9A. <u>Controls and Procedures</u>	94
ITEM 9B. <u>Other Information</u>	94
<b>PART III</b>	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	96
ITEM 11. <u>Executive Compensation</u>	96
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	96
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	96
ITEM 14. <u>Principal Accountant Fees and Services</u>	96
<b>PART IV</b>	
ITEM 15. <u>Exhibits and Financial Statement Schedules</u>	97
<u>Signatures</u>	98

---

**Table of Contents**

**FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Annual Report on Form 10-K 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, but not limited to, those described in Item 1A of Part I (Risk Factors). The forward-looking statements speak only as of the date of this Annual 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 Annual Report.

**PART I**

**ITEM 1. BUSINESS**

**The Opportunity**

Throughout this report, we refer to EMC Corporation, together with its subsidiaries, as EMC, we, us, or the Company.

Our mission is to lead people and organizations on the journey to Hybrid Cloud Computing. Cloud Computing offers a dramatically more efficient computing model that helps transform IT from a cost center to a value-driver. We support a broad range of customers around the world, in every major industry, in the public and private sectors, and of sizes ranging from the Fortune Global 500 to small- and medium-sized businesses.

We manage our business in two broad categories. As data centers move to a Cloud Computing model, central to their operation will be managing information. EMC Information Infrastructure 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. Infrastructure for Cloud Computing is much more agile and efficient this is achieved through virtualization. VMware Virtual Infrastructure, which is represented by EMC's majority equity stake in VMware, Inc. (VMware), is the leading provider of virtualization and virtualization-based cloud infrastructure software solutions.

EMC was incorporated in Massachusetts in 1979. Our corporate headquarters are located at 176 South Street, Hopkinton, Massachusetts.

**EMC's Strategy, Products and Services**

***Industry Transformation and Opportunity***

The IT industry is in transition. Cloud Computing represents one of the biggest waves of change in IT history the way IT is built, operated and consumed will change. Cloud Computing will transform IT departments, driving them to seek new infrastructure for their data centers, new partners for their operations and access information in new ways.

At the same time data growth is exploding: industry experts expect data to grow 44-fold by 2020. New, powerful cloud infrastructure represents the perfect platform for organizations to mine through massive quantities of Big Data enabling them to identify new business opportunities or efficiencies in their operation. Big Data promises to transform business.

Finally, one of the biggest obstacles to the adoption of Cloud Computing is trust. Despite the obvious benefits offered through Cloud Computing, IT leaders remain cautious about how to safely manage the data their businesses rely upon, while doing so in a more open and cloud-connected way.

EMC's strategy and opportunity is to deliver best of breed products and services which allow IT departments to move to a Cloud Computing model, analyze vast quantities of Big Data and do so in a safe and trusted way.

*Cloud Computing Transforms IT*

The ultimate goal of Cloud Computing is to make IT more agile and, therefore, more responsive to business needs. To do this, the IT infrastructure must be made more efficient, so more of the IT budget can be dedicated to new projects that the business is requesting. This efficiency is achieved first through virtualizing the infrastructure – creating shared pools of network, storage and

## **Table of Contents**

compute resources that any application can access. Next, through increased automation the infrastructure can be less dependent on administrators. Automation not only makes things more efficient, it makes things faster and more reliable. The business can now consume IT as a service and understand what is being delivered, at what service level and how much it costs.

We believe that most companies will first build a Private Cloud inside their own data center consolidating, standardizing, virtualizing and then automating much of their existing infrastructure and running many of their existing applications. Over time, we believe there will be a number of Public Clouds delivered by trusted service providers able to run business applications at a lower cost than some IT departments. IT departments will come to rely on both Private Cloud and Public Cloud infrastructures for their operations something that we call a Hybrid Cloud.

Companies will choose to go with EMC for Hybrid Cloud Computing for three reasons. We believe we can deliver the greatest improvements in efficiency of the IT infrastructure; we provide IT with a solution which leaves them in control of their critical data and applications; and, finally, we offer the customer choice they can retain an open architecture with an ability to run any application on any infrastructure.

### ***Big Data Transforms Business***

The continued growth of data in the digital universe creates a huge challenge for IT departments who must store and manage information and do so with only an estimated 1.5 fold increase in their staffing by 2020 according to industry experts. But this Big Data also creates huge opportunities for organizations who can turn all of this data into insightful information and deliver it to business users in a timely fashion.

Many modern business critical systems have now been in place for upwards of a decade and have delivered huge increases in productivity as they automate the everyday work of many employees. Many of these business systems have amassed tens or hundreds of terabytes of data stored, managed and protected in many cases by EMC's storage infrastructure. But the biggest growth in data is not occurring in these business systems it's occurring in unstructured data such as files, videos and web logs. Unstructured data rapidly grows within organizations to petabyte scale and is not suitable to be stored, managed and analyzed by traditional IT systems.

To capitalize on the opportunity that Big Data presents, IT departments must acquire new technology, build new applications and serve insightful information up to business users in a relevant and visually appealing way. This new technology must be designed to operate at petabyte scale employing a scale-out architecture. Software must be able to operate in a massively parallel way to enable vast quantities of data to be ingested and analyzed in a timely fashion. Finally, new business applications must be able to be built rapidly and serve up information so that business users can make informed decisions and take action.

### **Products and Services**

EMC's strategy is to provide the products and services that customers need to realize the benefits of moving to Cloud Computing, unlock the opportunities hidden in vast quantities of Big Data and do so in a safe and trusted way. Whether customers are expanding their traditional data centers, embracing a virtual data center or broader Cloud Computing and IT-as-a-Service models, EMC's broad portfolio aims to meet their needs through every phase from initial assessment to design, delivery and implementation.

### **EMC Information Infrastructure Products and Offerings**

#### ***Information Storage Segment***

EMC offers a comprehensive portfolio of enterprise storage systems and software including high-end EMC VMAX and mid-tier EMC VNX primary storage and a portfolio of backup products that support a wide range of enterprise application workloads. EMC's two additional storage families, EMC Isilon and EMC Atmos, are specifically designed to handle vast quantities of unstructured, or Big Data. As the foundation of an information infrastructure within traditional data centers, virtual data centers and cloud-based IT infrastructures, EMC storage systems can be deployed in storage area networks (SAN), networked attached storage (NAS), unified storage combining NAS and SAN, object storage and/or direct attached storage environments.

Customer adoption of EMC's storage products and offerings in 2011 was driven by storage innovations, new features and capabilities, and a focused emphasis on expanding EMC's partner ecosystem. All EMC storage arrays leverage the latest Intel processor technology, designed to consume less energy than alternative solutions and optimized for virtual environments. EMC has more than 75 integration points between EMC and VMware products, which is critical to customers managing and optimizing their storage in virtual data centers. VMware integration continues to be a key competitive differentiator and enabler for EMC, helping customers realize the potential of transforming their IT and virtual infrastructures.





---

## **Table of Contents**

In 2011, EMC introduced the award-winning EMC VNX unified storage family, which includes the VNX and VNXe. The VNX family simplifies the deployment and management of virtualized applications such as those from Microsoft, Oracle, and virtual desktop infrastructure (VDI) solutions from VMware and Citrix and was created with simplicity, efficiency, affordability and performance in mind. The systems support the latest in enterprise Flash technology to optimize both performance and efficiency. The VNXe is designed for IT generalists, offering an affordable unified storage platform for smaller businesses with solution-focused software that is designed to be simple to manage, provision and protect. The EMC FAST (Fully Automated Storage Tiering) Suite enables VNX customers to leverage the performance benefits of Flash technology in an automated and cost-effective fashion.

EMC continued to make advancements in 2011 with technologies that optimize the cost and performance efficiencies of its storage arrays with its industry-unique FAST technologies that exploit the economics of solid state disk (SSD) or Flash drive technology.

In 2011, EMC introduced the EMC Symmetrix VMAXe, which extended the reach of the Symmetrix family storage systems to a new category of customers in the mid- to high-end enterprise, as well as emerging markets around the globe. Designed for organizations with limited storage expertise and IT resources, the VMAXe features a new hardware design for a smaller footprint and built-in software for fast installation, configuration and management. VMAXe extends the value proposition of EMC Symmetrix VMAX to customers across the globe delivering powerful, trusted and efficient enterprise storage for the highest levels of availability.

Through its Backup Recovery Systems (BRS) division, EMC seeks to align customers' data protection infrastructures to the transformational initiatives underway at IT organizations around the globe. EMC has a portfolio of next-generation disk-based backup solutions, which includes EMC Avamar deduplication backup software and system, EMC Data Domain deduplication storage systems, EMC NetWorker unified backup and recovery software and EMC Disk Library for Mainframe products. During 2011, EMC further deepened the integration of its backup hardware and software offerings, offering new capabilities through purpose-built backup appliances. This highly integrated approach to delivering solutions for backup and recovery, disaster recovery and archiving helps users address challenges associated with exponential data growth, physical to virtual migration and Cloud Computing initiatives.

In 2011, EMC continued building out its position in Big Data from Big Data storage to Big Data analytics and action. Since joining EMC through acquisition in December 2010, Isilon has become an integral piece of EMC's Big Data portfolio. By offering an innovative scale-out networked attached storage (NAS) architecture that enables rapid scaling of both capacity and performance while decreasing the need for management resources, EMC Isilon storage systems simplify and reduce the cost to manage Big Data storage environments. In 2011, EMC introduced new Isilon products with improved capacity and performance. Isilon solutions accelerate Big Data access in areas such as design and simulation, digital media, financial analysis, and enterprise file-based workflows, among other use cases. Greenplum, the foundation of EMC's Big Data analytics capabilities, which EMC acquired in 2010, also launched several new products in 2011, including the EMC Greenplum Database Community Edition, the EMC Greenplum Modular Data Computing Appliance, EMC Greenplum HD, the EMC Greenplum Analytics Workbench and the EMC Greenplum Unified Analytics Platform. EMC also announced a partnership with SAS whereby SAS will expand its high-performance computing offerings with the introduction of SAS® High-Performance Analytics, which will be available on the Greenplum Data Computing Appliance. Additionally, Greenplum has a vibrant and powerful ecosystem in support of its Hadoop product offerings in business intelligence, data transfer and other technology capabilities.

### **EMC Global Services**

EMC Global Services provides strategic guidance and technology expertise to help organizations to optimize and transform IT to deliver IT-as-a-Service, unlock the value in Big Data, and secure and protect their information, to meet their business challenges and to maximize the value of their information assets and investments. With more than 15,000 service professionals and support experts worldwide, plus a global network of alliances and partners, EMC Global Services leverages proven methodologies, industry best practices, experience and a knowledge base derived from EMC's history of helping organizations reduce risk, lower costs and speed time-to-value. End-to-end services capabilities address the full spectrum of customer needs across the information lifecycle: strategize, advise, design, implement, manage and support in physical, virtual and Cloud Computing environments. Among the offerings provided by EMC Global Services are consulting services, technology deployment, managed services, customer support services and training and certification.

In 2011, EMC introduced a number of new services that aid and speed organizations' transition to virtual and cloud infrastructures, including data center optimization, virtual desktop deployment, converged networks, and cloud and virtualization training and certification. EMC's comprehensive approach addresses the application, infrastructure and IT governance issues that impact execution of a cloud strategy and is reflected in the broad portfolio of end-to-end services that enable organizations to accelerate enterprise-scale virtualization. The new services, encompassing consulting, technology integration, resident and



---

## **Table of Contents**

education services offerings, help organizations address the challenges they face when planning, implementing and scaling their cloud environments, including challenges related to backup and recovery, business continuity, disaster recovery, management and the transition of tier 1 applications to a virtual infrastructure.

### ***RSA Information Security Segment***

RSA, The Security Division of EMC, delivers security, risk and compliance solutions that enable global organizations to safeguard the integrity, confidentiality and availability of sensitive digital information throughout its lifecycle, no matter where it moves, who accesses it or how it is used. RSA offers solutions in Security Management and Compliance, including enterprise governance, risk and compliance, data loss prevention, security information management, continuous network monitoring and fraud protection; and in Identity Management and Protection, including identity assurance and access control, encryption and key management. These technologies enable organizations to discover, classify and place appropriate controls around their data, secure access to the data both inside and outside the network as well as across physical, virtual or cloud infrastructures, and monitor and enforce these measures to prove compliance with security policies and regulations.

In 2011, RSA strengthened its leadership in the information security market through several strategic initiatives, product enhancements and technology partnerships. Central to these initiatives was the acquisition of NetWitness, the leading network security monitoring and analysis platform that extends RSA's solutions for managing security risk and compliance across both physical and virtual environments. RSA also launched the Cloud Trust Authority, a set of cloud-based services designed to facilitate secure and compliant relationships among organizations and cloud service providers. RSA's leadership was confirmed by leading analyst firm Forrester Research in the areas of both IT-GRC and Enterprise GRC and by Gartner for RSA's web fraud detection.

On the product and solutions front, RSA added greater depth and functionality to its DLP suite and introduced RSA Authentication Manager Express, providing small- and mid-sized businesses the same risk-based RSA technology used to protect millions of online transactions every day and more than 250 million identities worldwide. Finally, RSA increased its value to customers by bolstering technology relationships with McAfee, Microsoft, VMware, Citrix and Jericho Systems.

### ***Information Intelligence Group Segment***

EMC's Information Intelligence Group (IIG) provides software, solutions and services for global organizations to get maximum leverage from their information. The division's strategy is comprised of four key elements: supporting the new user in the post-PC era by simplifying the user experience; supporting choice computing and device mobility and accelerating our customers' journey to the Cloud; helping our customers transform their business by automating key business processes; and finally, providing pervasive governance solutions to help customers understand and secure their information. The IIG product portfolio is comprised of EMC Captiva for intelligent enterprise capture, EMC Document Sciences for customer communications management, EMC Kazeon for eDiscovery, EMC Documentum xCP for building dynamic business solutions and an action engine for Big Data, and the EMC Documentum platform for managing and delivering all types of enterprise information. Customers rely on IIG to collaborate, manage, access, distribute and control information securely from anywhere, at any time, from any device. IIG has a rich community of developers and a robust ecosystem of partners for helping customers develop, deploy and integrate comprehensive business solutions.

### ***VMware Virtual and Cloud Infrastructure Products and Offerings***

VMware is the leading provider of 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. Its virtualization solutions reflect a pioneering approach to computing that separates application software from the underlying hardware to achieve significant improvements in efficiency, agility, availability, flexibility and manageability. VMware's broad and proven portfolio of virtualization solutions address a range of complex IT problems that include cost and operational inefficiencies, facilitating access to Cloud Computing capacity, business continuity, software lifecycle management and corporate end-user computing device management. VMware's solutions run on industry-standard servers and desktop computers and support a wide range of operating system and application environments, as well as networking and storage infrastructures.

VMware solutions enable organizations to aggregate multiple servers, storage infrastructures and networks together into shared pools of capacity that can be allocated dynamically, securely and reliably to applications as needed, increasing hardware utilization and reducing spending. The benefits to VMware's customers include substantially lower IT costs, cost-effective high availability across a wide range of applications, and a more automated and resilient systems infrastructure capable of responding



## **Table of Contents**

dynamically to variable business demands. With VMware's platform, VMware vSphere, they are helping companies along the path of Cloud Computing by providing compatible IT infrastructures for both businesses and cloud service providers.

In 2011, VMware released significant updates to several products, including the flagship product in its cloud infrastructure suite—VMware vSphere 5—as well as its desktop virtualization product, VMware View 5, and VMware vFabric 5, an integrated application platform for virtual and cloud environments. VMware also introduced new products and solutions, including VMware vCenter Operations, as part of a new management portfolio designed to help customers transform how they manage infrastructure, applications and business services in virtual and cloud environments; and VMware Cloud Foundry, an open platform as a service (PaaS).

## **Markets and Distribution Channels**

### ***Markets***

EMC targets organizations around the world, in every industry, in the public and private sectors, and of every size ranging from the Fortune Global 500 to small- and medium-sized businesses and individual consumers.

### ***Distribution Channels***

We market our products through direct sales and through multiple distribution channels. We have a direct sales presence throughout North America, Latin America, Europe, the Middle East, South Africa and the Asia Pacific region. We also have agreements in place with many distributors, systems integrators, resellers and original equipment manufacturers (OEMs). These agreements, subject to certain terms and conditions, enable these companies to market and resell certain EMC systems, software and related services.

In 2011, EMC continued our commitment to accelerating our channel partners' business by developing and releasing channel-only products with the EMC VNXe series of unified storage systems and EMC Data Domain DD160. This is the first time EMC has delivered channel-only products. In conjunction with these product launches, we introduced a comprehensive and integrated go-to-market plan that has enabled our partners to penetrate and better serve existing markets as well as sell to new customer segments. Additionally, we created an Authorized Reseller category as a part of the EMC Velocity Solution Provider Program, which enables partners of any size to easily add the VNXe series into their product portfolio. In 2011, EMC also announced a revised deal registration program giving partners the opportunity to better plan their business and realize sales sooner than they previously had.

In 2011, EMC had a record number of active selling partners contributing revenue to EMC, with balanced performance across all partner sizes, types and maturities. This success can be attributed to having a combination of the broadest product portfolio in the industry and a partner program that rewards partners who are trained to position, sell and service EMC products.

Additionally, VMware has developed a multi-channel distribution model to expand its presence and reach various segments of the market. VMware derives a significant majority of its revenues from its large indirect sales channel which includes distributors, resellers, systems vendors and system integrators—which is supported by VMware's field-based sales teams.

## **Technology Alliances**

In 2011, Cisco and EMC increased the level of funding for VCE Company LLC (VCE). VCE, formed by Cisco and EMC with investments from VMware and Intel, represents a joint venture of four established technology leaders to develop products, services and solutions for a global partner ecosystem in the rapidly growing converged infrastructure and Cloud Computing market. VCE accelerates the adoption of converged infrastructure and cloud-based computing models that reduce the cost of IT while improving time to market and increasing business agility for our customers. Through the Vblock Infrastructure Platform, VCE delivers the industry's first and only completely integrated IT offering that combines best-of-breed network, compute, storage, management, security and virtualization technologies into a single, fully supported product with end-to-end vendor accountability. VCE accelerates time to production, and significantly reduces the large percentage of IT budgets and resources that today are consumed by routine maintenance, interoperability, patch management and other operations. VCE's prepackaged solutions cover horizontal applications, such as unified communications and analytics; vertical industry offerings, such as electronic health record management and HIPAA compliance; and application development environments for deployments, such as virtual desktop infrastructure (VDI) and SAP, allowing organizations to focus on business innovation instead of integrating, validating and managing IT infrastructure.

---

## **Table of Contents**

VCE has demonstrated to many of the world's well-known businesses that Vblock platforms provide a fast, efficient and effective path to pervasive virtualization and Cloud Computing through a large and growing network of value added resellers, systems integrators and service provider partners. To date, more than 135 partners form an ecosystem providing global coverage to a growing, diverse customer base. VCE continues to innovate, extending its position in simplifying data center operations with a compelling value proposition that is well differentiated from competitive offerings.

In 2011, VCE launched the VCE partner program and the introduction of the Vblock Series 300 based upon the new EMC VNX storage arrays. The introduction of Fastpath Desktop Virtualization Platform provided the partner ecosystem with a turnkey VDI offering that could accomplish production desktop virtualization pilot programs in as little as two weeks, a fraction of the time other alternatives in the market require. A key partner announcement in 2011 included CSC's launch of CSC BizCloud and CSC Infrastructure Utility for Cloud in support of SA Solutions on Vblock platforms. VCE announced alliance agreements with SAP and CA Technologies and announced deeper integration with VMware technologies based upon VMware vSphere 5<sup>®</sup>, and Vblock GRC Solution for RSA.

In 2011, VCE built out facilities and capabilities to support their rapidly growing customer and partner base. VCE's headquarters were established in Richardson, Texas, and VCE opened a Solutions Center in Marlborough, Massachusetts. VCE is funded to support strong growth in 2012, and EMC's investments are expected to increase as VCE meets or exceeds its business objectives.

In addition, in 2011, EMC expanded its partner ecosystem in markets globally, strengthening existing relationships and forging new ones with global and regional technology and solutions providers. EMC delivered significant technology integration and new EMC Proven solutions and best practices for Brocade, Citrix, Microsoft, Oracle and VMware to help accelerate customers' journey to the Private, Public or Hybrid Cloud. For example, EMC's new Microsoft offerings help companies of all sizes enhance the management of virtualized Microsoft applications and Windows environments, including virtualized Microsoft Exchange Server, Microsoft SQL Server and Microsoft SharePoint Server. Another new offering announced in 2011 includes a new EMC Proven solution for Citrix XenDesktop<sup>®</sup> which accelerates the adoption of virtual desktop infrastructures and realization of the associated benefits. The robust, flexible and cost-effective solution built on the EMC VNX unified storage systems delivers predictable high performance and high availability for up to 1,000 virtual desktops and is easily expandable. The solution utilizes a building-block approach which can then scale to thousands of virtual desktops. Additionally, the new EMC Proven Oracle Performance Solution doubles the performance of Oracle Database 11g RAC, running OLTP workloads in both physical and VMware vSphere virtual environments, utilizing Oracle Direct NFS on EMC VNX unified storage with the FAST Cache technology.

Additionally, EMC unveiled a multi-faceted program that enables service provider partners to create, deploy, market, sell and deliver EMC-powered Public and Private Cloud services. As a core element of EMC's Hybrid Cloud strategy, EMC is establishing focused and committed partnerships with leading service providers around the world to expand the range of options for IT organizations seeking to gain business agility through the efficiency and choice offered by Cloud Computing, without sacrificing trust or control. EMC's commitment to choice in cloud services is evidenced in the new Velocity Service Provider Partner Program it announced in May 2011. The program provides increasing sales, marketing, planning and education benefits to partners as they invest in EMC solutions with the singular goal of delivering compelling cloud services to the global IT market. Also available are business development and services creation resources to enable partners to develop differentiated offerings built on EMC technology, marketing support including marketing development funds, campaigns, field execution and sales enablement tools. The Velocity Service Provider Partner Program is open to cloud service providers of all kinds: telco/cableco, hosters, outsourcers, ISVs and enterprises. The following service provider partners were announced as part of the program's initial rollout: AT&T, Bell Canada, Bluelock, Blue Mile, Cable&Wireless Worldwide, Ceryx, CGI, Cincinnati Bell, Cobweb, Colt Technology Services, CSC, Engineering, Harris, Hosting.com, MTI, NTT Europe, NYSE Technologies, OnX, OpSource, PAETEC, Peak 10, QTS, Redstor, Savvis, Secure 24, SunGard, Terremark, Unisys, Verizon and Xerox. As of the close of 2011, more than 50 service providers joined the program.

## **Manufacturing and Quality**

We conduct operations utilizing a formal, documented quality management system to ensure that our products as well as services satisfy customer needs and expectations. The quality management system also provides the framework for continual improvement of our processes and products. This system is certified to the ISO 9001 International Standard. Several additional ISO 9001 certifications are maintained for sales and service operations worldwide. We have also implemented Lean Six Sigma methodologies to ensure that the quality of our designs, manufacturing, test processes and supplier relationships are continually improved. Our storage systems' manufacturing and test facilities in Massachusetts, North Carolina and Ireland are certified to the ISO 14001 International Standard for environmental management systems. EMC's Franklin, Massachusetts, Apex, North Carolina

## **Table of Contents**

and Cork, Ireland manufacturing facilities have achieved OHSAS 18001 certification, an international standard for facilities with world-class safety and health management systems. We also maintain Support Center Practices certification for our primary customer support centers. These internationally-recognized endorsements of ongoing quality and environmental management are among the highest levels of certifications available.

We maintain a robust Supplier Code of Conduct, actively manage recycling processes for our returned products, have won an Environmental Steward Award and are also certified by the Environmental Protection Agency as a Smartway Transport Partner.

Our products are assembled and tested primarily at our facilities in the United States and Ireland or at global manufacturing service suppliers. We work closely with our suppliers to design, assemble and test product components in accordance with production standards and quality controls established by us. Our software products are designed, developed and tested primarily at our facilities in the United States and abroad. The products are tested to meet our quality standards.

## **Product Components**

We purchase many sophisticated components and products from an approved list of qualified suppliers. Our products utilize industry-standard and semi-custom components and subsystems. Among the most important components that we use are disk drives, solid-state drives, high density memory components, microcontrollers and power supplies. While such components are generally available, 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.

## **Research and Development**

We continually enhance our existing products and develop new products to meet changing customer requirements. In 2011, 2010 and 2009, our research and development ( R&D ) expenses totaled \$2,149.8 million, \$1,888.0 million and \$1,627.5 million, respectively. We support our R&D efforts through state-of-the-art development labs worldwide. See Item 2, Properties.

## **Backlog**

We produce 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 configure to customer specifications and generally deliver products shortly after receipt of the order. Service engagements are also included in certain orders. Customers generally may reschedule or cancel orders with little or no penalty. We believe that our backlog at any particular time is not meaningful because it is not necessarily indicative of future sales levels.

## **Competition**

We compete with many companies in the markets we serve, including companies that offer a broad spectrum of IT products and services and others that offer specific information storage, protection, security, management and intelligence, data analytics or virtualization products or services. We believe that most of these companies compete based on their market presence, products, service or price. Some of these companies also compete by offering information storage, information governance, security or virtualization-related products or services, together with other IT products or services, at minimal or no additional cost in order to preserve or gain market share.

We believe that we have a number of competitive advantages over these companies, including product, distribution and service. We believe the advantages in our products include quality, breadth of offerings, performance, functionality, scalability, availability, interoperability, connectivity, time-to-market enhancements and total value of ownership. We believe our advantages in distribution include the world's largest information infrastructure-focused direct sales force and a broad network of channel partners. We believe our advantages in service include our ability to provide our customers with a full range of expertise before, during and after their purchase of solutions from us or other vendors.

## **Seasonality**

We generally experience the lowest demand for our products and services in the first quarter of the year and the greatest demand for our products and services in the last quarter of the year, which is consistent with the seasonality of the IT industry as a whole.

## **Intellectual Property**

## Edgar Filing: EMC CORP - Form 10-K

We generally rely on patent, copyright, trademark and trade secret laws and contract rights to establish and maintain our proprietary rights in our technology and products. While our intellectual property rights are important to our success, we believe that our business as a whole is not materially dependent on any particular patent, trademark, license or other intellectual property right.



## **Table of Contents**

We have been granted or own by assignment approximately 3,000 patents issued by, and have approximately 1,700 patent applications pending with, the U.S. Patent and Trademark Office, as well as a corresponding number of international patents and patent applications. While the durations of our patents vary, we believe that the durations of our patents are adequate relative to the expected lives of our products.

We have used, registered or applied to register certain trademarks and copyrights in the United States and in other countries. We also license certain technology from third parties for use in our products and processes and license some of our technologies to third parties.

## **Employees**

As of December 31, 2011, we had approximately 53,600 employees worldwide, of which approximately 11,000 were employed by or working on behalf of VMware. None of our domestic employees is represented by a labor union, and we have never suffered an interruption of business as a result of a labor dispute. We consider our relations with our employees to be good.

## **Financial Information About Segments, Foreign and Domestic Operations and Export Sales**

EMC operates its business in two broad categories: EMC Information Infrastructure and VMware Virtual Infrastructure.

Sales and marketing operations outside the United States are conducted through sales subsidiaries and branches located principally in Europe, Latin America and the Asia Pacific region. We have five manufacturing facilities: two in Massachusetts, which manufacture storage products and security products for the North American markets; two in Ireland, which manufacture storage products and security products for markets outside of North America; and one in North Carolina, which manufactures storage products for domestic markets. We also utilize contract manufacturers throughout the world to manufacture or assemble our Data Domain, Isilon, Iomega and, in limited amounts, other information infrastructure products. See Note S to the consolidated financial statements for information about revenues by segment and geographic area.

## **Sustainability**

We recognize that the long-term success of our business depends on an economically vital, inclusive and educated society as well as on a healthy environment. Therefore, we strive to make decisions and operate our business in a sustainable way. Our sustainability priorities include improving our performance and collaborating with industry peers, governments and non-governmental organizations to advance energy, climate change and material use and waste priorities; providing technologies and services to address some of the world's challenges, such as energy, healthcare and delivery of government services; upholding the protection of human rights and investing in furthering education, innovation and inclusion for our employees and in communities around the world; and supporting EMC's continued financial success and increasing shareholder value through our approach to corporate sustainability, commitment to good corporate governance and maintaining customer and community trust.

We focus our environmental sustainability efforts on reducing impacts from our operations and supply chain, creating value by transforming our customers' information infrastructures to be more efficient and decrease energy use, and collaborating with our peers to develop standards and metrics. Our top environmental priorities are energy and climate change, material use and waste, and water.

We focus on energy because our primary greenhouse gas (GHG) emissions arise from the generation of electricity used to run our business, support our supply chain and power our products. We have set global targets to reduce our energy consumption and GHG emissions in our own operations and are collaborating with our suppliers to find efficiencies upstream. We recognize the opportunity to reduce global GHG emissions through the application of IT, and through our Design for Environment program, we have incorporated energy efficiency as a key objective in our engineering process. In 2011, we introduced a new generation of storage products with industry-leading power supply efficiency and are delivering Cloud Computing capabilities such as data deduplication, fully automated storage tiering (FAST), and virtualization that enable our customers to run their IT infrastructures more efficiently.

We are continuously striving to reduce material use in our products and operations, recycle what cannot be reused, and handle any waste with integrity and responsibility for the environment and human health. We are working with our suppliers and industry peers to identify substitutes for materials that can damage our ecology and human health. We have eliminated the use of leaded solder in our products and in 2011 exceeded our goal to reduce brominated flame retardants by 50% in all new printed circuit boards. We are actively working to reduce the use of hazardous substances such as polyvinyl chlorides and phthalates in our products.

---

## **Table of Contents**

Although we have a relatively small water footprint, with our primary usage in general building operations such as drinking, cooling, and sanitation, we have taken a conscientious approach to conserving this important resource. In our owned and operated facilities, we minimize water use and control wastewater streams, and our manufacturing facilities produce no industrial wastewater. In 2011, we conducted our first water footprint analysis and opened a new data center that receives 40% of its water from rainwater capture.

We are advancing social sustainability efforts in our workforce and our communities by building an inclusive and diverse workforce that reflects the diversity of the global marketplace and that can continue to develop innovative solutions for our customers, strengthening educational systems, particularly in the areas of science, technology, engineering, and math education, and holding ourselves and our suppliers to high standards in protecting human rights.

We regularly report on our sustainability performance and challenges to stakeholders. In 2011, we published our sustainability report using the Global Reporting Initiative framework and our carbon disclosure and water footprint via the Carbon Disclosure Project. We held our second multi-stakeholder forum on sustainability issues to broaden and deepen our dialogue with external stakeholders and to help improve our performance and reporting in 2012. EMC is proud to be listed in the 2011 Dow Jones Sustainability Index for North America and to be recognized by the Carbon Disclosure Project for the quality of our reporting.

### **Available Information**

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on or through our website at [www.emc.com](http://www.emc.com) as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission (the SEC). The SEC also maintains a website, [www.sec.gov](http://www.sec.gov), that contains reports and other information regarding issuers that file electronically with the SEC. Copies of our (i) Corporate Governance Guidelines, (ii) charters for the Audit Committee, Leadership and Compensation Committee, Corporate Governance and Nominating Committee, Mergers and Acquisitions Committee and Finance Committee and (iii) Business Conduct Guidelines (code of business conduct and ethics) are available at [www.emc.com/about/governance](http://www.emc.com/about/governance). Copies will be provided to any shareholder upon request. Please go to [www.emc.com/ir](http://www.emc.com/ir) to submit an electronic request, or send a written request to EMC Investor Relations, 176 South Street, Hopkinton, MA 01748. None of the information posted on our website is incorporated by reference into this Annual Report.

### **ITEM 1A. RISK FACTORS**

The risk factors that appear below could materially affect our business, financial condition and results of operations. 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.**

## Edgar Filing: EMC CORP - Form 10-K

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,

---

**Table of Contents**

the relative and varying rates of increases or decreases in component costs and product price, changes in product and services revenue mixture or decreased volume could have a material adverse effect on our revenues, gross margins or earnings.

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

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

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

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

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

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

- general economic conditions in their domestic and international markets and the effect that these conditions have on VMware's customers' capital budgets and the availability of funding for software purchases;
- fluctuations in demand, adoption rates, sales cycles and pricing levels for VMware's products and services;
- fluctuations in foreign currency exchange rates;
- changes in customers' budgets for information technology purchases and in the timing of their purchasing decisions;
- VMware's ability to compete with existing or increased competition;
- the timing of recognizing revenues in any given quarter, which, as a result of software revenue recognition policies, can be affected by a number of factors, including product announcements, beta programs and product promotions that can cause revenue recognition of certain orders to be deferred until future products to which customers are entitled become available;
- the sale of VMware's products in the timeframes anticipated, including the number and size of orders in each quarter;
- 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;

## Edgar Filing: EMC CORP - Form 10-K

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

---

**Table of Contents**

VMware's ability to control costs, including its operating expenses;  
changes to VMware's effective tax rate;  
the increasing scale of VMware's business and its effect on VMware's ability to maintain historical rates of growth;  
VMware's ability to attract and retain highly skilled employees, particularly those with relevant experience in software development and sales;  
VMware's ability to conform to emerging industry standards and to technological developments by its competitors and customers;  
renewal rates for enterprise license agreements, or ELAs, as original ELA terms expire;  
the timing and amount of software development costs that are capitalized beginning when technological feasibility has been established and ending when the product is available for general release;  
unplanned events that could affect market perception of the quality or cost-effectiveness of VMware's products and solutions; and  
the recoverability of benefits from goodwill and intangible assets and the potential impairment of these assets.

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

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

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

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

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

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

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

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

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

the difficulty in forecasting customer preferences or demand accurately;  
the inability to expand production capacity to meet demand for new products;  
the impact of customers' demand for new products on the products being replaced, thereby causing a decline in sales of existing products and an excessive, obsolete supply of inventory; and  
delays in initial shipments of new products.

## Edgar Filing: EMC CORP - Form 10-K

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

---

## **Table of Contents**

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 \$6.3 billion in short- and long-term investments as of December 31, 2011. The investments are invested primarily in investment grade debt securities, and we limit the amount of investment with any one issuer. A further deterioration in the economy, including a tightening of credit markets, increased defaults by issuers, or significant volatility in interest rates, including due to downgrades in U.S. government debt, could cause the investments to decline in value or could impact the liquidity of the portfolio. If market conditions deteriorate significantly, our results of operations or financial condition could be materially adversely affected.

### **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.





---

## **Table of Contents**

### **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 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.

## Edgar Filing: EMC CORP - Form 10-K

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

---

**Table of Contents**

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 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.

## Edgar Filing: EMC CORP - Form 10-K

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

## **Table of Contents**

other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs, lost revenues or litigation.

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

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

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

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

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

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

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

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

In addition, although we believe we have adequate security measures, if our network security is penetrated and our intellectual property or other sensitive data is misappropriated, we could suffer monetary and other losses and reputational harm, which could materially adversely affect our business, results of operations or financial condition.

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

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

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

## Edgar Filing: EMC CORP - Form 10-K

We are in the process of upgrading our enterprise resource planning, or ERP, computer system to enhance operating efficiencies and provide more effective management of our business operations. The upgrade, or our failure to implement the

---

## **Table of Contents**

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

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

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

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

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

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

### **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.





---

## **Table of Contents**

### **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.

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 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.



**Table of Contents****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 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

As of December 31, 2011, we owned or leased the facilities described below:

<b>Location</b>	<b>Approximate Sq. Ft.*</b>	<b>Principal Use(s)</b>	<b>Principal Segment(s)</b>
Hopkinton, MA	owned: 1,681,000	executive and administrative offices, R&D, customer service, sales and marketing	Information Storage, Information Intelligence Group
	922,000		
Franklin, MA	owned: leased: 288,000	manufacturing	Information Storage
Bedford, MA	leased: 328,000	R&D, customer service, sales, administrative offices and marketing	RSA Information Security
Apex, NC	owned: 390,000	manufacturing	Information Storage
	owned: leased: 1,422,000 470,000	executive and administrative offices, R&D, sales, marketing and data center	VMware Virtual Infrastructure
Palo Alto, CA			
Other North American Locations	owned: 1,071,000 leased: 3,472,000	executive and administrative offices, sales, customer service, R&D, data center and marketing	**
Asia Pacific	leased: 2,066,000	sales, marketing, customer service, R&D, data center and administrative offices	**
Cork, Ireland	owned: 588,000 leased: 123,000	manufacturing, customer service, R&D, administrative offices, sales and marketing	**
			**

## Edgar Filing: EMC CORP - Form 10-K

Europe, Middle East and Africa (excluding Cork, Ireland)	owned: 35,000 leased: 1,573,000	sales, manufacturing, customer service, R&D, data center, marketing and administrative offices	
Latin America	leased: 139,000	sales, customer service and marketing	**

\* Of the total square feet owned and leased, approximately 715,000 square feet was vacant, approximately 354,000 square feet was leased or subleased to non-EMC businesses and approximately 793,000 square feet were under construction for various VMware projects.

\*\* All segments of our business generally utilize these facilities.

**Table of Contents**

We also own land in Massachusetts and Ireland for possible future expansion purposes. We believe our existing facilities are suitable and adequate for our present purposes. For further information regarding our lease obligations, see Note N to the consolidated financial statements.

**ITEM 3. LEGAL PROCEEDINGS**

See Note N to the consolidated financial statements.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

Our executive officers are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Joseph M. Tucci	64	Chairman, President and Chief Executive Officer
William J. Teuber, Jr.	60	Vice Chairman
Jeremy Burton	44	Executive Vice President and Chief Marketing Officer
Arthur W. Coviello, Jr.	58	Executive Chairman, RSA, the Security Division of EMC
Paul T. Dacier	54	Executive Vice President and General Counsel
Richard R. Devenuti	53	President, Information Intelligence Group
Howard D. Elias	54	President and Chief Operating Officer, EMC Information Infrastructure and Cloud Services
Patrick P. Gelsinger	50	President and Chief Operating Officer, EMC Information Infrastructure Products
David I. Goulden	52	Executive Vice President and Chief Financial Officer
John T. Mollen	61	Executive Vice President, Human Resources
Harry L. You	52	Executive Vice President, Office of the Chairman

Joseph M. Tucci has been the Chairman of the Board of Directors since January 2006 and has been Chief Executive Officer and a Director since January 2001. He has served as President since January 2000. He also served as Chief Operating Officer from January 2000 to January 2001. Prior to joining EMC, Mr. Tucci served as Deputy Chief Executive Officer of Getronics N.V., an information technology services company, from June 1999 through December 1999 and as Chairman of the Board and Chief Executive Officer of Wang Global, an information technology services company, from December 1993 to June 1999. Mr. Tucci is the Chairman of the Board of Directors of VMware and a director of Paychex, Inc., a provider of payroll, human resources and benefits outsourcing solutions.

William J. Teuber, Jr. has been our Vice Chairman since May 2006. In this role, Mr. Teuber assists the Chairman, President and Chief Executive Officer in the day-to-day management of EMC and leads EMC Customer Operations, our worldwide sales and distribution organization. Mr. Teuber served as our Vice Chairman and Chief Financial Officer from May 2006 to August 2006 and as Executive Vice President and Chief Financial Officer from November 2001 to May 2006. Mr. Teuber joined EMC in 1995. Prior to serving as our Chief Financial Officer, he served as our Controller. Mr. Teuber is a director of Popular, Inc., a diversified financial services company.

Jeremy Burton has been our Executive Vice President and Chief Marketing Officer since March 2010. Prior to joining EMC, Mr. Burton was President and Chief Executive Officer of Serena Software, Inc., a global independent software company. Previously, Mr. Burton was Group President of the Security and Data Management Business Unit of Symantec Corporation, a provider of security, storage and systems management solutions, where he was responsible for the company's \$2 billion Enterprise Security product line. Prior to that role, he served as Executive Vice President of the Data Management Group at VERITAS Software Corporation (now a part of Symantec) where he was responsible for the company's backup and archiving products. He also served as VERITAS' Chief Marketing Officer. Earlier in his career, Mr. Burton spent nearly a decade at Oracle Corporation, a large enterprise software company, ultimately in the role of Senior Vice President of Product and Services Marketing.

## Edgar Filing: EMC CORP - Form 10-K

Arthur W. Coviello, Jr. has been our Executive Chairman, RSA, the Security Division of EMC, since February 2011. Mr. Coviello served as our Executive Vice President and President of RSA from September 2006 to February 2011. Prior to joining EMC, Mr. Coviello served as Chief Executive Officer of RSA Security Inc. from January 2000 to September 2006 and as acting

---

**Table of Contents**

Chief Financial Officer of RSA Security from December 2005 to May 2006. He served as President of RSA Security from March 1999 to September 2006. Mr. Coviello joined RSA in 1995. Mr. Coviello is a director of EnerNOC, Inc., a provider of demand response and energy management solutions to commercial, institutional and industrial customers, as well as electric power grid operators and utilities in the United States.

Paul T. Dacier has been our Executive Vice President and General Counsel since May 2006. Mr. Dacier served as Senior Vice President and General Counsel from February 2000 to May 2006 and joined EMC in 1990 as Corporate Counsel. Mr. Dacier is a director of AerCap Holdings N.V., a global aircraft leasing company.

Richard R. Devenuti has been our President, Information Intelligence Group, since October 2010. Mr. Devenuti served as chief operating officer of the Information Intelligence Group division from July 2008 to October 2010. Prior to joining EMC, Mr. Devenuti spent 19 years at Microsoft Corporation, a manufacturer of software products for computing devices, most recently as its Senior Vice President of Microsoft Services and IT. Prior to joining Microsoft, Mr. Devenuti spent four years at Deloitte as a senior accountant. Mr. Devenuti is a director of St. Jude Medical, Inc., a global cardiovascular medical devices company, and Convergys Corporation, a global relationship management company.

Howard D. Elias has been our President and Chief Operating Officer, EMC Information Infrastructure and Cloud Services since September 2009. Previously, Mr. Elias served as President, EMC Global Services and EMC Ionix from September 2007 to September 2009. Mr. Elias served as our Executive Vice President, Global Services and Resource Management Software Group from May 2006 to September 2007 and served as our Executive Vice President, Global Marketing and Corporate Development from January 2006 to May 2006. He served as Executive Vice President, Corporate Marketing, Office of Technology and New Business Development from January 2004 to January 2006. Prior to joining EMC, Mr. Elias served in various capacities at Hewlett-Packard Company, a provider of information technology products, services and solutions for enterprise customers, most recently as Senior Vice President of Business Management and Operations in the Enterprise Systems Group. Mr. Elias is a director of Gannett Company, Inc., an international news and information company.

Patrick P. Gelsinger has been our President and Chief Operating Officer, EMC Information Infrastructure Products since September 2009. Prior to joining EMC, Mr. Gelsinger was Senior Vice President and Co-General Manager of Intel Corporation's Digital Enterprise Group from 2005 to September 2009 and was Intel's Senior Vice President, Chief Technology Officer from 2002 to 2005. Prior to this, Mr. Gelsinger led Intel's Desktop Products Group. Intel Corporation designs and builds the essential technologies that serve as the foundation for the world's computing devices.

David I. Goulden has been our Executive Vice President and Chief Financial Officer since August 2006. Mr. Goulden served as our Executive Vice President, Customer Operations from April 2004 to August 2006. He served as Executive Vice President, Customer Solutions and Marketing and New Business Development from November 2003 to April 2004. Prior to joining EMC in 2002, Mr. Goulden served in various capacities at Getronics N.V., an information technology services company, most recently as a member of the Board of Management, President and Chief Operating Officer for the Americas and Asia Pacific. Mr. Goulden is a director of VMware.

John T. Mollen has been our Executive Vice President, Human Resources since May 2006. Mr. Mollen joined EMC as Senior Vice President, Human Resources in September 1999. Prior to joining EMC, he was Vice President of Human Resources with Citigroup Inc., a financial services company.

Harry L. You has been our Executive Vice President, Office of the Chairman since February 2008. In this role, Mr. You oversees EMC's corporate strategy and new business development. Prior to joining EMC, Mr. You served as Chief Executive Officer of BearingPoint, Inc., a management and technology consulting firm, from March 2005 to December 2007 and as BearingPoint's Interim Chief Financial Officer from July 2005 to October 2006. From 2004 to 2005, Mr. You was Executive Vice President and Chief Financial Officer of Oracle Corporation, a large enterprise software company, and from 2001 to 2004, he was the Chief Financial Officer of Accenture Ltd, a global management consulting, technology services and outsourcing company. Mr. You is a director of Korn/Ferry International, a global executive recruiting company.

EMC, EMC Proven, Atmos, Avamar, Captiva, Data Domain, Document Sciences, Documentum, Greenplum, Greenplum Database, Ionix, Isilon, Kazeon, NetWitness, NetWorker, RSA, Symmetrix, Symmetrix VMAX, Vblock, VMAXe, VNX and VNXe are either registered trademarks or trademarks of EMC Corporation in the United States and other countries. VMware, VMware View, VMware vCenter, VMware vSphere and SpringSource are registered trademarks or trademarks of VMware, Inc. in the United States and/or other jurisdictions. Iomega is a



registered trademark of Iomega Corporation. Other trademarks are either registered trademarks or trademarks of their respective owners.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock, par value \$.01 per share, trades on the New York Stock Exchange under the symbol EMC.

The following table sets forth the range of high and low sales prices of our common stock on the New York Stock Exchange for the past two years during the fiscal periods shown.

<b>Fiscal 2011</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 27.59	\$ 22.84
Second Quarter	28.72	25.39
Third Quarter	28.24	19.84
Fourth Quarter	25.13	20.00

<b>Fiscal 2010</b>	<b>High</b>	<b>Low</b>
First Quarter	\$ 19.03	\$ 16.45
Second Quarter	20.00	17.10
Third Quarter	21.83	17.87
Fourth Quarter	23.20	19.40

We had 11,236 holders of record of our common stock as of February 23, 2012.

We have never paid cash dividends on our common stock. While subject to periodic review, the current policy of our Board of Directors is to retain cash and investments primarily to provide funds for our future growth. Additionally, we use cash to repurchase our common stock.

**ISSUER PURCHASES OF EQUITY SECURITIES IN THE FOURTH QUARTER OF 2011**

<b>Period</b>	<b>Total Number of Shares Purchased<sup>(1)</sup></b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</b>
October 1, 2011 - October 31, 2011	2,137,811	\$ 20.79	1,994,839	56,794,578
November 1, 2011 - November 30, 2011	2,378,786	22.71	2,132,001	54,662,577
December 1, 2011 - December 31, 2011	533,274	23.48	490,341	54,172,236
<b>Total</b>	<b>5,049,871<sup>(2)</sup></b>	<b>\$ 21.97</b>	<b>4,617,181</b>	<b>54,172,236</b>

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

(2) Includes an aggregate of 432,690 shares withheld from employees for the payment of taxes.

**Table of Contents****ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA****FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA**

(in thousands, except per share amounts)

	Year Ended December 31,				
	2011 <sup>(1)</sup>	2010 <sup>(2)</sup>	2009 <sup>(4)</sup>	2008 <sup>(5)</sup>	2007 <sup>(6)</sup>
<b>Summary of Operations:</b>					
Revenues	\$ 20,007,588	\$ 17,015,126	\$ 14,025,910	\$ 14,876,163	\$ 13,230,205
Operating income	3,442,439	2,683,286	1,414,275	1,568,936	1,739,252
Net income attributable to EMC Corporation	2,461,337	1,899,995	1,088,077	1,275,104	1,598,965
Net income attributable to EMC Corporation per weighted average share, basic	\$ 1.20	\$ 0.92	\$ 0.54	\$ 0.62	\$ 0.77
Net income attributable to EMC Corporation per weighted average share, diluted	\$ 1.10	\$ 0.88	\$ 0.53	\$ 0.61	\$ 0.74
Weighted average shares, basic	2,055,536	2,055,959	2,022,371	2,048,506	2,079,542
Weighted average shares, diluted	2,229,113	2,147,931	2,055,146	2,079,853	2,157,873
<b>Balance Sheet Data:</b>					
Working capital	\$ 1,206,473	\$ 405,308	\$ 5,390,135	\$ 5,446,593	\$ 5,644,894
Total assets	34,268,179	30,833,284	26,812,003	23,874,575	22,284,654
Current obligations <sup>(3)</sup>	3,304,974	3,214,771			
Long-term obligations			3,100,290	2,991,943	2,889,362
Total shareholders' equity	19,927,122	18,166,776	16,060,474	13,655,950	13,060,342

(1) In 2011, EMC acquired all of the outstanding shares of 7 companies (see Note C to the consolidated financial statements).

(2) In 2010, EMC acquired all of the outstanding shares of 10 companies (see Note C to the consolidated financial statements).

(3) Current obligations relate to the convertible debt and notes converted and payable, which were classified as current at December 31, 2011 and 2010 (see Note E to the consolidated financial statements).

(4) In 2009, EMC acquired all of the outstanding shares of 5 companies (see Note C to the consolidated financial statements).

(5) In 2008, EMC acquired all of the outstanding shares of 12 companies.

(6) In 2007, EMC acquired all of the outstanding shares of 14 companies. In 2007, EMC recognized a \$148.6 million gain on the sale of VMware stock to Cisco.

---

**Table of Contents**

**ITEM 7. 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 Annual Report on Form 10-K.

**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 2011, we continued to innovate and invest in expanding our total addressable market through internal research and development ( R&D ) and our recent acquisitions to capitalize on the continued expansion of enterprise data. We have developed a product portfolio with customer's current and future needs in mind which will continue to evolve as the largest transformation in Information Technology ( IT ) history is creating enormous opportunities in Cloud Computing and Big Data.

Cloud Computing leverages an on-demand, self-managed, virtualized infrastructure to deliver IT-as-a-Service in a more efficient, flexible and cost-effective manner. While the fundamental transition to Cloud Computing architectures is 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 investments we made in 2010 by acquiring Isilon and Greenplum, as well as our internally developed Atmos offering, we believe we are well-positioned in this market to continue assisting our customers in storing, managing and unlocking the value contained within this information.

Our powerful 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, positioned us well during 2011 to help customers transition to Cloud Computing and benefit from Big Data. Additionally, momentum continues to build at VCE Company LLC, our joint venture with Cisco, and other investors VMware and Intel, as it becomes an important element of our go-to-market model, with their Vblock converged infrastructure product for building out cloud data centers.

*VMware Virtual Infrastructure*

VMware's financial focus is on long-term revenue growth to generate free cash flows to fund its expansion of industry segment share and evolve its virtualization-based products for data centers, desktop computers and cloud computing through a combination of internal development and acquisitions. VMware expects to grow its business by broadening its virtualization infrastructure software solutions technology and product portfolio, increasing product awareness, promoting the adoption of virtualization and building long-term relationships with its customers through the adoption of enterprise license agreements ( ELAs ). Since the introduction of VMware vSphere in 2009, VMware has introduced more products that build on the vSphere foundation including VMware vSphere 5 and a comprehensive suite of cloud infrastructure technologies, as well as VMware View 5. VMware plans to continue to introduce additional products in the future. Additionally, VMware has made, and expects to continue to make, acquisitions designed to strengthen its product offerings and/or extend its strategy to deliver solutions that can be hosted at customer data centers or at service providers.

## Edgar Filing: EMC CORP - Form 10-K

On a consolidated basis, our vision, strategy and roadmap allowed us to leverage our strengths through 2011 and position us to capitalize on the evolving trends of Cloud Computing and Big Data in 2012. As a result, we believe we will grow faster than the markets we serve in 2012 while simultaneously investing in the business and growing earnings per share at a rate faster than the rate at which we will grow our revenue.

**Table of Contents****RESULTS OF OPERATIONS****Revenues**

The following table presents revenue by our segments:

	2011	2010	2009	Percentage Change	
				2011 vs 2010	2010 vs 2009
Information Storage	\$ 14,714.2	\$ 12,699.1	\$ 10,659.4	15.9%	19.1%
Information Intelligence Group	702.4	735.9	739.6	(4.6)	(0.5)
RSA Information Security	828.2	729.4	606.0	13.5	20.4
VMware Virtual Infrastructure	3,762.9	2,850.7	2,021.0	32.0	41.1
<b>Total revenues</b>	<b>\$ 20,007.6</b>	<b>\$ 17,015.1</b>	<b>\$ 14,025.9</b>	<b>17.6%</b>	<b>21.3%</b>

Consolidated product revenues increased 15.6% to \$12,590.7 in 2011. The consolidated product revenues increase was primarily driven by the Information Storage and the VMware Virtual Infrastructure segments' product revenues. The overall growth in product revenue in 2011 was due to a continued higher demand for our IT infrastructure offerings to address the storage and virtualization needs for continued information growth, particularly as customers continue to build out their own data centers to develop and support their private or public cloud infrastructures.

The Information Storage segment's product revenues increased 14.3% to \$10,090.3 in 2011. Within the high-end of the Information Storage segment, our Symmetrix product revenues increased 14.5%, primarily due to VMAX system sales and upgrades as customers continue to purchase VMAX for mission critical data sets and business applications as well as for new use cases. Within the mid-tier of the Information Storage segment, which includes Unified products, Backup and Recovery Systems, EMC Isilon and EMC Atmos, product revenues increased 24.7% in 2011 due to strong performance across each of our mid-tier product groups. Within Unified products, our VNX family, which includes VNX and VNXe, was launched in the first quarter of 2011 and has been well received by the market, bringing in almost 2,000 new customers in the fourth quarter of 2011 alone. Our Backup and Recovery Systems products have become an essential part of our strategic offerings as Data Domain product growth continued to benefit from being owned by EMC which in turn helped drive growth in our Avamar and NetWorker products. EMC Isilon, which was acquired at the end of 2010, contributed to our mid-tier product growth as its revenues were included in our results for a full year in 2011 as compared to 2010. Finally, our Big Data storage and data analytics products continued to grow faster than the market with EMC Isilon revenue more than doubling in 2011 as compared to 2010 as an independent company, and EMC Greenplum expanding its offerings from a single product to a portfolio of products which includes a unified solution for Big Data analytics.

The VMware Virtual Infrastructure segment's product revenues increased 31.5% to \$1,840.1 in 2011. VMware's license revenues increased in 2011 primarily due to strong global demand for vSphere. VMware observed an increase in the volume of ELAs in 2011 as compared to 2010 due to growing customer interest as well as strong renewals from existing ELA customers.

The Information Intelligence Group segment's product revenues declined 18.5% to \$219.5 in 2011. The decrease in product revenues was primarily attributable to changing customer demand. The Information Intelligence Group segment continues to evolve to meet the buying preferences of today's content management customers by transitioning to lighter-weight, content-enabled applications using modern virtualized frameworks. The RSA Information Security segment's product revenues increased 10.2% to \$440.8 in 2011. The increase in product revenues was primarily due to increased demand for our Security Management and Compliance products.

Consolidated product revenues increased 23.4% to \$10,892.9 in 2010. The consolidated product revenues increase was primarily driven by the Information Storage and the VMware Virtual Infrastructure segments' product revenues. The Information Storage segment's product revenues increased 22.6% to \$8,824.3 in 2010. The VMware Virtual Infrastructure segment's product revenues increased 36.0% to \$1,399.3 in 2010. The Information Intelligence Group segment's product revenues increased 3.2% to \$269.1 in 2010. The RSA Information Security segment's product revenues increased 17.6% to \$400.2 in 2010. The increase in product revenues across all segments in 2010 was primarily attributable to continued higher demand for our IT infrastructure offerings to address the storage and virtualization needs for continued information growth, particularly as customers continue to build out their own data centers to develop and support their private or public cloud infrastructures.

Consolidated services revenues increased 21.1% to \$7,416.8 in 2011. The consolidated services revenues increase was primarily driven by the Information Storage and the VMware Virtual Infrastructure segments' services revenues where we continue to provide expertise to customers on the most effective ways to enable Cloud Computing and to leverage their Big Data assets.



**Table of Contents**

The Information Storage segment's services revenues increased 19.3% to \$4,623.8 in 2011. The increase in services revenues was primarily attributable to higher demand for maintenance-related services, which correlates to the increased sales in storage products. In addition, a growing demand for professional services also contributed to the increase in services revenues.

The VMware Virtual Infrastructure segment's services revenues increased 32.5% to \$1,922.7 in 2011. The increase in services revenues was primarily attributable to growth in VMware's software maintenance revenues. In 2011, services 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 Information Intelligence Group segment's services revenues increased 3.5% to \$482.9 in 2011. The increase in services revenues was primarily attributable to higher sales of software maintenance contracts. The RSA Information Security segment's services revenues increased 17.7% to \$387.4 in 2011. Services revenues increased due to an increase in professional services and maintenance revenues resulting from continued demand for support from our installed base.

Consolidated services revenues increased 17.8% to \$6,122.3 in 2010. The consolidated services revenues increase was primarily driven by the Information Storage and the VMware Virtual Infrastructure segments' services revenues. The Information Storage segment's services revenues increased 11.9% to \$3,874.8 in 2010. The VMware Virtual Infrastructure segment's services revenues increased 46.3% to \$1,451.5 in 2010. The RSA Information Security segment's services revenues increased 23.9% to \$329.2 in 2010. The Information Intelligence Group segment's services revenues declined 2.5% to \$466.8 in 2010. Services revenues increased across all segments, excluding the Information Intelligence Group segment, in 2010 due to an increase in professional services and maintenance revenues resulting from continued demand for support from our installed base.

Consolidated revenues by geography were as follows:

	2011	2010	2009	Percentage Change	
				2011 vs 2010	2010 vs 2009
United States	\$ 10,549.6	\$ 9,152.4	\$ 7,384.3	15.3%	23.9%
Europe, Middle East and Africa	5,667.6	4,942.1	4,290.3	14.7	15.2
Asia Pacific	2,639.4	1,965.2	1,603.1	34.3	22.6
Latin America, Mexico and Canada	1,151.0	955.5	748.2	20.5	27.7

Revenues increased in 2011 compared to 2010 and in 2010 compared to 2009 in all of our markets due to greater demand for our products and services offerings.

Changes in exchange rates contributed 1.5% to the overall revenue increase in 2011 compared to 2010. The impact of the change in rates was most significant in the Euro zone and Asia Pacific markets, primarily Australia and Japan. Changes in exchange rates contributed 0.2% to the overall revenue increase in 2010 compared to 2009. The impact of the change in rates was most significant in the Asia Pacific markets, primarily Australia and Japan, Canada and Brazil, partially offset by the Euro and the pound sterling.



**Table of Contents****Costs and Expenses**

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

	2011	2010	2009	Percentage Change	
				2011 vs 2010	2010 vs 2009
<b>Cost of revenue:</b>					
Information Storage	\$ 6,414.3	\$ 5,836.4	\$ 5,256.7	9.9%	11.0%
Information Intelligence Group	251.0	258.2	274.8	(2.8)	(6.0)
RSA Information Security	357.7	221.6	186.5	61.4	18.8
VMware Virtual Infrastructure	533.3	425.3	316.3	25.4	34.5
Corporate reconciling items	282.3	242.7	246.8	16.3	(1.7)
<b>Total cost of revenue</b>	<b>7,838.6</b>	<b>6,984.1</b>	<b>6,281.0</b>	<b>12.2</b>	<b>11.2</b>
<b>Gross margins:</b>					
Information Storage	8,299.9	6,862.7	5,402.7	20.9	27.0
Information Intelligence Group	451.4	477.7	464.8	(5.5)	2.8
RSA Information Security	470.5	507.8	419.5	(7.3)	21.0
VMware Virtual Infrastructure	3,229.5	2,425.5	1,704.7	33.1	42.3
Corporate reconciling items	(282.3)	(242.7)	(246.8)	16.3	(1.7)
<b>Total gross margin</b>	<b>12,168.9</b>	<b>10,031.0</b>	<b>7,744.9</b>	<b>21.3</b>	<b>29.5</b>
<b>Operating expenses:</b>					
Research and development <sup>(1)</sup>	2,149.8	1,888.0	1,627.5	13.9	16.0
Selling, general and administrative <sup>(2)</sup>	6,479.4	5,375.3	4,595.6	20.5	17.0
Restructuring and acquisition-related charges	97.3	84.4	107.5	15.3	(21.5)
<b>Total operating expenses</b>	<b>8,726.5</b>	<b>7,347.7</b>	<b>6,330.6</b>	<b>18.8</b>	<b>16.1</b>
<b>Operating income</b>	<b>3,442.4</b>	<b>2,683.3</b>	<b>1,414.3</b>	<b>28.3</b>	<b>89.7</b>
Investment income, interest expense and other expenses, net	(193.2)	(75.3)	(39.7)	156.6	89.7
Income before income taxes	3,249.3	2,608.0	1,374.6	24.6	89.7
Income tax provision	640.4	638.3	252.8	0.3	152.5
<b>Net income</b>	<b>2,608.9</b>	<b>1,969.7</b>	<b>1,121.8</b>	<b>32.5</b>	<b>75.6</b>
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(147.5)	(69.7)	(33.7)	111.6	106.8
<b>Net income attributable to EMC Corporation</b>	<b>\$ 2,461.3</b>	<b>\$ 1,900.0</b>	<b>\$ 1,088.1</b>	<b>29.5%</b>	<b>74.6%</b>

(1) Amount includes corporate reconciling items of \$322.6, \$287.4 and \$235.8 for the years ended December 31, 2011, 2010 and 2009, respectively.

(2) Amount includes corporate reconciling items of \$606.4, \$477.5 and \$495.5 for the years ended December 31, 2011, 2010 and 2009, respectively.

**Gross Margins**

Our gross margin percentages were 60.8%, 59.0% and 55.2% in 2011, 2010 and 2009, respectively. The increase in the gross margin percentage in 2011 compared to 2010 was attributable to the VMware Virtual Infrastructure segment, which increased overall gross margins by 140 basis points, and the Information Storage segment, which increased overall gross margins by 124 basis points, partially offset by the RSA Information Security segment, which decreased overall gross margins by 53 basis points, and the Information Intelligence Group segment, which decreased overall gross margins by 3 basis points. The increase in corporate reconciling items, consisting of stock-based compensation, acquisition-related intangible asset amortization, restructuring charges and transition costs, decreased the consolidated gross margin percentage by 22 basis points.

## Edgar Filing: EMC CORP - Form 10-K

Transition costs represent the incremental costs incurred to streamline our current cost structure. The increase in the gross margin percentage in 2010 compared to 2009 was attributable to the Information Storage segment, which increased overall gross margins by 189 basis points, the VMware Virtual Infrastructure segment, which increased overall gross margins by 161 basis points, the RSA Information Security segment, which increased overall gross margins by 11 basis points and the Information Intelligence Group segment, which increased overall gross margins by 10 basis points. Also contributing to the increased overall gross margin percentage was the decrease of corporate reconciling items, consisting of stock-based compensation, acquisition-related intangible asset amortization, restructuring charges and transition costs, which increased the consolidated gross margin percentage by 3 basis points.

---

**Table of Contents**

For segment reporting purposes, stock-based compensation, restructuring and acquisition-related charges, acquisition-related intangible asset amortization and transition costs are recognized as corporate expenses and are not allocated among our various operating segments. The increase of \$39.7 in the corporate reconciling items in 2011 was attributable to a \$25.4 increase in intangible asset amortization expense and a \$15.0 increase in stock-based compensation expense, partially offset by a \$0.7 decrease in transition costs. The \$15.0 increase in stock-based compensation expense was primarily attributable to the incremental expense associated with VMware's equity grants and the full-year impact of options exchanged in the acquisition of Isilon, which was acquired in the fourth quarter of 2010. The decrease of \$4.1 in the corporate reconciling items in 2010 was attributable to a \$12.5 decrease in restructuring charges and a \$0.9 decrease in transition costs, partially offset by a \$9.3 increase in stock-based compensation expense. Acquisition-related intangible asset amortization expense was flat. The \$9.3 increase in stock-based compensation expense was primarily attributable to the incremental expense associated with VMware's equity grants and the full-year impact of options exchanged in the acquisition of Data Domain, which was acquired in the third quarter of 2009.

The gross margin percentages for the Information Storage segment were 56.4%, 54.0% and 50.7% in 2011, 2010 and 2009, respectively. The increase in gross margin percentage in 2011 compared to 2010 and in 2010 compared to 2009 was primarily attributable to improved product gross margins, driven by a shift in product mix towards higher margin products, higher sales volume and an improved cost structure.

The gross margin percentages for the RSA Information Security segment were 56.8%, 69.6% and 69.2% in 2011, 2010 and 2009, respectively. The decrease in the gross margin percentage in 2011 compared to 2010 was due to a decrease in product margins. The decrease in product margins was caused by costs accrued associated with working with our customers to implement remediation programs in the first quarter of 2011 and to the \$66.3 charge related to the expansion of the customer remediation programs that we recorded in the second quarter of 2011. We expanded our customer remediation programs in the second quarter of 2011 as a result of the heightened customer concerns resulting from press coverage related 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. The slight increase in the gross margin percentage in 2010 compared to 2009 was due to an increase in product margins partially offset by a decrease in services margins.

The gross margin percentages for the Information Intelligence Group segment were 64.3%, 64.9% and 62.8% in 2011, 2010 and 2009, respectively. The slight decrease in gross margin percentage in 2011 compared to 2010 was attributable to an increase in the mix of service revenue as a percentage of total revenue, slightly offset by an increase in service gross margins. The increase in gross margin percentage in 2010 compared to 2009 related to an increase in the product margins due to a decrease in the royalties paid for third party software embedded into the products in 2010 compared to 2009.

The gross margin percentages for the VMware Virtual Infrastructure segment were 85.8% in 2011, 85.1% in 2010 and 84.4% in 2009. The increase in gross margin percentage in 2011 compared to 2010 was primarily attributable to improvements in license gross margins resulting from decreased software capitalization amortization expense. The increase in gross margin percentage in 2010 compared to 2009 was primarily attributable to improved services margins.

***Research and Development***

As a percentage of revenues, R&D expenses were 10.7%, 11.1% and 11.6% in 2011, 2010 and 2009, respectively. R&D expenses increased \$261.8 in 2011 primarily due to an increase in personnel-related costs, including stock-based compensation, cost of facilities, depreciation expense and travel costs, partially offset by greater levels of software capitalization. Personnel-related costs increased by \$274.0, cost of facilities increased by \$20.5, depreciation expense increased by \$13.0 and travel costs increased by \$10.0. Capitalized software development costs, which reduce R&D expense, increased by \$73.6. R&D expenses increased \$260.5 in 2010 primarily due to an increase in personnel-related costs, including stock-based compensation, depreciation expense, cost of facilities and travel costs, partially offset by greater levels of software capitalization. Personnel-related costs increased by \$250.6, depreciation expense increased by \$23.4, cost of facilities increased by \$19.4 and travel costs increased by \$9.4. Capitalized software development costs, which reduce R&D expense, increased by \$62.2.

Corporate reconciling items within R&D, which consist of stock-based compensation, acquisition-related intangible asset amortization and transition costs increased \$35.2 and \$51.6 to \$322.6 and \$287.4 in 2011 and 2010, respectively. Stock-based compensation expense increased \$40.5 and \$44.2 in 2011 and 2010, respectively. Acquisition-related intangible asset amortization decreased \$7.1 in 2011 and increased \$10.7 in 2010 and transition costs increased \$1.8 and decreased \$3.3 in 2011 and 2010, respectively. Intangible asset amortization increased in 2011 primarily due to the Isilon acquisition, which was consummated in the fourth quarter of 2010. Intangible asset amortization increased in 2010 primarily due to VMware acquisitions and to the Data Domain acquisition, which was consummated in the third quarter of 2009. The increase in stock-based compensation expense in 2011 was primarily due to options exchanged in the Isilon acquisition, which was consummated in the fourth quarter of 2010. The increase in stock-based compensation expense in 2010 was attributable to the incremental expense associated with VMware's equity grants and the full year impact of options exchanged in the acquisition of Data Domain.



**Table of Contents**

R&D expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 7.6%, 7.9% and 8.5% in 2011, 2010 and 2009, respectively. R&D expenses increased \$116.5 in 2011 primarily due to increases in personnel-related costs, including stock-based compensation, cost of facilities, depreciation expense and travel costs. Personnel-related costs increased by \$124.8, cost of facilities increased by \$4.2, depreciation expense increased by \$17.8 and travel costs increased by \$6.1. Partially offsetting these increased costs was an increase in capitalized software development costs of \$60.4. R&D expenses increased \$100.7 in 2010 primarily due to increases in personnel-related costs, depreciation expense, cost of facilities and travel costs. Personnel-related costs increased by \$122.4, depreciation expense increased by \$14.7, cost of facilities increased by \$14.3 and travel costs increased by \$6.1. Partially offsetting these increased costs was an increase in capitalized software development costs of \$70.1.

R&D expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 15.6%, 16.8% and 18.3% in 2011, 2010 and 2009, respectively. R&D expenses increased \$110.1 in 2011 largely due to increases in personnel-related costs of \$106.9. This increase was partially offset by increases in VMware's capitalized software development costs of approximately \$13.3 in 2011, primarily due to the timing of products reaching technological feasibility. 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. For future releases, VMware expects its products to be available for general release soon after technological feasibility has been established. Given that the majority of VMware's product offerings are expected to be suites or to have key components that interoperate with VMware's other product offerings, the costs incurred subsequent to achievement of technological feasibility are expected to be immaterial in future periods. R&D expenses increased \$108.3 in 2010 largely due to increases in personnel-related costs of \$87.3, primarily due to increased salaries and benefits expenses resulting from incremental headcount from strategic hiring and acquisitions. Additionally, capitalized software development costs decreased \$7.9 in 2010 primarily due to lower costs capitalized on products that build on the VMware vSphere foundation in 2010.

***Selling, General and Administrative***

As a percentage of revenues, selling, general and administrative (SG&A) expenses were 32.4%, 31.6% and 32.8% in 2011, 2010 and 2009, respectively. SG&A expenses increased by \$1,104.1 in 2011 primarily due to increases in personnel-related costs, travel costs, commissions, cost of facilities and depreciation expense. Personnel-related costs increased by \$768.0, travel costs increased by \$61.8, commissions increased by \$51.9, cost of facilities increased by \$43.8 and depreciation expense increased by \$29.7 in 2011. SG&A expenses increased by \$779.7 in 2010 from 2009 primarily due to increases in personnel-related costs, commissions, travel costs, business development costs, cost of facilities and depreciation expense. Personnel-related costs increased by \$439.4, commissions increased by \$168.1, travel costs increased by \$73.3, business development costs increased by \$43.7, cost of facilities increased by \$35.6 and depreciation expense increased by \$28.5 in 2010.

Corporate reconciling items within SG&A, which consist of stock-based compensation, acquisition-related intangible asset amortization and transition costs increased \$128.9 to \$606.4 in 2011 and decreased \$18.0 to \$477.5 in 2010. Intangible asset amortization increased \$38.2, stock-based compensation expense increased \$95.6 and transition costs decreased \$4.9 in 2011. Intangible asset amortization increased primarily due to the Greenplum and Isilon acquisitions, which were consummated in the third and fourth quarters of 2010, respectively. Stock-based compensation expense increased in 2011 primarily due to the Isilon acquisition. In 2010, intangible asset amortization increased \$26.8, stock-based compensation expense increased \$25.9 and transition costs decreased \$13.2. Additionally, the provision for litigation of \$57.5 in 2009 did not recur in 2010. Intangible asset amortization increased primarily due to VMware acquisitions and to the Data Domain acquisition, which was consummated in the third quarter of 2009. Stock-based compensation expense increased in 2010 due to the incremental expense associated with VMware's equity grants and the full year impact of options exchanged in the acquisition of Data Domain.

SG&A expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 27.0%, 26.4% and 27.1% in 2011, 2010 and 2009, respectively. SG&A expenses increased \$655.1 in 2011 primarily due to increases in personnel-related costs, travel costs, commissions, cost of facilities and depreciation expense. Personnel-related costs increased by \$435.4, travel costs increased by \$45.8, commissions increased by \$28.7, cost of facilities increased by \$21.2 and depreciation expense increased by \$20.7 in 2011. SG&A expenses increased \$479.0 in 2010 primarily due to increases in personnel-related costs, commissions, travel costs, business development costs, cost of facilities and depreciation. Personnel-related costs increased by \$258.8, commissions increased by \$108.4, travel costs increased by \$52.0, business development costs increased by \$35.3, cost of facilities increased by \$21.1 and depreciation expense increased by \$14.9. Partially offsetting these increases was a decrease in professional services costs of \$12.3.

---

## **Table of Contents**

SG&A expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 39.4%, 40.7% and 41.7% in 2011, 2010 and 2009, respectively. SG&A expenses increased \$320.0 in 2011. The increase in SG&A expenses in 2011 was primarily due to growth in personnel-related expenses driven by incremental headcount and by higher commission expense due to increased sales volumes. SG&A expenses increased \$318.7 in 2010. The increase in SG&A expenses in 2010 was primarily the result of higher salaries and benefits costs resulting from incremental headcount from strategic hiring and acquisitions as well as commission expense on higher sales volumes. Also contributing to the change was increased spending on marketing programs.

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

In 2011, 2010 and 2009, we incurred restructuring and acquisition-related charges of \$97.3, \$84.4 and \$107.5, respectively. In 2011, we incurred \$86.0 of restructuring charges, of which \$63.2 primarily related to our current year restructuring programs and \$11.3 of charges in connection with acquisitions for financial, advisory, legal and accounting services. In 2010, we incurred \$76.7 of restructuring charges, of which \$37.8 primarily related to our 2010 restructuring program and \$7.7 of charges in connection with acquisitions for financial, advisory, legal and accounting services. In 2009, we incurred \$88.4 of restructuring charges, of which \$69.3 primarily related to our 2008 restructuring program and \$19.1 of charges in connection with acquisitions for financial, advisory, legal and accounting services.

During 2011, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 787 positions and the vacation of certain facilities. These actions will impact positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions will be completed by the end of 2012.

During 2010, we implemented a restructuring program to create further operational efficiencies which resulted in a workforce reduction of approximately 400 positions. These actions impacted positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions have been completed by the end of 2011.

During 2011, 2010 and 2009, we recognized \$26.1, \$31.6 and \$27.1, respectively, of lease termination costs for facilities vacated and other contractual obligations in the respective periods as part of all of our restructuring programs. These costs are expected to be utilized by the end of 2015. The remaining cash portion owed for these programs in 2012 is approximately \$62.0, plus an additional \$19.7 over the period from 2013 and beyond.

### ***Investment Income***

Investment income was \$129.2, \$142.5 and \$140.4 in 2011, 2010 and 2009, respectively. Investment income decreased in 2011 primarily due to a decrease in net realized gains and lower coupon income. Net realized gains were \$10.1, \$15.8 and \$20.8 in 2011, 2010 and 2009, respectively.

### ***Interest Expense***

Interest expense was \$170.5, \$178.3 and \$182.5 in 2011, 2010 and 2009, respectively. Interest expense consists primarily of interest on the \$1,725 1.75% convertible senior notes due 2011 (the 2011 Notes), and our \$1,725 1.75% convertible senior notes due 2013 (the 2013 Notes and, together with the 2011 Notes, the Notes) which we issued in November 2006. Included in interest expense are non-cash interest charges related to amortization of the debt discount attributable to the conversion feature of \$115.9, \$114.5 and \$108.3 in 2011, 2010 and 2009, respectively. We are accreting our convertible debt to their stated values over their term. See Note E to the consolidated financial statements.

### ***Other Income (Expense), Net***

Other income (expense), net was \$(152.0), \$(39.5) and \$2.4 in 2011, 2010 and 2009, respectively. Other expense in 2011 primarily consisted of our consolidated share of the losses from our converged infrastructure joint venture, VCE Company LLC, of \$(209.2), partially offset by the non-recurring gain on the sale of VMware's investment in Terremark Worldwide, Inc. in the second quarter of 2011 of \$56.0. The joint venture is accounted for under the equity method. Other expense in 2010 was primarily attributable to our consolidated share of the losses from VCE Company LLC of \$42.8. See Note J to the consolidated financial statements. Other income in 2009 was primarily attributable to gains on strategic investments.

### ***Provision for Income Taxes***

Our effective income tax rate was 19.7%, 24.5% and 18.4% in 2011, 2010 and 2009, respectively. The effective income tax rate is based upon the income for the year, the composition of the income in different countries, and adjustments, if any, for the potential tax consequences, benefits or resolutions of audits or other tax contingencies. Our aggregate income tax rate in foreign



**Table of Contents**

jurisdictions is lower than our income tax rate in the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish subsidiaries. We do not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on our effective rate. Our effective tax rate may be adversely affected by earnings being lower than anticipated in countries where we have lower statutory tax rates and higher than anticipated in countries where we have higher statutory tax rates.

In 2011, the lower aggregate income tax rate in foreign jurisdictions reduced our effective rate by 14.4 percentage points compared to our statutory federal tax rate of 35.0%. The net effect of tax credits, state taxes, non-deductible permanent differences, resolution of income tax audits and reversal of reserves associated with the expiration of statutes of limitations and other items collectively decreased the rate by 0.9 percentage points.

In 2010, the lower aggregate income tax rate in foreign jurisdictions reduced our effective rate by 12.2 percentage points compared to our statutory federal tax rate of 35.0%. In 2010, we effected a plan to reorganize our international operations by transferring certain assets of Isilon, Archer Technologies and Bus-Tech entities into a single EMC international holding company. As a result of this reorganization, we incurred an income tax charge which negatively impacted our effective tax rate by 3.2 percentage points. In 2010, we also had a reduction in our valuation allowance which arose from the utilization of a certain subsidiary's foreign net operating loss carryforwards resulting in a benefit to our effective tax rate of 0.6 percentage points. The net effect of tax credits, state taxes, non-deductible permanent differences, resolution of income tax audits and elimination of reserves associated with the expiration of statutes of limitations and other items collectively decreased the rate by 0.9 percentage points.

In 2009, the lower aggregate income tax rate in foreign jurisdictions reduced our effective rate by 17.5 percentage points compared to our statutory federal tax rate of 35.0%. The resolution of income tax audits and reversal of reserves associated with the expiration of statutes of limitations for which we believe we had certain tax exposure favorably reduced our effective tax rate by an additional 4.5 percentage points. In 2009, we effected a plan to reorganize our international operations by transferring certain assets of our RSA and Data Domain entities and legacy foreign corporations owned directly by EMC into a single EMC international holding company. As a result of this reorganization, we incurred income taxes which negatively impacted our effective tax rate by 4.4 percentage points. The net effect of tax credits, state taxes, non-deductible permanent differences and changes in valuation allowances and other items collectively increased the rate by 1.0 percentage point, driven principally by non-deductible permanent differences.

The effective tax rate decreased from 2010 to 2011 by 4.8%, from 24.5% to 19.7%. This decrease was principally attributable to a higher amount of income earned in foreign jurisdictions during 2011, which was largely due to how certain expenses are allocated to our world-wide subsidiaries. Additionally, the decrease was attributable to the reorganization of our international operations during 2010, and the favorable resolution of income tax audits during 2011, which was partially offset by a decrease in our U.S. tax credits and an increase in other differences. The effective tax rate increased from 2009 to 2010 by 6.1%, from 18.4% to 24.5%. This increase was principally attributable to a lower amount of income earned in foreign jurisdictions during 2010 and the favorable resolution of income tax audits in 2009, which was partially offset by reductions in our non-deductible permanent differences and the reorganization of our international operations.

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

The net income attributable to the non-controlling interest in VMware was \$147.5, \$69.7 and \$33.7 in 2011, 2010 and 2009, respectively. The increases were 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 reported net income was \$723.9, \$357.4 and \$197.1 in 2011, 2010 and 2009, respectively. The weighted-average non-controlling interest in VMware was approximately 20.4%, 19.5% and 17.0% in 2011, 2010 and 2009, respectively. In the first quarter of 2010, we announced a stock purchase program of VMware's Class A common stock to maintain an approximately 80% majority ownership in VMware over the long term. As of December 31, 2011, we have purchased approximately 10.6 million shares for \$799.2.

***Financial Condition***

Cash provided by operating activities was \$5,668.8, \$4,548.8 and \$3,334.4 for 2011, 2010 and 2009, respectively. Cash received from customers was \$21,144.7, \$17,585.4 and \$14,647.7 in 2011, 2010 and 2009, respectively. The increase in cash received from customers from 2009 to 2010 and from 2010 to 2011 was attributable to an increase in sales volume and higher cash proceeds from the sale of multi-year maintenance contracts, which are typically billed and paid in advance of services being rendered. Cash paid to suppliers and employees was \$15,218.7, \$12,830.7 and \$11,032.9 in 2011, 2010 and 2009, respectively. The increase in cash paid to suppliers and employees from 2009 to 2010 and from 2010 to 2011 was primarily due to a general growth in the business to support the increased revenue base. Income taxes paid was \$323.1, \$232.1 and \$316.5 in 2011, 2010 and 2009, respectively. These payments are comprised of estimated taxes for the current year, extension payments for the prior year and refunds or payments associated with income tax filings and tax audits.





---

**Table of Contents**

Cash used in investing activities was \$3,543.5, \$6,476.0 and \$3,095.5 in 2011, 2010 and 2009, respectively. Cash used for business acquisitions, strategic and other related investments was \$837.1, \$3,070.7 and \$2,827.9 in 2011, 2010 and 2009, respectively. In 2011, we acquired seven companies for \$536.6, net of cash acquired, and spent \$300.5 on strategic and other related investments including the purchase of patents from Novell of \$112.5, and VMware purchased a leasehold interest for \$151.1. In 2010, we acquired Isilon for \$2,301.1, net of cash acquired, and in 2009, we acquired Data Domain for \$1,933.9, net of cash acquired. Additionally, we also provided funding of \$383.2 to our joint venture, VCE Company LLC, in 2011 compared to \$29.6 in 2010 and \$19.2 in 2009. Capital additions were \$801.4, \$745.4 and \$411.6 in 2011, 2010 and 2009, respectively. The higher level of capital additions in both 2011 and 2010 was primarily attributable to an increase in spending on facility expansion and information technology infrastructure for 2011 as well as to support the growth of the business. Capitalized software development costs were \$442.3, \$363.0 and \$304.5 in 2011, 2010 and 2009, respectively. The increases in 2011 and 2010 were primarily attributable to EMC Information Infrastructure's software development activities. Net purchases of investments were \$928.4 and \$2,267.3 in 2011 and 2010, respectively, compared to net sales and maturities of \$466.6 in 2009. This activity varies from period to period based upon our cash collections, cash requirements and maturity dates of our investments.

Cash provided by (used in) financing activities was \$(1,718.5), \$(243.8) and \$211.9 in 2011, 2010 and 2009, respectively. In 2011 and 2010, we spent \$2,000.0 and \$999.9 to repurchase 81.8 million and 52.7 million shares of EMC common stock, respectively. Additionally, in 2011 and 2010 we spent \$400.0 and \$399.2 to purchase 4.6 million and 6.0 million shares of VMware common stock, respectively, and VMware spent \$526.2 and \$338.5 to repurchase 6.0 million and 4.9 million shares of its common stock, respectively. We made no share repurchases in 2009. We generated \$1,011.0, \$1,212.0 and \$594.0 in 2011, 2010 and 2009, respectively, from the exercise of stock options and the purchase of shares within the employee stock plans. We generated \$361.6, \$281.9 and \$46.1 in 2011, 2010 and 2009, respectively, of excess tax benefits from stock-based compensation. In 2011, we spent \$141.0 on the settlement of interest rate contracts.

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

As of December 31, 2011, the 2011 Notes had matured and the note holders exercised their rights to convert the outstanding Notes. Due to the settlement terms, the majority of the converted Notes were not settled until January 9, 2012. At that time, we paid the note holders \$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 Notes. We intend to issue debt in 2012 to replace the 2011 Notes.

In connection with the issuance of the Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the Purchased Options). The Purchased Options allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the Notes upon conversion. The Purchased Options will cover, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock. 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.

The remaining \$1,725.0 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 December 31, 2011, 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 March 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 \$0.5 of the 2013 Notes have been converted as of December 31, 2011.

In connection with the issuance of the Notes, we also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, shares of our common stock. Half of the associated warrants have expiration dates 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. Upon exercise, the value of the warrants is required to be settled in shares. See Note E to the consolidated financial statements.

Additionally, we also have available for use a credit line of \$50.0 in the United States. As of December 31, 2011, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At December 31, 2011, we were in compliance with the covenants. As of December 31, 2011, the aggregate amount of liabilities of our subsidiaries was approximately \$6,162.3.



**Table of Contents**

At December 31, 2011, our total cash, cash equivalents, and short-term and long-term investments were \$10,843.1. This balance includes approximately \$4,512.3 held by VMware, of which \$2,072.2 is held overseas, and \$1,517.0 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 uses certain non-GAAP financial measures, which exclude stock-based compensation, amortization of intangible assets, restructuring and acquisition-related charges, infrequently occurring gains, losses and charges, and special tax items to measure its gross margin, operating margin, net income and diluted earnings per share for purposes of managing our business. EMC also assesses its financial performance by measuring its free cash flow which is also a non-GAAP financial measure. Free cash flow is defined as net cash provided by operating activities, less additions to property, plant and equipment 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 and year ended December 31, 2011 and 2010 were as follows:

	For the Three Months Ended		For the Year Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Gross margin	\$ 3,595.8	\$ 3,028.4	\$ 12,516.1	\$ 10,271.4
Gross margin percentage	64.5%	61.9%	62.6%	60.4%
Operating income	1,467.8	1,243.0	4,784.0	3,738.0
Operating income percentage	26.3%	25.4%	23.9%	22.0%
Income tax provision	253.4	249.8	949.3	824.0
Net income attributable to EMC	1,065.2	920.1	3,380.5	2,715.3
Diluted earnings per share attributable to EMC	\$ 0.49	\$ 0.42	\$ 1.51	\$ 1.26

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

**Table of Contents**

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

	For the Three Months Ended December 31, 2011							
	GAAP	Stock-based compensation	Intangible asset amortization	Restructuring and acquisition-related charges	RSA special charge	Gain on strategic investments	Special tax charge	Non-GAAP
Gross margin	\$ 3,523.3	\$ 31.7	\$ 40.8	\$	\$	\$	\$	\$ 3,595.8
Operating income	1,138.8	213.9	86.2	28.9				1,467.8
Income tax provision	174.9	47.6	27.3	3.7				253.4
Net income attributable to EMC	832.0	151.8	56.1	25.2				1,065.2
Diluted earnings per share attributable to EMC	\$ 0.38	\$ 0.07	\$ 0.03	\$ 0.01	\$	\$	\$	\$ 0.49

	For the Three Months Ended December 31, 2010							
	GAAP	Stock-based compensation	Intangible asset amortization	Restructuring and acquisition-related charges	RSA special charge	Gain on strategic investments	Special tax charge	Non-GAAP
Gross margin	\$ 2,966.3	\$ 28.9	\$ 33.2	\$	\$	\$	\$	\$ 3,028.4
Operating income	943.7	185.4	70.4	43.5				1,243.0
Income tax provision	257.0	45.2	24.1	6.8			(83.3)	249.8
Net income attributable to EMC	628.6	126.9	44.6	36.7			83.3	920.1
Diluted earnings per share attributable to EMC	\$ 0.29	\$ 0.06	\$ 0.02	\$ 0.02	\$	\$	\$ 0.04	\$ 0.42

	For the Year Ended December 31, 2011							
	GAAP	Stock-based compensation	Intangible asset amortization	Restructuring and acquisition-related charges	RSA special charge	Gain on strategic investments	Special tax charge	Non-GAAP
Gross margin	\$ 12,168.9	\$ 123.7	\$ 157.2	\$	\$ 66.3	\$	\$	\$ 12,516.1
Operating income	3,442.4	836.2	341.8	97.3	66.3			4,784.0
Income tax provision	640.4	194.6	107.9	15.9	10.1	(19.6)		949.3
Net income attributable to EMC	2,461.3	587.0	223.9	80.9	56.2	(28.9)		3,380.5
Diluted earnings per share attributable to EMC	\$ 1.10	\$ 0.26	\$ 0.10	\$ 0.04	\$ 0.03	\$ (0.01)	\$	\$ 1.51

	For the Year Ended December 31, 2010							
	GAAP	Stock-based compensation	Intangible asset amortization	Restructuring and acquisition-related charges	RSA special charge	Gain on strategic investments	Special tax charge	Non-GAAP
Gross margin	\$ 10,031.0	\$ 108.7	\$ 131.8	\$	\$	\$	\$	\$ 10,271.4
Operating income	2,683.3	685.1	285.3	84.4				3,738.0
Income tax provision	638.3	165.7	92.7	10.7			(83.3)	824.0
Net income attributable to EMC	1,900.0	472.7	187.3	72.0			83.3	2,715.3
Diluted earnings per share attributable to EMC	\$ 0.88	\$ 0.22	\$ 0.09	\$ 0.03	\$	\$	\$ 0.04	\$ 1.26

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 year ended December 31, 2011, our free cash flow was \$4,425.1, an increase of 28.6% compared to the free cash flow generated for the year ended December 31, 2010. The free cash flow for the twelve months ended December 31, 2011 exceeded our non-GAAP net income attributable to EMC by \$1,044.6. 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,

## Edgar Filing: EMC CORP - Form 10-K

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.

**Table of Contents**

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

	For the Three Months Ended		For the Year Ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Cash Flow from Operations	\$ 2,184.2	\$ 1,512.2	\$ 5,668.8	\$ 4,548.8
Capital Expenditures	(200.2)	(203.5)	(801.4)	(745.4)
Capitalized Software Development Costs	(100.3)	(90.5)	(442.3)	(363.0)
Free Cash Flow	\$ 1,883.8	\$ 1,218.2	\$ 4,425.1	\$ 3,440.5

Free cash flow represents a non-GAAP measure related to operating cash flows. In contrast, our GAAP measures of cash flow consist of three components. These are cash flows provided by operating activities of \$5,668.8 and \$4,548.8 for the years ended December 31, 2011 and 2010, respectively, cash used in investing activities of \$3,543.5 and \$6,476.0 for the years ended December 31, 2011 and 2010, respectively, and net cash used in financing activities of \$1,718.5 and \$243.8 for the years ended December 31, 2011 and 2010, respectively.

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

**Investments**

The following table summarizes the composition of our investments at December 31, 2011:

	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	\$ 2,474.0	\$ 12.4	\$ (1.5)	\$ 2,485.0
U.S. corporate debt securities	1,400.4	10.0	(2.6)	1,407.8
High yield corporate debt securities	442.7	12.5	(7.7)	447.5
Asset-backed securities	29.1	0.1		29.1
Municipal obligations	814.7	2.0	(0.6)	816.1
Auction rate securities	82.9		(8.3)	74.6
Foreign debt securities	984.7	5.2	(2.8)	987.1
Total fixed income securities	6,228.5	42.1	(23.5)	6,247.1
Publicly traded equity securities	58.2	6.8		65.0
Total	\$ 6,286.7	\$ 49.0	\$ (23.5)	\$ 6,312.1

Our fixed income and equity investments are classified as available for sale and recorded at their fair market values. At December 31, 2011, with the exception of our auction rate securities, the vast majority of our investments were priced by third-party 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.

For all of our securities where the amortized cost basis was greater than the fair value at December 31, 2011, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment

## Edgar Filing: EMC CORP - Form 10-K

has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating, third party guarantees and the time to maturity.



**Table of Contents****Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments*****Contractual Obligations***

We have various contractual obligations impacting our liquidity. The following represents our contractual obligations as of December 31, 2011:

	Payments Due By Period				
	Total	Less than 1 year	1-3 years*	3-4 years**	More than 4 years
Operating leases	\$ 1,501.0	\$ 254.9	\$ 514.7	\$ 90.0	\$ 641.4
Notes converted and payable	1,699.8	1,699.8			
Convertible debt	1,724.5	1,724.5			
Product warranty obligations	254.6				
Other long-term obligations, including notes payable and current portion of long-term obligations and post retirement obligations	287.9	136.2	1.3	0.6	1.3
Purchase orders	2,349.8	2,341.0	8.8		
Uncertain tax positions	196.8				
<b>Total</b>	<b>\$ 8,014.4</b>	<b>\$ 6,156.4</b>	<b>\$ 524.8</b>	<b>\$ 90.6</b>	<b>\$ 642.7</b>

\*Includes payments from January 1, 2013 through December 31, 2015.

\*\*Includes payments from January 1, 2016 through December 31, 2016.

As of December 31, 2011, we had \$254.6 of product warranty obligations, \$148.5 of long-term post retirement obligations, \$2,349.8 of purchase orders and \$196.8 of liabilities for uncertain tax positions. We are not able to provide a reasonably reliable estimate of the timing of future payments relating to these obligations. The purchase orders are for manufacturing and non-manufacturing related goods and services. While the purchase orders are generally cancellable without penalty, certain vendor agreements provide for percentage-based cancellation fees or minimum restocking charges based on the nature of the product or service. Our operating leases are primarily for office space around the world. We believe leasing such space in most cases is more cost-effective than purchasing real estate.

The 2011 Notes have been fully converted, were settled in January 2012 and are included here and in the consolidated balance sheets as of December 31, 2011 under Notes Converted and Payable. The convertible debt pertains to the 2013 Notes. The holders of the 2013 Notes may convert their 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 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 Notes. Additionally, the 2013 Notes will become convertible during the last three months prior to their maturity.

Based upon the closing price of our common stock for the prescribed measurement period during the three months ended December 31, 2011, the contingent conversion threshold on the 2013 Notes was exceeded. As a result, the 2013 Notes are convertible at the option of the holder through March 31, 2012. Accordingly, since the terms of the Notes require the principal to be settled in cash, we reclassified from equity the portion of the Notes attributable to the conversion feature which had not yet been accreted to its face value and the Notes have been classified as a current liability. For the holders to be able to continue to convert the 2013 Notes, our closing stock price must exceed \$20.90 for 20 out of the last 30 trading days of each future quarter. If this threshold is not met, the 2013 Notes will be reclassified to long-term debt.

We have no other off-balance sheet arrangements.

*Guarantees and Indemnification Obligations*

EMC's subsidiaries have entered into arrangements with financial institutions for such institutions to provide guarantees for rent, taxes, insurance, leases, performance bonds, bid bonds and customs duties aggregating \$115.0 as of December 31, 2011. The guarantees vary in length of time. In connection with these arrangements, we have agreed to guarantee substantially all of the

---

## **Table of Contents**

guarantees provided by these financial institutions. EMC and certain of its subsidiaries have also entered into arrangements with financial institutions in order to facilitate the management of currency risk. EMC has agreed to guarantee the obligations of its subsidiaries under these arrangements.

We enter into agreements in the ordinary course of business with, among others, customers, resellers, joint ventures, OEMs, systems integrators and distributors. Most of these agreements require us to indemnify the other party against third-party claims alleging that an EMC product infringes a patent and/or copyright. Certain agreements in which we grant limited licenses to specific EMC-trademarks require us to indemnify the other party against third-party claims alleging that the use of the licensed trademark infringes a third-party trademark. Certain of these agreements require us to indemnify the other party against certain claims relating to the loss or processing of data, to real or tangible personal property damage, personal injury or the acts or omissions of EMC, its employees, agents or representatives. In addition, from time to time, we have made certain guarantees regarding the performance of our systems to our customers. We have also made certain guarantees for obligations of affiliated third parties.

We have agreements with certain vendors, financial institutions, lessors and service providers pursuant to which we have agreed to indemnify the other party for specified matters, such as acts and omissions of EMC, its employees, agents or representatives.

We have procurement or license agreements with respect to technology that is used in our products and agreements in which we obtain rights to a product from an OEM. Under some of these agreements, we have agreed to indemnify the supplier for certain claims that may be brought against such party with respect to our acts or omissions relating to the supplied products or technologies.

We have agreed to indemnify the directors, executive officers and certain other officers of EMC and our subsidiaries, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or officer.

In connection with certain acquisitions, we have agreed to indemnify the current and former directors, officers and employees of the acquired company in accordance with the acquired company's by-laws and charter in effect immediately prior to the acquisition or in accordance with indemnification or similar agreements entered into by the acquired company and such persons. In a substantial majority of instances, we have maintained the acquired company's directors' and officers' insurance, which should enable us to recover a portion of any future amounts paid. These indemnities vary in length of time.

Based upon our historical experience and information known as of December 31, 2011, we believe our liability on the above guarantees and indemnities at December 31, 2011 is not material.

## **Pension**

We have a noncontributory defined benefit pension plan (the Pension Plan) that was assumed as part of the Data General acquisition, which covers substantially all former Data General employees located in the United States. Certain of the former Data General foreign subsidiaries also have foreign retirement plans covering substantially all of their employees. All of these plans have been frozen resulting in employees no longer accruing pension benefits for future services. The assets for these defined benefit plans are invested in common stocks and bonds. The market related value of the plan's assets is based upon the assets' fair value. The expected long-term rate of return on assets for the year ended December 31, 2011 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 shift the asset allocation to lower the percentage of investments in equities and increase the percentage of investments in long-duration fixed-income securities. The continued changes could result in a reduction in the long-term rate of return on plan assets and increase future pension expense consistent with the sensitivity described below. 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 and 2010, we experienced an 8.9% and 12.6% gain on plan assets, respectively. Based upon current market conditions and the target allocation of the plan's assets, the expected long-term rate of return for 2012 is 6.75%. A 25 basis point change in the expected long-term rate of return on the plan's assets would have approximately a \$1.0 impact on the 2012 pension expense.

As of December 31, 2011, the Pension Plan had a \$218.0 unrecognized actuarial loss that will be expensed over the average future working lifetime of active participants of 13.10 years. For the year ended December 31, 2011, the discount rate to determine the benefit obligation was 4.6%. This rate represents the average of the discount rate weighted by the plan's liabilities as of December 31, 2011. The discount rate selected was based on highly rated long-term bond indices and yield curves that match the duration of the plan's benefit obligations. The bond indices and yield curve analyses include only bonds rated AA or higher from a reputable rating agency. The discount rate reflects the rate at which the pension benefits could be effectively settled. A 25 basis point change in the discount rate would have approximately a \$0.6 impact on the 2012 pension expense for all plans. Additionally, certain foreign subsidiaries have defined benefit pension plans. These foreign pension plans are

excluded from this discussion because they do not have a material impact on our consolidated financial position or results of operations.

---

## **Table of Contents**

### **Critical Accounting Policies**

Our consolidated financial statements are based on the selection and application of generally accepted accounting principles which require us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and the accompanying notes. Future events and their effects cannot be determined with certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates, and any such differences may be material to our financial statements. We believe that the areas set forth below may involve a higher degree of judgment and complexity in their application than our other accounting policies and represent the critical accounting policies used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results. Our significant accounting policies are presented within Note A to the consolidated financial statements.

#### ***Revenue Recognition***

The application of the appropriate guidance within the Accounting Standards Codification to our revenue is dependent upon the specific transaction and whether the sale or lease includes information systems, including hardware storage and hardware-related devices, software, including required storage operating systems and optional value-added software application programs, and services, including installation, professional, software and hardware maintenance and training, or a combination of these items. As our business evolves, the mix of products and services sold will impact the timing of when revenue and related costs are recognized. Additionally, revenue recognition involves judgments, including estimates of fair value and selling price in arrangements with multiples deliverables, assessments of expected returns and the likelihood of nonpayment. We analyze various factors, including a review of specific transactions, the credit-worthiness of our customers, our historical experience and market and economic conditions. Changes in judgments on these factors could materially impact the timing and amount of revenue and costs recognized. Should market or economic conditions deteriorate, our actual return experience could exceed our estimate.

#### ***Warranty Costs***

We accrue for systems warranty costs at the time of shipment. We estimate systems warranty costs based upon historical experience, specific identification of system requirements and projected costs to service items under warranty. While we engage in extensive product quality programs and processes, our warranty obligation is affected by product failure rates, material usage and service delivery costs. To the extent that our actual systems warranty costs differed from our estimates by 5 percent, consolidated pre-tax income would have increased/decreased by approximately \$12.7 and \$11.8 in 2011 and 2010, respectively.

#### ***Asset Valuation***

Asset valuation includes assessing the recorded value of certain assets, including accounts and notes receivable, investments, inventories, goodwill and other intangible assets. We use a variety of factors to assess valuation, depending upon the asset.

Accounts and notes receivable are evaluated based upon the credit-worthiness of our customers, our historical experience, the age of the receivable and current market and economic conditions. Should current market and economic conditions deteriorate, our actual bad debt experience could exceed our estimate.

The market value of our short- and long-term investments is based primarily upon the listed price of the security. At December 31, 2011, with the exception of our auction rate securities, the vast majority of our investments were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs such as 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 the event the fair market values that we determine are not accurate or we are unable to liquidate our investments in a timely manner, we may not realize the recorded value of our investments. We hold investments whose market values are below our cost. The determination of whether unrealized losses on investments are other-than-temporary is based upon the type of investments held, market conditions, financial condition and near-term prospects of the issuers, the time to maturity, length of the impairment, magnitude of the impairment and ability and intent to hold the investment to maturity. Should current market and economic conditions deteriorate, our ability to recover the cost of our investments may be impaired.

The recoverability of inventories is based upon the types and our levels of inventory held, forecasted demand, pricing, competition and changes in technology. Should current market and economic conditions deteriorate, our actual recovery could be less than our estimate.



## **Table of Contents**

Other intangible assets are evaluated based upon the expected period the asset will be utilized, forecasted cash flows, changes in technology and customer demand. Changes in judgments on any of these factors could materially impact the value of the asset. We perform an assessment of the recoverability of goodwill, at least annually, in the fourth quarter of each year. Our assessment is performed at the reporting unit level which, for certain of our operating segments, is one step below our segment level. During 2011, we early adopted the new accounting guidance that allows entities to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary and, in doing so, we evaluated goodwill for certain reporting units in a qualitative manner and determined there was no impairment. For the reporting units that we evaluated using a quantitative model, there was sufficient market value above the carrying value of those reporting units so that we would not expect any near term changes in the operating results that would trigger an impairment. The determination of relevant comparable industry companies impacts our assessment of fair value. Should the operating performance of our reporting units change in comparison to these companies or should the valuation of these companies change, this could impact our assessment of the fair value of the reporting units. Our discounted cash flow analyses factor in assumptions on revenue and expense growth rates. These estimates are based upon our historical experience and projections of future activity, factoring in customer demand, changes in technology and a cost structure necessary to achieve the related revenues. Additionally, these discounted cash flow analyses factor in expected amounts of working capital and weighted average cost of capital. Changes in judgments on any of these factors could materially impact the value of the reporting unit.

### ***Restructuring Charges***

We recognized restructuring charges in 2011, 2010, 2009 and prior years. The restructuring charges include, among other items, estimated employee termination benefit costs, subletting of facilities and termination of various contracts. The amount of the actual obligations may be different than our estimates due to various factors, including market conditions, negotiations with third parties and finalization of severance agreements with employees. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted.

### ***Accounting for Income Taxes***

As part of the process of preparing our financial statements, we are required to estimate our provision for income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure, including assessing the risks associated with tax audits, together with assessing temporary differences resulting from the different treatment of items for tax and financial reporting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is more likely than not, do not establish a valuation allowance. In the event that actual results differ from these estimates, our provision for income taxes could be materially impacted.

### ***Accounting for Stock-Based Compensation***

For our share-based payment awards, we make estimates and assumptions to determine the underlying value of stock options, including volatility, expected life and forfeiture rates. Additionally, for awards which are performance-based, we make estimates as to the probability of the underlying performance being achieved. Changes to these estimates and assumptions may have a significant impact on the value and timing of stock-based compensation expense recognized, which could have a material impact on our consolidated financial statements.

**Table of Contents****ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****Market Risk**

We are exposed to market risk, primarily from changes in foreign exchange rates, interest rates and credit risk. To manage the volatility relating to foreign exchange risk, we enter into various derivative transactions pursuant to our policies to hedge against known or forecasted market exposures.

**Foreign Exchange Risk Management**

As a multinational corporation, we are exposed to changes in foreign exchange rates. Any foreign currency transaction, defined as a transaction denominated in a currency other than the U.S. dollar, will be reported in U.S. dollars at the applicable exchange rate. Assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date and income and expense items are translated at average rates for the period. The primary foreign currency denominated transactions include revenue and expenses and the resultant accounts receivable and accounts payable balances are reflected on our balance sheet. Therefore, the change in the value of the U.S. dollar as compared to foreign currencies will have either a positive or negative effect on our financial position and results of operations. We enter into derivative contracts with the sole objective of decreasing the volatility of the impact of currency fluctuations. These exposures may change over time and could have a material adverse impact on our financial results. Historically, our primary exposure has related to sales denominated in the Euro, the Japanese yen and the pound sterling. Additionally, we have exposure to emerging market economies, particularly in Latin America and Southeast Asia. We use foreign currency forward and option contracts to manage the risk of exchange rate fluctuations. In all cases, we use these derivative instruments to reduce our foreign exchange risk by essentially creating offsetting market exposures. The success of the hedging program depends on our forecasts of transaction activity in the various currencies. To the extent that these forecasts are overstated or understated during periods of currency volatility, we could experience unanticipated currency gains or losses. The instruments we hold are not leveraged and are not held for trading or speculative purposes.

We have performed sensitivity analyses as of December 31, 2011, 2010 and 2009 based on scenarios in which market spot rates are hypothetically changed in order to produce a potential net exposure loss. The hypothetical change is based on a 10 percent strengthening or weakening in the U.S. dollar, whereby all other variables are held constant. The analyses include all of our foreign currency contracts outstanding as of December 31 for each year, as well as the offsetting underlying exposures. The sensitivity analyses indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would result in a foreign exchange loss of \$30.6, \$3.6 and \$1.2 at December 31, 2011, 2010 and 2009, respectively.

**Interest Rate Risk**

We maintain an investment portfolio consisting of debt and equity securities of various types and maturities. The investments are classified as available-for-sale and are all denominated in U.S. dollars. These securities are recorded on the consolidated balance sheets at market value, with any unrealized gain or temporary non-credit related loss recorded in other comprehensive loss. These instruments are not leveraged and are not held for trading purposes.

We employ a Historical Value-At-Risk calculation to calculate value-at-risk for changes in interest rates for our combined investment portfolios. This model assumes that the relationships among market rates and prices that have been observed daily over the last 180 days are valid for estimating risk over the next trading day. This model measures the potential loss in fair value that could arise from changes in interest rates, using a 95% confidence level and assuming a one-day holding period. The value-at-risk on the debt portion of the investment portfolio was \$4.0 as of December 31, 2011 and \$3.6 as of December 31, 2010. The average, high and low value-at-risk amounts for 2011 and 2010 were as follows:

	<b>Average</b>	<b>High</b>	<b>Low</b>
2011	\$ 4.0	\$ 5.2	\$ 3.1
2010	\$ 3.6	\$ 5.0	\$ 3.0

The average value represents an average of the quarter-end values. The high and low valuations represent the highest and lowest values of the quarterly amounts.

**Credit Risk**



## Edgar Filing: EMC CORP - Form 10-K

Financial instruments that potentially subject us to concentration of credit risk consist principally of bank deposits, money market investments, short- and long-term investments, accounts and notes receivable, and foreign currency exchange contracts. Deposits held with banks in the United States may exceed the amount of FDIC insurance provided on such deposits. Deposits held

**Table of Contents**

with banks outside the United States generally do not benefit from FDIC insurance. The majority of our day-to-day banking operations globally are maintained with Citibank. We believe that Citibank's position as a primary clearing bank, coupled with the substantial monitoring of their daily liquidity, both by their internal processes and by the Federal Reserve and the FDIC, mitigate some of our risk.

Our money market investments are placed with money market funds that are 2a-7 qualified. Rule 2a-7, adopted by the SEC under the Investment Company Act of 1940, establishes strict standards for quality, diversity and maturity, the objective of which is to maintain a constant net asset value of a dollar. We limit our investments in money market funds to those that are primarily associated with large, money center financial institutions. Our short- and long-term investments are invested primarily in investment grade securities, and we limit the amount of our investment in any single issuer. Due to the ongoing European Financial Crisis, in the fourth quarter of 2011, we took steps to limit certain exposure to investments in this region.

We provide credit to customers in the normal course of business. Credit is extended to new customers based upon checks of credit references, credit scores and industry reputation. Credit is extended to existing customers based on prior payment history and demonstrated financial stability. The credit risk associated with accounts and notes receivables is generally limited due to the large number of customers and their broad dispersion over many different industries and geographic areas. We establish an allowance for the estimated uncollectible portion of our accounts and notes receivable. The allowance was \$64.7 and \$60.5 at December 31, 2011 and 2010, respectively. We customarily sell the notes receivable we derive from our leasing activity. Generally, we do not retain any recourse on the sale of these notes. Our sales are generally dispersed to a large number of customers, minimizing the reliance on any particular customer or group of customers.

The counterparties to our foreign currency exchange contracts consist of a number of major financial institutions. In addition to limiting the amount of contracts we enter into with any one party, we monitor the credit quality of the counterparties on an ongoing basis.

We purchase or license many sophisticated components and products from one or a limited number of qualified suppliers. 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 customer orders. We attempt to minimize this risk by finding alternative suppliers or maintaining adequate inventory levels to meet our forecasted needs.

---

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
EMC CORPORATION AND SUBSIDIARIES**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE**

<u>Management's Report on Internal Control Over Financial Reporting</u>	44
<u>Report of Independent Registered Public Accounting Firm</u>	45
<u>Consolidated Balance Sheets at December 31, 2011 and 2010</u>	46
<u>Consolidated Income Statements for the years ended December 31, 2011, 2010 and 2009</u>	47
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2010 and 2009</u>	48
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009</u>	49
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009</u>	50
<u>Notes to Consolidated Financial Statements</u>	51
Schedule:	
<u>Schedule II Valuation and Qualifying Accounts</u>	S-1

Note: All other financial statement schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

**Table of Contents**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of EMC is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

EMC's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2011. In making this assessment, EMC's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*.

Based on our assessment, EMC's management determined that, as of December 31, 2011, EMC's internal control over financial reporting is effective and operating at the reasonable assurance level based on those criteria.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as stated in their report which appears on page 45 of this Annual Report on Form 10-K.

---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and the Board of Directors of EMC Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of EMC Corporation and its subsidiaries at December 31, 2011 and December 31, 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note A to the consolidated financial statements, in 2010 the Company changed the manner in which it recognizes revenue with respect to multiple-element arrangements associated with tangible products containing software and non-software components that function together to deliver the product's essential functionality.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 24, 2012

**Table of Contents****EMC CORPORATION****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share amounts)**

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,531,036	\$ 4,119,138
Short-term investments	1,786,987	1,256,175
Accounts and notes receivable, less allowance for doubtful accounts of \$61,804 and \$57,385	2,937,499	2,569,523
Inventories	1,009,968	856,405
Deferred income taxes	733,308	609,832
Other current assets	583,885	372,249
<b>Total current assets</b>	<b>11,582,683</b>	<b>9,783,322</b>
Long-term investments	4,525,106	4,170,742
Property, plant and equipment, net	2,833,149	2,528,432
Intangible assets, net	1,766,115	1,624,267
Goodwill	12,154,970	11,772,650
Other assets, net	1,406,156	953,871
<b>Total assets</b>	<b>\$ 34,268,179</b>	<b>\$ 30,833,284</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,101,659	\$ 1,062,600
Accrued expenses	2,354,979	2,090,035
Notes converted and payable (See Note E)	1,699,832	
Income taxes payable	155,909	199,735
Convertible debt (See Note E)	1,605,142	3,214,771
Deferred revenue	3,458,689	2,810,873
<b>Total current liabilities</b>	<b>10,376,210</b>	<b>9,378,014</b>
Income taxes payable	238,851	265,549
Deferred revenue	2,715,361	1,853,263
Deferred income taxes	603,398	717,004
Other liabilities	287,912	217,449
<b>Total liabilities</b>	<b>14,221,732</b>	<b>12,431,279</b>
Convertible debt (See Note E)	119,325	235,229
Commitments and contingencies (See Note N)		
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 2,048,890 and 2,069,246 shares	20,489	20,692
Additional paid-in capital	3,052,932	3,816,681
Retained earnings	16,120,621	13,659,284
Accumulated other comprehensive loss, net	(235,009)	(92,617)

Edgar Filing: EMC CORP - Form 10-K

Total EMC Corporation's shareholders' equity	18,959,033	17,404,040
Non-controlling interest in VMware, Inc.	968,089	762,736
Total shareholders' equity	19,927,122	18,166,776
Total liabilities and shareholders' equity	\$ 34,268,179	\$ 30,833,284

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

**Table of Contents****EMC CORPORATION****CONSOLIDATED INCOME STATEMENTS**

(in thousands, except per share amounts)

	For the Year Ended December 31,		
	2011	2010	2009
<b>Revenues:</b>			
Product sales	\$ 12,590,742	\$ 10,892,857	\$ 8,828,145
Services	7,416,846	6,122,269	5,197,765
	20,007,588	17,015,126	14,025,910
<b>Costs and expenses:</b>			
Cost of product sales	5,319,761	4,882,031	4,406,187
Cost of services	2,518,885	2,102,114	1,874,824
Research and development	2,149,787	1,888,015	1,627,509
Selling, general and administrative	6,479,382	5,375,305	4,595,625
Restructuring and acquisition-related charges	97,334	84,375	107,490
<b>Operating income</b>	<b>3,442,439</b>	<b>2,683,286</b>	<b>1,414,275</b>
<b>Non-operating income (expense):</b>			
Investment income	129,248	142,536	140,430
Interest expense	(170,466)	(178,345)	(182,499)
Other income (expense), net	(151,951)	(39,494)	2,370
<b>Total non-operating income (expense)</b>	<b>(193,169)</b>	<b>(75,303)</b>	<b>(39,699)</b>
<b>Income before provision for income taxes</b>	<b>3,249,270</b>	<b>2,607,983</b>	<b>1,374,576</b>
<b>Income tax provision</b>	<b>640,385</b>	<b>638,297</b>	<b>252,775</b>
<b>Net income</b>	<b>2,608,885</b>	<b>1,969,686</b>	<b>1,121,801</b>
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(147,548)	(69,691)	(33,724)
<b>Net income attributable to EMC Corporation</b>	<b>\$ 2,461,337</b>	<b>\$ 1,899,995</b>	<b>\$ 1,088,077</b>
<b>Net income per weighted average share, basic attributable to EMC Corporation common shareholders</b>	<b>\$ 1.20</b>	<b>\$ 0.92</b>	<b>\$ 0.54</b>
<b>Net income per weighted average share, diluted attributable to EMC Corporation common shareholders</b>	<b>\$ 1.10</b>	<b>\$ 0.88</b>	<b>\$ 0.53</b>
<b>Weighted average shares, basic</b>	<b>2,055,536</b>	<b>2,055,959</b>	<b>2,022,371</b>
<b>Weighted average shares, diluted</b>	<b>2,229,113</b>	<b>2,147,931</b>	<b>2,055,146</b>

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



**Table of Contents****EMC CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in thousands)

	<b>For the Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Net income	\$ 2,608,885	\$ 1,969,686	\$ 1,121,801
Other comprehensive income (loss), net of taxes (benefits):			
Foreign currency translation adjustments	(3,797)	(4,634)	14,950
Changes in market value of investments:			
Unrealized gain (loss), net of taxes (benefits) of \$(19,730), \$15,578 and \$15,470	(20,525)	44,826	47,952
Less: reclassification adjustment for net gains realized in net income, net of taxes (benefits) of \$4,175, \$4,178 and \$7,911	(5,201)	(11,792)	(12,897)
Net change in market value of investments	(25,726)	33,034	35,055
Changes in market value of derivatives:			
Changes in market value of derivatives, net of taxes (benefits) of \$(59,282), \$(4,909) and \$1,443	(91,095)	(1,614)	(3,439)
Less: reclassification adjustment for net (gains) losses included in net income, net of taxes (benefits) of \$475, \$907 and \$(736)	(3,417)	(6,531)	6,626
Net change in the market value of derivatives	(94,512)	(8,145)	3,187
Recognition of actuarial net gain (loss) from pension and other postretirement plans, net of taxes (benefits) of \$(11,410), \$(1,392) and \$13,092	(22,050)	(4,057)	21,877
Other comprehensive income (loss)	(146,085)	16,198	75,069
Comprehensive income	2,462,800	1,985,884	1,196,870
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(147,548)	(69,691)	(33,724)
Less: Other comprehensive (income) loss attributable to the non-controlling interest in VMware, Inc.	3,693	(3,093)	(839)
Comprehensive income attributable to EMC Corporation	\$ 2,318,945	\$ 1,913,100	\$ 1,162,307

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

**Table of Contents****EMC CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	For the Year Ended December 31,		
	2011	2010	2009
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 21,144,690	\$ 17,585,447	\$ 14,647,691
Cash paid to suppliers and employees	(15,218,678)	(12,830,684)	(11,032,859)
Dividends and interest received	135,971	102,912	109,525
Interest paid	(70,071)	(76,711)	(73,430)
Income taxes paid	(323,097)	(232,121)	(316,542)
<b>Net cash provided by operating activities</b>	<b>5,668,815</b>	<b>4,548,843</b>	<b>3,334,385</b>
<b>Cash flows from investing activities:</b>			
Additions to property, plant and equipment	(801,375)	(745,412)	(411,579)
Capitalized software development costs	(442,341)	(362,956)	(304,520)
Purchases of short- and long-term available-for-sale securities	(7,180,169)	(6,329,894)	(5,494,540)
Sales of short- and long-term available-for-sale securities	5,121,454	3,625,260	5,256,412
Maturities of short- and long-term available-for-sale securities	1,130,321	437,297	704,653
Business acquisitions, net of cash acquired	(536,624)	(3,194,611)	(2,664,141)
(Increase) decrease in strategic and other related investments	(300,476)	123,867	(163,757)
Purchase of leasehold interest	(151,083)		
VCE company funding	(383,211)	(29,600)	(19,200)
Other, net			1,184
<b>Net cash used in investing activities</b>	<b>(3,543,504)</b>	<b>(6,476,049)</b>	<b>(3,095,488)</b>
<b>Cash flows from financing activities:</b>			
Issuance of EMC's common stock from the exercise of stock options	673,389	780,732	366,361
Issuance of VMware's common stock from the exercise of stock options	337,618	431,306	227,666
EMC repurchase of EMC's common stock	(1,999,968)	(999,924)	
EMC purchase of VMware's common stock	(399,984)	(399,224)	
VMware repurchase of VMware's common stock	(526,203)	(338,527)	
Repayments of proceeds from securities lending			(412,321)
Excess tax benefits from stock-based compensation	361,632	281,872	46,082
Payment of long-term and short-term obligations	(27,089)	(4,128)	(20,835)
Proceeds from long-term and short-term obligations	3,096	4,066	4,969
Interest rate contracts settlement	(140,993)		
<b>Net cash (used in) provided by financing activities</b>	<b>(1,718,502)</b>	<b>(243,827)</b>	<b>211,922</b>
Effect of exchange rate changes on cash and cash equivalents	5,089	(12,328)	7,995
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>411,898</b>	<b>(2,183,361)</b>	<b>458,814</b>
Cash and cash equivalents at beginning of year	4,119,138	6,302,499	5,843,685
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,531,036</b>	<b>\$ 4,119,138</b>	<b>\$ 6,302,499</b>

Reconciliation of net income to net cash provided by operating activities:

Edgar Filing: EMC CORP - Form 10-K

Net income	\$ 2,608,885	\$ 1,969,686	\$ 1,121,801
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,421,598	1,167,550	1,073,135
Non-cash interest expense on convertible debt	102,907	105,649	108,347
Non-cash restructuring and other special charges	(1,484)	6,861	25,050
Stock-based compensation expense	822,576	667,728	600,537
Provision for doubtful accounts	20,255	18,965	14,351
Deferred income taxes, net	(19,423)	(49,787)	27,198
Excess tax benefits from stock-based compensation	(361,632)	(281,872)	(46,082)
Gain on Data Domain and SpringSource common stock			(25,822)
Other, net	4,573	(21,250)	(13,906)
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable	(391,672)	(405,758)	241,069
Inventories	(393,156)	(114,111)	(158,482)
Other assets	(61,830)	(54,469)	3,600
Accounts payable	34,871	154,496	140,376
Accrued expenses	158,467	4,162	(80,642)
Income taxes payable	336,711	455,964	(91,142)
Deferred revenue	1,508,520	957,114	366,361
Other liabilities	(121,351)	(32,085)	28,636
Net cash provided by operating activities	\$ 5,668,815	\$ 4,548,843	\$ 3,334,385
Non-cash investing and financing activity:			
Issuance of common stock and stock options exchanged in business acquisitions	\$ 3,224	\$ 28,668	\$ 83,780

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

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

(in thousands)

	Common Stock			Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interest in VMware	Shareholders Equity
	Shares	Par Value	Additional Paid-in Capital				
Balance, January 1, 2009	2,012,938	\$ 20,129	\$ 2,817,054	\$ 10,671,212	\$ (179,952)	\$ 327,507	\$ 13,655,950
Stock issued through stock option and stock purchase plans	38,729	387	365,974				366,361
Tax benefit from stock options exercised			33,967				33,967
Restricted stock grants, cancellations and withholdings, net	774	8	(55,310)				(55,302)
Stock options issued in business acquisitions			83,780				83,780
Stock-based compensation			604,757				604,757
Impact from equity transactions of VMware, Inc.			25,569			148,522	174,091
Actuarial gain on pension plan, net of tax of \$13,092					21,877		21,877
Change in market value of investments					34,216	839	35,055
Change in market value of derivatives					3,187		3,187
Translation adjustment					14,950		14,950
Net income				1,088,077		33,724	1,121,801
Balance, December 31, 2009	2,052,441	20,524	3,875,791	11,759,289	(105,722)	510,592	16,060,474
Stock issued through stock option and stock purchase plans	63,710	637	780,095				780,732
Tax benefit from stock options exercised			288,749				288,749
Restricted stock grants, cancellations and withholdings, net	5,762	58	(66,180)				(66,122)
Repurchase of common stock	(52,667)	(527)	(999,397)				(999,924)
EMC purchase of VMware stock			(353,915)			(45,309)	(399,224)
Stock options issued in business acquisitions			28,668				28,668
Stock-based compensation			684,276				684,276
Impact from equity transactions of VMware, Inc.			(186,177)			224,669	38,492
Actuarial loss on pension plan, net of tax benefit of \$1,392					(4,057)		(4,057)
Change in market value of investments					29,941	3,093	33,034
Change in market value of derivatives					(8,145)		(8,145)
Translation adjustment					(4,634)		(4,634)
Reclassification of convertible debt to mezzanine (Note E)			(235,229)				(235,229)
Net income				1,899,995		69,691	1,969,686
Balance, December 31, 2010	2,069,246	20,692	3,816,681	13,659,284	(92,617)	762,736	18,166,776
Stock issued through stock option and stock purchase plans	51,585	516	672,873				673,389
Tax benefit from stock options exercised			382,725				382,725

Edgar Filing: EMC CORP - Form 10-K

Restricted stock grants, cancellations and withholdings, net	9,869	99	(120,179)				(120,080)
Repurchase of common stock	(81,810)	(818)	(1,999,150)				(1,999,968)
EMC purchase of VMware stock			(354,818)			(45,166)	(399,984)
Stock options issued in business acquisitions			3,224				3,224
Stock-based compensation			837,637				837,637
Impact from equity transactions of VMware, Inc.			(301,965)			106,664	(195,301)
Actuarial loss on pension plan, net of tax benefit of \$11,410					(22,050)		(22,050)
Change in market value of investments					(22,049)	(3,677)	(25,726)
Change in market value of derivatives					(94,496)	(16)	(94,512)
Translation adjustment					(3,797)		(3,797)
Reclassification of convertible debt to mezzanine (Note E)			115,904				115,904
Net income				2,461,337		147,548	2,608,885
Balance, December 31, 2011	2,048,890	\$ 20,489	\$ 3,052,932	\$ 16,120,621	\$ (235,009)	\$ 968,089	\$ 19,927,122

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

---

**Table of Contents**

**EMC CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**A. Summary of Significant Accounting Policies**

*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. 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.

*Accounting Principles*

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ).

*Principles of Consolidation*

These consolidated financial statements include the accounts of EMC, its wholly-owned subsidiaries and VMware, a company that is majority-owned by EMC. All intercompany transactions have been eliminated.

EMC s interest in VMware was approximately 80% at both December 31, 2011 and 2010. VMware s financial results have been consolidated with that of EMC for all periods presented as EMC is VMware s controlling stockholder. The portion of the results of operations of VMware allocable to its other owners is shown as net income attributable to the non-controlling interest in VMware, Inc. on EMC s consolidated income statements. Additionally, the cumulative portion of the results of operations of VMware allocable to its other owners, along with the interest in the net assets of VMware attributable to those other owners, is shown as non-controlling interest in VMware, Inc. on EMC s consolidated balance sheets.

*Use of Accounting Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

*Revenue Recognition*

We derive revenue from sales of information systems, software and services. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. This policy is applicable to all sales, including sales to resellers and end users. Product is considered delivered to the customer once it has been shipped or electronically delivered and risk of loss has been transferred. For most of our product sales, these criteria are met at the time the product is shipped. The following summarizes the major terms of our contractual relationships with our customers and the manner in which we account for sales transactions.

Systems sales

Systems sales consist of the sale of hardware storage, required storage operating systems and hardware-related devices. Revenue for systems sales is generally recognized upon shipment.

---

**Table of Contents**

**EMC CORPORATION**

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

**Software sales**

Software sales consist of the sale of stand-alone value-added software application programs. Our software application programs provide customers with resource management, backup and archiving, information security, information management and intelligence and server virtualization capabilities. Revenue for software is generally recognized upon shipment or electronic delivery. License revenue from royalty payments is recognized upon either receipt of final royalty reports or payments from third parties.

**Services revenue**

Services revenue consists of installation services, professional services, software maintenance, hardware maintenance and training.

We recognize revenue from fixed-price support or maintenance contracts sold for both hardware and software, including extended warranty contracts, ratably over the contract period and recognize the costs associated with these contracts as incurred. Generally, installation and professional services are not considered essential to the functionality of our products as these services do not alter the product capabilities and may be performed by our customers or other vendors. Installation services revenues are recognized as the services are being performed. Professional services revenues on engagements for which reasonably dependable estimates of progress toward completion are capable of being made are recognized as earned based upon the hours incurred. Where services are considered essential to the functionality of our products, revenue for the products and services is recorded over the service period. Professional services engagements that are on a time and materials basis are recognized based upon hours incurred. Revenues on all other professional services engagements are recognized upon completion.

**Multiple element arrangements**

When more than one element, such as hardware, software and services are contained in a single arrangement, we first allocate revenue based upon the relative selling price into two categories: (1) non-software components, such as hardware and any hardware-related items, such as required software that functions with the hardware to deliver the essential functionality of the hardware and related post-contract customer support and other services and (2) software components, such as optional software application programs and related items, such as post-contract customer support and other services. We then allocate revenue within the non-software category to each element based upon their relative selling price using estimated selling prices ( ESP ) if vendor-specific objective evidence ( VSOE ) or third-party evidence of selling price ( TPE ) does not exist. We allocate revenue within the software category to the undelivered elements based upon their fair value using VSOE with the residual revenue allocated to the delivered elements. If we cannot objectively determine the VSOE of the fair value of any undelivered software element, we defer revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

We limit the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services.

Customers under software maintenance agreements are entitled to receive updates and upgrades on a when-and-if-available basis, and various types of technical support based on the level of support purchased. In the event specific features or functionality, entitlements, or the release number of an upgrade or new product have been announced but not delivered, and customers will receive that upgrade or new product as part of a current software maintenance contract, a specified upgrade is deemed created and product revenues are deferred on purchases made after the announcement date until delivery of the upgrade or new product. The amount and elements to be deferred are dependent on whether we have established VSOE of fair value for the upgrade or new product.

**Indirect Channel Sales**

We market and sell our products through our direct sales force and indirect channels such as independent distributors and value-added resellers. For substantially all of our indirect sales we recognize revenues on products sold to resellers and distributors on a sell through basis



## Edgar Filing: EMC CORP - Form 10-K

since we do not expect our channel partners to carry inventory. These product sales are evidenced by a master distribution agreement, together with evidence of an end-user arrangement, on a transaction-by-transaction basis. For our Iomega business, we defer revenue and cost of sales for inventory sold into the channel that exceeds the channel's anticipated requirements.

---

**Table of Contents**

**EMC CORPORATION**

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

We offer rebates to certain channel partners. We generally recognize the amount of the rebates as a reduction of revenues when the underlying revenue is recognized. We also offer marketing development funds to certain channel partners. We generally record the amount of the marketing development funds, based on the maximum potential liability, as a marketing expense as the funds are earned by the channel partners.

**Shipping terms**

Our sales contracts generally provide for the customer to accept risk of loss when the product leaves our facilities. When shipping terms or local laws do not allow for passage of risk of loss at shipping point, we defer recognizing revenue until risk of loss transfers to the customer.

**Leases**

Revenue from sales-type leases is recognized at the net present value of future lease payments. Revenue from operating leases is recognized over the lease period.

**Other**

We accrue for the estimated costs of systems warranty at the time of sale. We reduce revenue for estimated sales returns at the time of sale. Systems warranty costs are estimated based upon our historical experience and specific identification of systems requirements. Sales returns are estimated based upon our historical experience and specific identification of probable returns. For our Iomega business, we defer revenue and cost of sales for inventory sold through the channel that exceeds the channel's requirements.

*Deferred Revenue*

Our deferred revenue consists primarily of deferred hardware and software maintenance, recognized ratably over the contract term and deferred professional services, including education and training, which are recognized as delivered.

*Shipping and Handling Costs*

Shipping and handling costs are classified in cost of product sales.

*Foreign Currency Translation*

The local currency is the functional currency of the majority of our subsidiaries. Assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Income and expense items are translated at average rates for the period.

Gains and losses from foreign currency transactions are included in other expense, net, and consist of net losses of \$12.8 million in 2011, \$4.5 million in 2010 and \$21.2 million in 2009. Foreign currency translation adjustments are included in other comprehensive income (loss).

*Derivatives*

We use derivatives to hedge foreign currency exposures related to foreign currency denominated assets and liabilities and forecasted revenue and expense transactions.

We hedge our exposure in foreign currency denominated monetary assets and liabilities with foreign currency forward and option contracts. Since these derivatives hedge existing exposures that are denominated in foreign currencies, the contracts do not qualify for hedge accounting.

## Edgar Filing: EMC CORP - Form 10-K

Accordingly, these outstanding non-designated derivatives are recognized on the consolidated balance sheet at fair value and the changes in fair value from these contracts are recorded in other expense, net, in the consolidated income statements. These derivative contracts mature in less than one year.

We also use foreign currency forward and option contracts to hedge our exposure on a portion of our forecasted revenue and expense transactions. These derivatives are designated as cash flow hedges and we did not have any derivatives designated as fair value hedges as of December 31, 2011. All outstanding derivatives are recognized on the consolidated balance sheet at fair value

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

and changes in their fair value are recorded in accumulated other comprehensive loss until the underlying forecasted transactions occur. To achieve hedge accounting, certain criteria must be met, which includes (i) ensuring at the inception of the hedge that formal documentation exists for both the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge and (ii) at the inception of the hedge and on an ongoing basis, the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value attributed to the hedged risk during the period that the hedge is designated. Further, an assessment of effectiveness is required at a minimum on a quarterly basis. Absent meeting these criteria, changes in fair value are recognized currently in other income (expense), net, in the consolidated income statements. Once the underlying forecasted transaction occurs, the gain or loss from the derivative designated as a hedge of the transaction is reclassified from accumulated other comprehensive loss to the consolidated income statements, in the related revenue or expense caption, as appropriate. In the event the underlying forecasted transaction does not occur, the amount recorded in accumulated other comprehensive loss will be reclassified to other income (expense), net, in the consolidated income statements in the then-current period. Any ineffective portion of the derivatives designated as cash flow hedges is recognized in current earnings. The ineffective portion of the derivatives includes gains or losses associated with differences between actual and forecasted amounts. Our cash flow hedges generally mature within six months or less. The notional amount of cash flow hedges outstanding as of December 31, 2011, 2010 and 2009 were \$194 million, \$152 million and \$108 million, respectively.

We do not engage in currency speculation. For purposes of presentation within the consolidated statement of cash flows, derivative gains and losses are presented within net cash provided by operating activities.

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 forecasted issuance of debt in 2011 when our 2011 Notes were scheduled to become due. As such, the loss on these hedges was recognized in other comprehensive loss until the underlying exposure was realized. In November 2011, we settled these swaps and replaced them with new interest rate swap contracts for the forecasted issuance of debt in 2012. The notional amount and other terms match the underlying hedged item and both the original and the new swaps were deemed as effective hedges. As such, the gain or loss on these new hedges was recorded in other comprehensive loss. The realized loss on the replaced interest rate swap contracts was \$141.0 million at the time of settlement. Since we intend to issue debt in 2012, this loss will be realized over the life of the new debt issued under the related interest rate swap contracts and recognized as a component of interest expense in the consolidated income statements. For the purposes of presentation in the consolidated statement of cash flows, the interest rate swap contracts are presented within net cash used in financing activities.

Our derivatives and their related activities are not material to our consolidated balance sheets or consolidated income statements.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with a maturity of ninety days or less at the time of purchase. Cash equivalents consist primarily of money market securities, U.S. treasury bills, U.S. agency discount notes and short-term commercial paper. Cash equivalents are stated at fair value. Total cash equivalents were \$1,434.8 million and \$2,584.4 million at December 31, 2011 and 2010, respectively. See Note F.

*Allowance for Doubtful Accounts*

We maintain an allowance for doubtful accounts for the estimated probable losses on uncollectible accounts and notes receivable. The allowance is based upon the creditworthiness of our customers, our historical experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account. The allowance for doubtful accounts is maintained against both our current and non-current accounts and notes receivable balances. The balances in the allowance accounts at December 31, 2011 and 2010 were as follows (table in thousands):

	December 31,	
	2011	2010
Current	\$ 61,804	\$ 57,385

Edgar Filing: EMC CORP - Form 10-K

Non-current (included in other assets, net)	2,850	3,150
	\$ 64,654	\$ 60,535

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

Unrealized gains and temporary loss positions on investments classified as available-for-sale are included within accumulated other comprehensive loss, net of any related tax effect. Upon realization, those amounts are reclassified from accumulated other comprehensive loss to investment income. Realized gains and losses and other-than-temporary impairments are reflected in the consolidated income statement in investment income.

*Inventories*

Inventories are stated at the lower of cost (first-in, first-out) or market, not in excess of net realizable value.

*Property, Plant and Equipment*

Property, plant and equipment are recorded at cost. Buildings under development are included in building construction in progress. Depreciation commences upon placing the asset in service and is recognized on a straight-line basis over the estimated useful lives of the assets, as follows:

Furniture and fixtures	5-7 years
Equipment and software	2-5 years
Improvements	5-15 years
Buildings	10-51 years

Upon retirement or disposition, the asset cost and related accumulated depreciation are removed with any gain or loss recognized in the consolidated income statement. Repair and maintenance costs, including planned maintenance, are expensed as incurred.

*Research and Development and Capitalized Software Development Costs*

Research and development ( R&D ) costs are expensed as incurred. R&D costs include salaries and benefits, consultants, facilities related costs, material costs, depreciation and travel. Software development costs incurred subsequent to establishing technological feasibility through the general release of the software products are capitalized. Technological feasibility is demonstrated by the completion of a detailed program design or working model, if no program design is completed. GAAP requires that annual amortization expense of the capitalized software development costs be the greater of the amounts computed using the ratio of gross revenue to a products total current and anticipated revenues, or the straight-line method over the products remaining estimated economic life. Capitalized costs are amortized over periods ranging from eighteen months to two years which represents the products estimated economic life. 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. For future releases, VMware expects its products to be available for general release soon after technological feasibility has been established. Given that the majority of VMware s product offerings are expected to be suites or to have key components that interoperate with VMware s other product offerings, the costs incurred subsequent to achievement of technological feasibility are expected to be immaterial in future periods. Unamortized software development costs were \$665.4 million and \$566.0 million at December 31, 2011 and 2010, respectively, and are included in other assets, net. Amortization expense was \$380.3 million, \$314.6 million and \$283.0 million in 2011, 2010 and 2009, respectively. Amounts capitalized were \$479.7 million, \$399.5 million and \$329.1 million in 2011, 2010 and 2009, respectively. The amounts capitalized include stock-based compensation which is not reflected in the consolidated statements of cash flows as it is a non-cash item.

*Long-lived Assets*

Purchased intangible assets, other than goodwill, are amortized over their estimated useful lives which range from one to seventeen years. Intangible assets include goodwill, developed technology, trademarks and tradenames, customer relationships and customer lists, software

## Edgar Filing: EMC CORP - Form 10-K

licenses, patents, leasehold interest, in-process research and development ( IPR&D ) and other intangible assets, which include backlog, non-competition agreements and non-solicitation agreements. The intangible assets are amortized based on the pattern in which the economic benefits of the intangible assets are estimated to be realized. Goodwill is not amortized and is carried at its historical cost.

---

**Table of Contents**

**EMC CORPORATION**

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

We periodically review our long-lived assets for impairment. We initiate reviews for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Each impairment test, other than goodwill, is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its estimated fair value.

We test goodwill for impairment in the fourth quarter of each year or more frequently if events or changes in circumstances indicate that the asset might be impaired. The test is based on a comparison of the reporting unit's book value to its estimated fair market value. We perform both qualitative and quantitative tests of our goodwill.

*Investments in Joint Ventures*

We make investments in joint ventures. For each joint venture investment we consider the facts and circumstances in order to determine whether it qualifies for equity accounting and whether it should be consolidated.

In 2009, Cisco and EMC formed VCE Company LLC ( VCE ). VMware and Intel are also investors in VCE. We account for our investment in VCE under the equity method and our portion of the gains and losses are recognized in other income (expense), net line in the consolidated income statements. We also consider VCE a 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.

*Advertising*

Advertising costs are expensed as incurred. Advertising expense was \$44.4 million, \$40.1 million and \$23.5 million in 2011, 2010 and 2009, respectively.

*Legal Costs*

Legal costs incurred in connection with loss contingencies are recognized when the costs are probable of occurrence and can be reasonably estimated.

*Income Taxes*

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax credits are generally recognized as reductions of income tax provisions in the year in which the credits arise. The measurement of deferred tax assets is reduced by a valuation allowance if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Accounting for uncertainty in income taxes recognized in the financial statements is in accordance with accounting authoritative guidance, which prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

We do not provide for a U.S. income tax liability on undistributed earnings of our foreign subsidiaries. The earnings of non-U.S. subsidiaries, which reflect full provision for non-U.S. income taxes, are currently indefinitely reinvested in non-U.S. operations or are expected to be remitted substantially free of additional tax.



*Sales Taxes*

Sales and other taxes collected from customers and subsequently remitted to government authorities are recorded as cash or accounts receivable with a corresponding offset recorded to sales taxes payable. These balances are removed from the consolidated balance sheet as cash is collected from the customers and remitted to the tax authority.

---

**Table of Contents**

**EMC CORPORATION**

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

*Earnings Per Share*

Basic net income per share is computed using the weighted average number of shares of our common stock outstanding during the period. Diluted net income per 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, unvested restricted stock and restricted stock units, the shares issuable under our 2011 Notes, 2013 Notes and the associated warrants. See Note E for further information regarding the Notes and the associated warrants and Note O for further information regarding the calculation of diluted net income per weighted average share. Additionally, for purposes of calculating diluted net income per common share, net income is adjusted for the difference between VMware's reported diluted and basic earnings per share, if any, multiplied by the number of shares of VMware held by EMC.

*Retirement Benefits*

Pension cost for our domestic defined benefit pension plan is funded to the extent that current pension cost is deductible for U.S. Federal tax purposes and to comply with the Employee Retirement Income Security Act and the General Agreement on Tariff and Trade Bureau additional minimum funding requirements. Net pension cost for our international defined benefit pension plans are generally funded as accrued.

*Concentrations of Risks*

Financial instruments that potentially subject us to concentration of credit risk consist principally of bank deposits, money market investments, short- and long-term investments, accounts and notes receivable, and foreign currency exchange contracts. Deposits held with banks in the United States may exceed the amount of FDIC insurance provided on such deposits. Deposits held with banks outside the United States generally do not benefit from FDIC insurance. The majority of our day-to-day banking operations globally are maintained with Citibank. We believe that Citibank's position as a primary clearing bank, coupled with the substantial monitoring of their daily liquidity, both by their internal processes and by the Federal Reserve and the FDIC, mitigate some of our risk.

Our money market investments are placed with money market funds that are 2a-7 qualified. Rule 2a-7, adopted by the SEC under the Investment Company Act of 1940, establishes strict standards for quality, diversity and maturity, the objective of which is to maintain a constant net asset value of a dollar. We limit our investments in money market funds to those that are primarily associated with large, money center financial institutions. Our short- and long-term investments are invested primarily in investment grade securities, and we limit the amount of our investment in any single issuer.

We provide credit to customers in the normal course of business. Credit is extended to new customers based upon checks of credit references, credit scores and industry reputation. Credit is extended to existing customers based on prior payment history and demonstrated financial stability. The credit risk associated with accounts and notes receivables is generally limited due to the large number of customers and their broad dispersion over many different industries and geographic areas. We establish an allowance for the estimated uncollectible portion of our accounts and notes receivable. We customarily sell the notes receivable we derive from our leasing activity. Generally, we do not retain any recourse on the sale of these notes. Our sales are generally dispersed among a large number of customers, minimizing the reliance on any particular customer or group of customers.

The counterparties to our foreign currency exchange contracts consist of a number of major financial institutions. In addition to limiting the amount of contracts we enter into with any one party, we monitor the credit quality of the counterparties on an ongoing basis.

We purchase or license many sophisticated components and products from one or a limited number of qualified suppliers. 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 customer orders. We attempt to minimize this risk by finding alternative suppliers or maintaining adequate inventory levels to meet our forecasted needs.

*Accounting for Stock-Based Compensation*

## Edgar Filing: EMC CORP - Form 10-K

We have selected the Black-Scholes option-pricing model to determine the fair value of our stock option awards. For stock options, restricted stock and restricted stock units, we recognize compensation cost on a straight-line basis over the awards' vesting periods for those awards which contain only a service vesting feature. For awards with a performance condition vesting feature, when achievement of the performance condition is deemed probable, we recognize compensation cost on a graded-vesting basis over the awards' expected vesting periods.

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

In May 2011, the Financial Accounting Standards Board ( FASB ) issued new guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. We do not believe the adoption of this guidance will have an impact on our consolidated financial position, results of operations or cash flows.

*New Accounting Guidance Recently Adopted*

In the beginning of 2010, we early adopted the FASB s amended accounting standards for revenue recognition related to the manner in which we recognize revenue with respect to multiple-element arrangements associated with tangible products containing software and non-software components that function together to deliver the product s essential functionality. The new accounting guidance did not have a material impact on our financial position or results of operations for the year ended December 31, 2010 and did not change the units of accounting for our revenue transactions.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. We elected to early adopt this new accounting guidance in 2011 and have modified our presentation of the consolidated statements of comprehensive income to reflect the new standard.

In September 2011, the FASB issued new guidance intended to simplify goodwill impairment testing. Under this guidance, an entity is allowed to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This new guidance includes a number of factors to consider in conducting the qualitative assessment. We elected to early adopt this new guidance in 2011 and applied it to our 2011 annual goodwill impairment analysis in the fourth quarter of 2011.

The adoption of the new accounting guidance above did not have a material impact on our consolidated financial position, results of operations or cash flows.

**B. 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 \$968.1 million and \$762.7 million as of December 31, 2011 and 2010, respectively. At December 31, 2011, EMC held approximately 97% of the combined voting power of VMware s outstanding common stock and approximately 80% of the economic interest in VMware.

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

	<b>For the Twelve Months Ended</b>	
	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Net income attributable to EMC Corporation	\$ 2,461,337	\$ 1,899,995
Transfers (to) from the non-controlling interest in VMware, Inc.:		
Increase in EMC Corporation s additional paid-in-capital for VMware s equity issuances	117,793	151,274
Decrease in EMC Corporation s additional paid-in-capital for VMware s other equity activity	(419,758)	(337,451)

## Edgar Filing: EMC CORP - Form 10-K

Net transfers (to) from non-controlling interest	(301,965)	(186,177)
Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	\$ 2,159,372	\$ 1,713,818

### **C. Acquisitions**

#### 2011 Acquisitions

During the year ended December 31, 2011, we acquired all of the capital stock of NetWitness Corporation, a privately-held provider of network security analysis solutions. This acquisition complements and expands our RSA Information Security segment. Additionally, during the year ended December 31, 2011, VMware acquired six companies. The aggregate consideration for these

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

seven acquisitions was \$539.8 million which consisted of \$536.6 million of cash consideration, net of cash acquired and \$3.2 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. The allocation to goodwill, intangibles and net assets was approximately \$375.8 million, \$157.1 million and \$6.9 million, respectively. The results of these acquisitions have been included in the consolidated financial statements from the respective dates 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 years ended December 31, 2011, 2010 and 2009.

The following represents the aggregate allocation of the purchase price for all the aforementioned acquisitions to intangible assets (table in thousands):

Developed technology (weighted-average useful life of 3.2 years)	\$ 97,500
Customer relationships (weighted-average useful life of 4.0 years)	58,400
Tradename and trademark (weighted-average useful life of 2.6 years)	1,200
 Total intangible assets	 \$ 157,100

The total weighted-average amortization period for the intangible assets is 3.5 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized.

**2010 Acquisitions*****Acquisition of Isilon Systems, Inc.***

In the fourth quarter of 2010, we acquired all of the outstanding capital stock of Isilon Systems, Inc. ( Isilon ), a scale-out NAS (network attached storage) systems company. This acquisition further complemented and expanded our Information Storage business.

The purchase price for Isilon, net of cash and investments, was \$2,327.9 million, which consisted of \$2,301.1 million of cash consideration and \$26.8 million for the fair value of our stock options granted in exchange for existing Isilon options. We incurred \$0.6 million of transaction costs for legal and accounting services, which are included in restructuring and acquisition-related charges in our consolidated income statement. The fair value of our stock options issued to employees of Isilon was estimated using a Black-Scholes option pricing model.

The purchase price was allocated to the assets acquired and the liabilities assumed based on estimated fair values as of the acquisition date.

The following represents the allocation of the Isilon purchase price (table in thousands):

Trade accounts receivable (approximates contractual value)	\$ 38,565
Other current assets	17,448
Property and equipment	8,678
Intangible assets:	
Developed technology (weighted-average useful life of 3.1 years)	115,300
Customer maintenance relationships (weighted-average useful life of 6.6 years)	142,900
Customer product relationships (weighted-average useful life of 4.3 years)	159,600
Tradename (weighted-average useful life of 2.4 years)	7,700

Edgar Filing: EMC CORP - Form 10-K

IPR&D	43,900
Total intangible assets	469,400
Goodwill	1,974,536
Current liabilities	(51,910)
Income tax payable	(272)
Deferred revenue	(37,800)
Deferred income taxes	(90,758)
Total purchase price	\$ 2,327,887

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

The total weighted-average amortization period for the intangible assets is 4.6 years. The intangible assets are being amortized over the pattern in which the economic benefits of the intangible assets are being utilized, which in general reflects the cash flows generated from such assets. The goodwill associated with this acquisition is reported within our Information Storage segment. None of the goodwill is deductible for tax purposes. The goodwill results from expected synergies from the transaction, including complementary products that will enhance our overall product portfolio, which we believe will result in incremental revenue and profitability.

*Other 2010 Acquisitions*

In the first quarter of 2010, we acquired all of the outstanding capital stock of Archer Technologies, LLC, a provider of governance, risk and compliance software. This acquisition complemented and expanded our RSA Information Security segment. In the third quarter of 2010, we acquired all of the outstanding capital stock of Greenplum, Inc., a provider of disruptive data warehousing technology. This acquisition complemented and expanded our Information Storage segment. In the fourth quarter of 2010, we acquired all of the capital stock of Bus-tech, Inc., a provider of information infrastructure solutions. This acquisition complemented and expanded our Information Storage segment. Additionally, during the year ended December 31, 2010, VMware acquired six companies. The aggregate purchase price, net of cash acquired for all 2010 acquisitions, excluding Isilon, was \$895.4 million, which consisted of \$893.5 million of cash and \$1.9 million in fair value of our stock options issued in exchange for the acquirees' stock options and resulted in goodwill of \$631.4 million. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase.

The fair value of our stock options for all acquisitions, including Isilon, in 2010 was estimated assuming no expected dividends and the following weighted-average assumptions:

Expected term (in years)	2.0
Expected volatility	29.0 %
Risk-free interest rate	0.7 %

The following represents the aggregate allocation of the purchase price for all the aforementioned acquisitions, excluding Isilon, to intangible assets (table in thousands):

Developed technology (weighted-average useful life of 4.7 years)	\$ 158,860
Customer relationships (weighted-average useful life of 6.4 years)	74,280
Tradename and trademark (weighted-average useful life of 2.5 years)	12,620
Other (weighted-average useful life of 2.1 years)	3,379
<b>Total intangible assets</b>	<b>\$ 249,139</b>

The total weighted-average amortization period for the intangible assets is 4.6 years. The intangible assets are being amortized over the pattern in which the economic benefits of the intangible assets are being utilized. The total goodwill recognized from the aforementioned acquisitions, including Isilon, was \$2,605.9 million.

*In-process Research and Development*

In connection with the Isilon acquisition in 2010, we acquired and capitalized \$43.9 million of IPR&D projects. All projects acquired in 2010 are expected to be completed in 2012.

The value assigned to the IPR&D projects was determined utilizing the income approach by determining cash flow projections relating to the projects. The stage of completion of each in-process project was estimated to determine the discount rates to be applied to the valuation of the



## Edgar Filing: EMC CORP - Form 10-K

in-process technology. Based upon the level of completion and the risk associated with the in-process technology, we applied discount rates ranging from 19% to 22% to value the IPR&D projects acquired in 2010. Under new business combination guidance effective in 2009, each IPR&D project is capitalized and will be assessed for impairment until completed. Upon completion, the project will be amortized over its estimated useful life over the pattern in which the economic benefits of the intangible assets are being utilized. Based on our annual assessment there was no impairment at December 31, 2011.

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**2009 Acquisitions*Acquisition of Data Domain, Inc.*

In the third quarter of 2009, we acquired all of the outstanding capital stock of Data Domain, Inc. ( Data Domain ), a provider of storage solutions for backup and archive applications based on deduplication technology. This acquisition complemented and expanded our Information Storage business. The purchase price for Data Domain, net of cash and investments, was \$2,017.3 million, which consisted of \$1,933.9 million of cash consideration and \$83.4 million for the fair value of our stock options granted in exchange for existing Data Domain options. We incurred \$12.0 million of transaction costs for financial advisory, legal and accounting services, which are included in restructuring and acquisition-related charges in our consolidated income statements. The fair value of our stock options issued to employees of Data Domain was estimated using a Black-Scholes option pricing model.

The consolidated financial statements include the results of Data Domain from the date of acquisition. 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 represents the allocation of the Data Domain purchase price (table in thousands):

Trade accounts receivable (approximates contractual value)	\$ 72,455
Other current assets	9,275
Property and equipment	40,403
Intangible assets:	
Developed technology (weighted-average useful life of 2.6 years)	106,300
Customer maintenance relationships (weighted-average useful life of 5.8 years)	133,700
Customer product relationships (weighted-average useful life of 4.2 years)	111,500
Tradename (weighted-average useful life of 2.0 years)	6,400
IPR&D	174,600
Total intangible assets	532,500
Other long-term assets	60
Goodwill	1,658,321
Current liabilities	(67,212)
Income tax payable	(4,671)
Deferred revenue	(60,800)
Deferred income taxes	(152,818)
Long-term liabilities	(10,243)
Total purchase price	\$ 2,017,270

The total weighted-average amortization period for the intangible assets is 4.3 years. The intangible assets are being amortized over the pattern in which the economic benefits of the intangible assets are being utilized. The goodwill associated with this acquisition is reported within our Information Storage segment. None of the goodwill is deductible for tax purposes. The goodwill results from expected synergies from the transaction, including complementary products that will enhance our overall product portfolio, which we believe will result in incremental revenue and profitability.

*Other 2009 Acquisitions*

## Edgar Filing: EMC CORP - Form 10-K

In the second quarter of 2009, we acquired all of the outstanding capital stock of Configuresoft, Inc. ( Configuresoft ), a provider of server configuration, change and compliance management software. The acquisition complemented and expanded our server configuration management solutions within the Information Storage segment. In the third quarter of 2009, we acquired all of the capital stock of FastScale Technology, Inc., a provider of software platforms and solutions that optimize deployments for physical, virtual and cloud infrastructures. This acquisition complemented and expanded our Information Storage segment. In the third quarter of 2009, we acquired all of the capital stock of Kazeon Systems, Inc., a provider of eDiscovery products and solutions which allow corporations, legal service providers and law firms to efficiently search, classify and analyze the growing volumes of information dispersed through their networks. This acquisition complemented and expanded our Information Intelligence Group segment. VMware acquired the remaining outstanding capital stock of SpringSource Global, Inc. ( SpringSource ), a leader in

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

enterprise and web application development and management. Through the acquisition of SpringSource, VMware planned to deliver new solutions that enable companies to more efficiently build, run and manage applications within both internal and external cloud architectures that can host both existing and new applications. The purchase price for SpringSource, net of cash acquired, was approximately \$372.5 million, which consisted of \$356.3 million of cash consideration and \$16.2 million for the fair value of VMware stock options granted in exchange for existing SpringSource options.

In connection with our acquisitions, we had adjustments to the fair value of previously held interests in Data Domain and SpringSource of \$25.8 million which were recognized in other income.

The aggregate purchase price, net of cash acquired for all 2009 acquisitions, excluding Data Domain, was \$730.6 million, which consisted of \$730.2 million of cash and \$0.4 million in fair value of our stock options issued in exchange for the acquirees' stock options.

The total goodwill recognized from the aforementioned acquisitions, including Data Domain, was \$2,189.2 million. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase.

The fair value of our stock options for all acquisitions in 2009 was estimated assuming no expected dividends and the following weighted-average assumptions:

Expected term (in years)	2.3
Expected volatility	37.2 %
Risk-free interest rate	1.2 %

The following represents the aggregate allocation of the purchase price for all the aforementioned acquisitions to intangible assets (table in thousands):

Developed technology (weighted-average useful life of 3.5 years)	\$ 141,000
Customer relationships (weighted-average useful life of 6.1 years)	291,800
Tradename and trademark (weighted-average useful life of 5.6 years)	13,770
Non-competition agreements (weighted-average useful life of 2.5 years)	1,200
IPR&D	174,600
Total intangible assets	\$ 622,370

The total weighted-average amortization period for the intangible assets is 4.9 years. The intangible assets are being amortized over the pattern in which the economic benefits of the intangible assets are being utilized.

*In-process Research and Development*

In connection with the Configuresoft and Data Domain acquisitions in 2009, we acquired and capitalized \$174.6 million of IPR&D projects. All projects acquired in 2009 were completed in 2010. Beginning in 2010, the IPR&D is being amortized over its estimated useful life of five to eight years, over the pattern in which the economic benefits of the intangible assets are being utilized.

The value assigned to the IPR&D projects was determined utilizing the income approach by determining cash flow projections relating to the projects. The stage of completion of each in-process project was estimated to determine the discount rates to be applied to the valuation of the in-process technology. Based upon the level of completion and the risk associated with the in-process technology, we applied discount rates ranging from 17% to 21% to the value of projects acquired in 2009.

**D. Intangibles and Goodwill**

*Intangible Assets*

In the year ended December 31, 2011, we, along with three other technology companies, acquired specific patents from Novell, Inc. The purchase price for the patent portfolio was \$450.0 million, of which we paid \$112.5 million. We assigned our portion of the patent portfolio an average life of 10 years, based on the average contractual term remaining on the patents we acquired. The cash outflow is included in strategic and other related investments in the investing activities section of the consolidated statements of cash flows.

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

In the year ended December 31, 2011, VMware entered into an agreement to purchase all of the right, title and interest in a ground lease covering the property and improvements located on property adjacent to VMware's Palo Alto, California campus for \$225.0 million. The gross amount classified to property, plant and equipment, net was \$73.9 million. The remaining \$151.1 million of the purchase price was recorded to intangible assets, net on the consolidated balance sheet, for the fair value of the ground lease and the right to develop additional square footage on the parcel. Concurrent with the closing of the transaction, VMware entered into an amended and restated ground lease for the related property. The buildings and site improvements will be depreciated from the date they are placed into service through the term of the amended and restated ground lease, and intangible assets will be amortized through 2046.

Intangible assets, excluding goodwill, as of December 31, 2011 and 2010 consist of (tables in thousands):

	<b>Gross Carrying Amount</b>	<b>December 31, 2011 Accumulated Amortization</b>	<b>Net Book Value</b>
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
IPR&D	43,900		43,900
Leasehold interest	146,757	(2,524)	144,233
Other	30,149	(23,823)	6,326
<b>Total intangible assets, excluding goodwill</b>	<b>\$ 3,659,648</b>	<b>\$ (1,893,533)</b>	<b>\$ 1,766,115</b>

	<b>Gross Carrying Amount</b>	<b>December 31, 2010 Accumulated Amortization</b>	<b>Net Book Value</b>
Purchased technology	\$ 1,509,616	\$ (873,095)	\$ 636,521
Patents	62,170	(62,134)	36
Software licenses	84,583	(72,115)	12,468
Trademarks and tradenames	171,651	(74,725)	96,926
Customer relationships and customer lists	1,275,908	(447,411)	828,497
IPR&D	43,900		43,900
Other	25,632	(19,713)	5,919
<b>Total intangible assets, excluding goodwill</b>	<b>\$ 3,173,460</b>	<b>\$ (1,549,193)</b>	<b>\$ 1,624,267</b>

Amortization expense on intangibles was \$341.8 million, \$285.3 million and \$247.8 million in 2011, 2010 and 2009, respectively. As of December 31, 2011, amortization expense on intangible assets for the next five years is expected to be as follows (table in thousands):

2012	\$ 340,658
2013	316,866
2014	271,982
2015	220,382

Edgar Filing: EMC CORP - Form 10-K

2016	150,021
Total	\$ 1,299,909

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

Changes in the carrying amount of goodwill, net, on a consolidated basis and by segment for the years ended December 31, 2011 and 2010 consist of the following (tables in thousands):

	Year Ended December 31, 2011				Total
	Information Storage	Information Intelligence Group	RSA Information Security	VMware Virtual Infrastructure	
Balance, beginning of the year	\$ 7,029,341	\$ 1,467,903	\$ 1,663,213	\$ 1,612,193	\$ 11,772,650
Goodwill acquired			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

	Year Ended December 31, 2010				Total
	Information Storage	Information Intelligence Group	RSA Information Security	VMware Virtual Infrastructure	
Balance, beginning of the year	\$ 5,045,086	\$ 1,476,520	\$ 1,529,408	\$ 1,159,362	\$ 9,210,376
Goodwill acquired	2,287,712		140,013	178,201	2,605,926
Tax deduction from exercise of stock options	(548)	(2,424)	(1,103)		(4,075)
Other adjustments	(275,405)			275,405	
Finalization of purchase price allocations	(27,504)	(6,193)	(5,105)	(775)	(39,577)
Balance, end of the year	\$ 7,029,341	\$ 1,467,903	\$ 1,663,213	\$ 1,612,193	\$ 11,772,650

Other adjustments to goodwill include the transfer of the goodwill related to the Ionix information technology management business from the Information Storage segment to the VMware Virtual Infrastructure segment during 2010. The goodwill transfer related to the common control acquisition of certain software product technology and related capabilities of our Ionix business by VMware. See Note S for additional details.

*Valuation of Goodwill and Intangibles*

We perform an assessment of the recoverability of goodwill, at least annually, in the fourth quarter of each year. Our assessment is performed at the reporting unit level which, for certain of our operating segments, is one step below our operating segment level. During 2011, we early adopted the new accounting guidance that allows entities to perform, on a reporting unit by reporting unit basis, a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary and, in doing so, we evaluated goodwill for certain reporting units in a qualitative manner and determined there was no impairment. For the reporting units that we evaluated using a quantitative model, there was sufficient market value above the carrying value of those reporting units so that we would not expect any near term changes in the operating results that would trigger an impairment. The determination of relevant comparable industry companies impacts our assessment of fair value. Should the operating performance of our reporting units change in comparison to these companies or should the valuation of these companies change, this could impact our assessment of the fair value of the reporting units. Our discounted cash flow analyses factor in assumptions on revenue and expense growth rates. These estimates are based upon our historical experience and projections of future activity, factoring in customer demand, changes in technology and a cost structure necessary to achieve the related revenues. Additionally, these discounted cash flow analyses factor in expected amounts of working capital and weighted average cost of capital. Changes in judgments on any of these factors could materially impact the value of the reporting unit. There was no impairment in 2011, 2010 or 2009.



## Edgar Filing: EMC CORP - Form 10-K

Other intangible assets are evaluated based upon the expected period the asset will be utilized, forecasted cash flows, changes in technology and customer demand. Changes in judgments on any of these factors could materially impact the value of the asset.

### **E. Convertible Debt**

In November 2006, we issued our Notes for total gross proceeds of \$3.45 billion. The Notes are senior unsecured obligations and rank equally with all other existing and future senior unsecured debt.

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

As of December 31, 2011, the 2011 Notes had matured and a majority of the note holders exercised their rights to convert the outstanding Notes. Due to the settlement terms, the majority of the converted Notes were not settled until January 9, 2012. At that time, we paid the note holders \$1,699.8 million in cash for the outstanding principal and 29.5 million shares for the \$661.4 million excess of the conversion value over the principal amount, as prescribed by the terms of the Notes.

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

At December 31, 2011, the contingent conversion thresholds on the Notes were exceeded. As a result, the 2013 Notes became convertible at the option of the holder through March 31, 2012. Accordingly, since the terms of the Notes require the principal to be settled in cash, we reclassified from shareholders' equity the portion of the Notes attributable to the conversion feature which had not yet been accreted to its face value, and the Notes 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 Notes might not be convertible in future quarters and therefore the 2013 Notes may be reclassified as long-term debt if the contingent conversion thresholds are not met. Approximately \$0.5 million of the 2013 Notes have been converted as of December 31, 2011.

The carrying amount of the 2013 Notes reported in the consolidated balance sheets as of December 31, 2011 was \$1,724.5 million and the fair value was \$2,500.5 million. The carrying amount of the equity component of the 2013 Notes was \$263.5 million at December 31, 2011. As of December 31, 2011, the unamortized discount on the 2013 Notes consists of \$119.3 million, which will be fully amortized by December 1, 2013.

The Notes pay interest in cash at a rate of 1.75% semi-annually in arrears on December 1 and June 1 of each year. The effective interest rate on the Notes was 5.6% for the years ended December 31, 2011, 2010 and 2009.

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

	<b>For the Twelve Months Ended</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Contractual interest expense on the coupon	\$ 57,646	\$ 60,375	\$ 60,375
Amortization of the discount component recognized as interest expense	115,904	114,481	108,347
<b>Total interest expense on the convertible debt</b>	<b>\$ 173,550</b>	<b>\$ 174,856</b>	<b>\$ 168,722</b>

## Edgar Filing: EMC CORP - Form 10-K

In connection with the issuance of the Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the Purchased Options ). The Purchased Options allow us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the Notes upon conversion. The Purchased Options will cover, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock. 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

---

**Table of Contents**

**EMC CORPORATION**

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

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 paid an aggregate amount of \$669.1 million of the proceeds from the sale of the Notes for the Purchased Options that was recorded as additional paid-in-capital in shareholders' equity.

We also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. Half of the associated warrants have expiration dates between February 15, 2012 and March 14, 2012 and the remaining half of the associated warrants have expiration dates between February 18, 2014 and March 18, 2014. We received aggregate proceeds of \$391.1 million from the sale of the associated warrants. Upon exercise, the value of the warrants is required to be settled in shares. Beginning February 15, 2012, a percentage of the 107.5 million warrants become exercisable each day over the course of the settlement period through March 14, 2012. These warrants will be settled with shares of our common stock.

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

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 forecasted issuance of debt in 2011 when our 2011 Notes were scheduled to become due. As such, the loss on these hedges was recognized in other comprehensive loss until the underlying exposure was realized. In November 2011, we settled these swaps and replaced them with new interest rate swap contracts for the forecasted issuance of debt in 2012. The notional amount and other terms match the underlying hedged item and both the original and the new swaps were deemed as effective hedges. As such, the gain or loss on these new hedges was recorded in other comprehensive loss. The realized loss on the replaced interest rate swap contracts was \$141.0 million at the time of settlement. Since we intend to issue debt in 2012, this loss will be realized over the life of the new debt issued under the related interest rate swap contracts and recognized as a component of interest expense in the consolidated income statements. For the purposes of presentation in the consolidated statement of cash flows, the interest rate swap contracts are presented within net cash used in financing activities.

**F. 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. At December 31, 2011, 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

## Edgar Filing: EMC CORP - Form 10-K

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. As a result of the

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

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

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

	<b>December 31, 2011</b>			<b>Aggregate Fair Value</b>
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized (Losses)</b>	
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

We held approximately \$987.1 million in foreign debt securities at December 31, 2011. These securities have an average credit rating of AA-, and approximately 9% 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.

	<b>December 31, 2010</b>			<b>Aggregate Fair Value</b>
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized (Losses)</b>	
U.S. government and agency obligations	\$ 1,737,782	\$ 11,286	\$ (2,674)	\$ 1,746,394
U.S. corporate debt securities	1,239,325	13,608	(1,307)	1,251,626
High yield corporate debt securities	421,469	18,306	(1,943)	437,832
Asset-backed securities	34,730	152	(1)	34,881
Municipal obligations	1,095,338	3,829	(3,266)	1,095,901
Auction rate securities	155,950		(9,906)	146,044
Foreign debt securities	653,251	6,878	(714)	659,415
Total fixed income securities	5,337,845	54,059	(19,811)	5,372,093
Publicly traded equity securities	22,376	32,448		54,824
Total	\$ 5,360,221	\$ 86,507	\$ (19,811)	\$ 5,426,917



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

The following tables represent our fair value hierarchy for our financial assets and liabilities measured at fair value as of December 31, 2011 and 2010 (in thousands):

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Cash	\$ 3,096,275	\$	\$	\$ 3,096,275
Cash equivalents	1,424,761	10,000		1,434,761
U.S. government and agency obligations	1,179,280	1,305,681		2,484,961
U.S. corporate debt securities		1,407,753		1,407,753
High yield corporate debt securities		447,479		447,479
Asset-backed securities		29,148		29,148
Municipal obligations		816,081		816,081
Auction rate securities			74,596	74,596
Foreign debt securities		987,074		987,074
Publicly traded equity securities	65,001			65,001
<b>Total cash and investments</b>	<b>\$ 5,765,317</b>	<b>\$ 5,003,216</b>	<b>\$ 74,596</b>	<b>\$ 10,843,129</b>

## Other items:

Foreign exchange derivative assets	\$	\$ 23,372	\$	\$ 23,372
Foreign exchange derivative liabilities		(27,741)		(27,741)
Commodity derivative liabilities		(3,093)		(3,093)
Interest rate swap contracts		(19,872)		(19,872)

	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Cash	\$ 1,534,786	\$	\$	\$ 1,534,786
Cash equivalents	2,522,172	62,180		2,584,352
U.S. government and agency obligations	993,165	753,229		1,746,394
U.S. corporate debt securities		1,251,626		1,251,626
High yield corporate debt securities		437,832		437,832
Asset-backed securities		34,881		34,881
Municipal obligations		1,095,901		1,095,901
Auction rate securities			146,044	146,044
Foreign debt securities		659,415		659,415
Publicly traded equity securities	54,824			54,824
<b>Total cash and investments</b>	<b>\$ 5,104,947</b>	<b>\$ 4,295,064</b>	<b>\$ 146,044</b>	<b>\$ 9,546,055</b>

## Other items:

Foreign exchange derivative assets	\$	\$ 19,655	\$	\$ 19,655
Foreign exchange derivative liabilities		(21,975)		(21,975)
Commodity derivative liabilities		(647)		(647)
Interest rate swap contracts		(7,762)		(7,762)

Our auction rate securities are predominantly rated AAA and are primarily collateralized by student loans. The underlying loans of all but two of our auction rate securities, with a market value of \$18.3 million, have partial guarantees by the U.S. government as part of the Federal Family Education Loan Program ( FFELP ) through the U.S. Department of Education. FFELP guarantees at least 95% of the loans which collateralize the auction rate securities. The two securities whose underlying loans are not guaranteed by the U.S. government have credit enhancements and are insured by third party agencies. We believe the quality of the collateral underlying all of our auction rate securities will enable us to recover



our principal balance in full.

To determine the estimated fair value of our investment in auction rate securities, we used a discounted cash flow model. 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 2% at December 31, 2011 compared to 1% at December 31, 2010 due to the widening of credit spreads on AA-rated banks during 2011.

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

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

	2011	2010
Balance, beginning of the year	\$ 146,044	\$ 234,452
Sales		(56,755)
Calls, at par value	(73,050)	(40,912)
(Increase) decrease in previously recognized unrealized losses included in other comprehensive loss	1,602	9,259
Balance, end of the year	\$ 74,596	\$ 146,044

At December 31, 2011 and 2010, we had \$159.8 million and \$66.4 million, respectively, in strategic investments held at cost included in other assets, net on the consolidated balance sheets. The fair value of these investments is considered to review for impairments if any events and changes in circumstances occur that might have a significant adverse effect on their value.

Unrealized losses on investments at December 31, 2011 and 2010 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (tables in thousands):

December 31, 2011	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	\$ 618,510	\$ (1,434)	\$ 2,107	\$ (54)	\$ 620,617	\$ (1,488)
U.S. corporate debt securities	449,404	(2,573)			449,404	(2,573)
High yield corporate debt securities	131,112	(7,211)	840	(531)	131,952	(7,742)
Asset-backed securities	20,016	(24)	5	(1)	20,021	(25)
Municipal obligations	303,988	(566)	8,054	(31)	312,042	(597)
Auction rate securities			74,596	(8,304)	74,596	(8,304)
Foreign debt securities	372,531	(2,807)			372,531	(2,807)
Total	\$ 1,895,561	\$ (14,615)	\$ 85,602	\$ (8,921)	\$ 1,981,163	\$ (23,536)

December 31, 2010	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	\$ 491,897	\$ (2,569)	\$ 5,474	\$ (105)	\$ 497,371	\$ (2,674)
U.S. corporate debt securities	291,157	(1,307)			291,157	(1,307)
High yield corporate debt securities	66,537	(1,943)			66,537	(1,943)
Asset-backed securities	6,998		5	(1)	7,003	(1)
Municipal obligations	599,814	(3,266)			599,814	(3,266)
Auction rate securities			146,044	(9,906)	146,044	(9,906)
Foreign debt securities	104,934	(714)			104,934	(714)

## Edgar Filing: EMC CORP - Form 10-K

Total	\$ 1,561,337	\$ (9,799)	\$ 151,523	\$ (10,012)	\$ 1,712,860	\$ (19,811)
-------	--------------	------------	------------	-------------	--------------	-------------

### *Investment Losses*

As of December 31, 2011, there were no publicly traded equity securities in a continuous unrealized loss position. For all of our securities where the amortized cost basis was greater than the fair value at December 31, 2011, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating, third party guarantees and the time to maturity.

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

In 2011, a realized gain of \$56.0 million was recorded in other expense, net on the consolidated income statements for the sale of VMware's investment in Terremark Worldwide, Inc.

*Contractual Maturities*

The contractual maturities of fixed income securities held at December 31, 2011 are as follows (table in thousands):

	<b>December 31, 2011</b>	
	<b>Amortized Cost Basis</b>	<b>Aggregate Fair Value</b>
Due within one year	\$ 1,777,170	\$ 1,780,391
Due after 1 year through 5 years	3,697,240	3,714,177
Due after 5 years through 10 years	443,037	448,203
Due after 10 years	311,032	304,321
<b>Total</b>	<b>\$ 6,228,479</b>	<b>\$ 6,247,092</b>

Short-term investments on the consolidated balance sheet include \$6.6 million of variable rate demand notes which have contractual maturities in 2013, and are not classified within investments due within one year above.

**G. Inventories**

Inventories consist of (table in thousands):

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Work-in-process	\$ 492,064	\$ 508,426
Finished goods	517,904	347,979
	<b>\$ 1,009,968</b>	<b>\$ 856,405</b>

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

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, which are included in notes receivable, arise from sales-type leases of products. We typically sell, without recourse, the contractual right to the lease payment stream to third parties. For certain customers we retain the lease.

The contractual amounts due under our leases as of December 31, 2011 were as follows (table in thousands):

Edgar Filing: EMC CORP - Form 10-K

Year	Contractual amounts due under leases
2012	\$ 126,598
2013	108,242
2014	99,389
Thereafter	1,231
<b>Total</b>	<b>335,460</b>
Less amounts representing interest	(6,856)
<b>Present value</b>	<b>328,604</b>
Current portion (included in accounts and notes receivable)	123,896
<b>Long-term portion (included in other assets, net)</b>	<b>\$ 204,708</b>

Subsequent to December 31, 2011, we sold \$92.3 million of these notes to third parties without recourse.

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

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 December 31, 2011, amounts from lease receivables past due for more than 90 days were not significant.

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

	December 31, 2011	December 31, 2010
Balance, beginning of the year	\$ 44,661	\$ 40,199
Recoveries	(31,531)	(25,171)
Provisions	11,117	29,633
Balance, end of the year	\$ 24,247	\$ 44,661

Gross lease receivables totaled \$335.5 million and \$278.4 million in 2011 and 2010, respectively, before the allowance. The components of these balances were individually evaluated for impairment by management.

**I. Property, Plant and Equipment**

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

	December 31, 2011	December 31, 2010
Furniture and fixtures	\$ 180,800	\$ 156,466
Equipment	4,680,118	4,117,984
Buildings and improvements	1,748,214	1,580,597
Land	117,513	115,899
Building construction in progress	146,650	100,865
	6,873,295	6,071,811
Accumulated depreciation	(4,040,146)	(3,543,379)
	\$ 2,833,149	\$ 2,528,432

Depreciation expense was \$727.9 million, \$595.3 million and \$565.5 million in 2011, 2010 and 2009, respectively. Building construction in progress at December 31, 2011 includes \$65.8 million for facilities not yet placed in service that we are holding for future use.

**J. Joint Ventures**

*VCE Company LLC*

## Edgar Filing: EMC CORP - Form 10-K

In 2009, Cisco and EMC formed VCE Company LLC ( VCE ). VMware and Intel are also investors in VCE. VCE, through Vblock infrastructure platforms, delivers an integrated IT offering that combines network, computing, storage, management, security and virtualization technologies for converged infrastructures and cloud based computing models. As of December 31, 2011, we have contributed \$432.0 million in funding and \$9.0 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

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

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 year ended December 31, 2011, and was 58.0% for both years ended December 31, 2010 and 2009. As of December 31, 2011, we have recorded net accumulated losses from VCE of \$253.8 million since inception, of which \$209.2 million, \$43.0 million and \$1.6 million were recorded in 2011, 2010 and 2009, respectively.

We recognized \$133.9 million in revenue from sales of product and services to VCE during the year ended December 31, 2011. We did not recognize any revenue related to VCE in 2010 or 2009. 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 of \$27.0 million and \$19.9 million as of December 31, 2011 and 2010, respectively, which is included in other current assets in the consolidated balance sheets.

**K. Accrued Expenses**

Accrued expenses consist of (table in thousands):

	December 31, 2011	December 31, 2010
Salaries and benefits	\$ 961,587	\$ 884,243
Product warranties	254,554	236,131
Partner rebates	167,813	122,739
Restructuring, current (See Note Q)	61,541	61,933
Derivatives	50,963	36,879
Other	858,521	748,110
	\$ 2,354,979	\$ 2,090,035

*Product Warranties*

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

	Year Ended December 31,		
	2011	2010	2009
Balance, beginning of the year	\$ 236,131	\$ 271,594	\$ 269,218
Provision	174,850	120,296	145,517



## Edgar Filing: EMC CORP - Form 10-K

Amounts charged to the accrual	(156,427)	(155,759)	(143,141)
Balance, end of the year	\$ 254,554	\$ 236,131	\$ 271,594

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.

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****L. Income Taxes**

Our provision (benefit) for income taxes consists of (table in thousands):

	2011	2010	2009
Federal:			
Current	\$ 488,031	\$ 518,309	\$ 181,578
Deferred	14,333	4,170	7,977
	502,364	522,479	189,555
State:			
Current	70,676	49,488	13,114
Deferred	(45,272)	(20,419)	13,419
	25,404	29,069	26,533
Foreign:			
Current	101,101	120,287	30,885
Deferred	11,516	(33,538)	5,802
	112,617	86,749	36,687
Total provision for income taxes	\$ 640,385	\$ 638,297	\$ 252,775

In 2011, 2010 and 2009, we were able to utilize \$19.5 million, \$46.9 million and \$68.9 million, respectively, of net operating loss carryforwards and tax credit carryforwards to reduce the current portion of our tax provision.

The effective income tax rate is based upon the income for the year, the composition of the income in different countries, and adjustments, if any, for the potential tax consequences, benefits or resolutions of tax audits. A reconciliation of our income tax provision to the statutory federal tax rate is as follows:

	2011	2010	2009
Statutory federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal taxes	0.7	1.0	1.0
Resolution of uncertain tax positions	(1.7)	(0.6)	(4.5)
Tax rate differential for international jurisdictions and other international related tax items	(14.4)	(12.2)	(17.5)
U.S. tax credits	(2.8)	(3.3)	(3.1)
Changes in valuation allowance		(0.6)	
International reorganization of acquired companies		3.2	4.4
Permanent items	2.5	2.5	4.2
Other	0.4	(0.5)	(1.1)
	19.7%	24.5%	18.4%

## Edgar Filing: EMC CORP - Form 10-K

Substantially all the tax rate differential for international jurisdictions was driven by earnings of our Irish subsidiaries.

In 2010, a reorganization of international operations was effected which included the transfer of certain assets of Isilon, Archer Technologies and Bus-Tech into the single EMC international holding company, which negatively impacted the rate by 3.2 percentage points.

In 2009, we effected a plan to reorganize our international operations by transferring certain assets of our RSA and Data Domain entities and legacy foreign corporations owned directly by EMC into a single EMC international holding company. As a result of this reorganization, we incurred income taxes which negatively impacted the rate by 4.4 percentage points.

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

The components of the current and noncurrent deferred tax assets and liabilities are as follows (table in thousands):

	December 31, 2011		December 31, 2010	
	Deferred Tax Asset	Deferred Tax Liability	Deferred Tax Asset	Deferred Tax Liability
<b>Current:</b>				
Accounts and notes receivable	\$ 86,400	\$	\$ 49,636	\$
Inventory	91,374		80,500	
Accrued expenses	281,071		254,775	
Deferred revenue	274,463		224,921	
<b>Total current</b>	<b>733,308</b>		<b>609,832</b>	
<b>Noncurrent:</b>				
Property, plant and equipment, net		(246,377)		(102,962)
Intangible and other assets, net		(609,813)		(633,225)
Equity		(38,616)		(156,802)
Deferred revenue		(10,992)		(22,313)
Other noncurrent liabilities		(55,938)		(47,526)
Credit carryforwards	72,933		44,248	
Net operating losses	156,541		157,541	
Other comprehensive loss	134,157		48,385	
<b>Total noncurrent</b>	<b>363,631</b>	<b>(961,736)</b>	<b>250,174</b>	<b>(962,828)</b>
<b>Gross deferred tax assets and liabilities</b>	<b>1,096,939</b>	<b>(961,736)</b>	<b>860,006</b>	<b>(962,828)</b>
Valuation allowance	(5,293)		(4,350)	
<b>Total deferred tax assets and liabilities</b>	<b>\$ 1,091,646</b>	<b>\$ (961,736)</b>	<b>\$ 855,656</b>	<b>\$ (962,828)</b>

We have gross federal and foreign net operating loss carryforwards of \$279.0 million and \$86.5 million, respectively. Portions of these carryforwards are subject to annual limitations, including Section 382 of the Internal Revenue Code of 1986 ( Code ), as amended, for U.S. tax purposes and similar provisions under other countries tax laws. Certain of these net operating losses will begin to expire in 2014, while others have an unlimited carryforward period.

We have federal and state credit carryforwards of \$22.6 million and \$46.1 million, respectively. Portions of these carryforwards are subject to annual limitations, including Section 382 of the Code, as amended, for U.S. tax purposes and similar provisions under other countries tax laws. Certain of these credits will begin to expire in 2012, while others have an unlimited carryforward period.

The valuation allowance increased from \$4.4 million at December 31, 2010 to \$5.3 million at December 31, 2011. The increase was attributable to a certain subsidiary's foreign tax credit carryforward. The valuation allowance relates to foreign net operating loss carryforwards.

Deferred income taxes have not been provided on basis differences related to investments in foreign subsidiaries. These basis differences were approximately \$6.4 billion and \$5.1 billion at December 31, 2011 and 2010, respectively, and consisted primarily of undistributed earnings permanently invested in these entities. The change in the basis difference in 2011 was mainly attributable to income earned in the current year. At December 31, 2011, our total cash, cash equivalents, and short-term and long-term investments were \$10.8 billion. This balance includes approximately \$4.5 billion held by VMware, of which \$2.1 billion is held overseas, and \$1.5 billion 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,

## Edgar Filing: EMC CORP - Form 10-K

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. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable. Income before income taxes from foreign operations for 2011, 2010 and 2009 was \$1.8 billion, \$1.2 billion and \$0.9 billion, respectively. Income before income taxes from domestic operations for 2011, 2010 and 2009 was \$1.5 billion, \$1.4 billion and \$0.5 billion, respectively.

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

The following is a rollforward of our gross consolidated liability for unrecognized income tax benefits for the three years ended December 31:

	2011	2010	2009
Unrecognized tax benefits, beginning of year	\$ 230.3	\$ 197.1	\$ 218.5
Tax positions related to current year:			
Additions	42.0	47.6	52.1
Reductions	(1.8)		
Tax positions related to prior years:			
Additions	14.0	23.7	4.6
Reductions	(71.0)	(20.2)	(66.7)
Settlements	(3.3)	(5.0)	(2.9)
Lapses in statutes of limitations	(13.4)	(12.9)	(8.5)
Unrecognized tax benefits, end of year	\$ 196.8	\$ 230.3	\$ 197.1

As of December 31, 2011, 2010 and 2009, \$192.3 million, \$221.8 million and \$195.1 million, respectively, of the unrecognized tax benefits, if recognized, would have been recorded as a reduction to income tax expense. The remainder would be an adjustment to shareholders' equity.

We have substantially concluded all U.S. federal income tax matters for years through 2008. We also have income tax audits in process in numerous state, local and international jurisdictions. In our international jurisdictions that comprise a significant portion of our operations, the years that may be examined vary, with the earliest year being 2002. Based on the timing and outcome of examinations of EMC, the result of the expiration of statutes of limitations for specific jurisdictions or the timing and result of ruling requests from taxing authorities, it is reasonably possible that up to \$14.8 million of unrecognized tax positions may be recognized within one year.

The \$71.0 million reduction during 2011 for tax positions related to prior years is principally due to the resolution of certain transfer pricing matters, inclusive of the completion of audits in certain foreign jurisdictions and the completion of the 2007 and 2008 U.S. federal income tax audits. The \$66.7 million reduction during 2009 for tax positions related to prior years is principally due to the resolution of certain transfer pricing matters and the completion of the 2005 and 2006 U.S. federal income tax audits.

We recognize interest expense and penalties related to income tax matters in income tax expense. For 2011 and 2010, \$1.2 million and \$1.1 million, respectively, in interest expense was recognized, whereas for 2009, \$4.3 million in interest expense was reversed. In addition to the unrecognized tax benefits noted above, the balance of the accrued interest and penalties were \$31.6 million, \$30.5 million and \$29.9 million as of December 31, 2011, 2010 and 2009, respectively.

**M. Retirement Plan Benefits***401(k) Plan*

EMC's Information Infrastructure business has established a deferred compensation program for certain employees that is qualified under Section 401(k) of the Code. EMC will match pre-tax employee contributions up to 6% of eligible compensation during each pay period (subject to a \$750 maximum match each quarter). Matching contributions are immediately 100% vested. Our contributions amounted to \$73.2 million, \$34.3 million and \$27.1 million in 2011, 2010 and 2009, respectively.

Employees may elect to invest their contributions in a variety of funds, including an EMC stock fund. The deferred compensation program limits an employee's maximum investment allocation in the EMC stock fund to 30% of their total contribution. Our matching contribution mirrors the investment allocation of the employee's contribution.

*Defined Benefit Pension Plan*

We have noncontributory defined benefit pension plans which were assumed as part of the Data General acquisition, which cover substantially all former Data General employees located in the U.S. In addition, certain of the former Data General foreign subsidiaries also have retirement plans covering substantially all of their employees. All of these plans were frozen in 1999 resulting in employees no longer accruing pension benefits for future services. Certain of our foreign subsidiaries also have a defined benefit pension plan.

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

Benefits under these plans are generally based on either career average or final average salaries and creditable years of service as defined in the plans. The annual cost for these plans is determined using the projected unit credit actuarial cost method that includes actuarial assumptions and estimates which are subject to change. The measurement date for the plans is December 31.

The Data General U.S. pension plan s (the Pension Plan ) investment policy provides that no security, except issues of the U.S. Government, shall comprise more than 5% of total plan assets, measured at market. At December 31, 2011, the Pension Plan held \$0.3 million of our common stock.

The Pension Plan is summarized in the following tables. The other pension plans are not presented because they do not have a material impact on our consolidated financial position or results of operations.

The components of the change in benefit obligation of the Pension Plan is as follows (table in thousands):

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Benefit obligation, at beginning of year	\$ 427,213	\$ 386,316
Interest cost	22,663	22,685
Benefits paid	(15,493)	(15,516)
Actuarial loss	48,226	33,728
Benefit obligation, at end of year	\$ 482,609	\$ 427,213

The reconciliation of the beginning and ending balances of the fair value of the assets of the Pension Plan is as follows (table in thousands):

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Fair value of plan assets, at beginning of year	\$ 379,617	\$ 353,562
Actual return on plan assets	31,735	41,571
Benefits paid	(15,493)	(15,516)
Fair value of plan assets, at end of year	\$ 395,859	\$ 379,617

We did not make any contributions to the Pension Plan in 2011 or 2010 and we do not expect to make a contribution to the Pension Plan in 2012. The under-funded status of the Pension Plan at December 31, 2011 and 2010 was \$86.8 million and \$47.6 million, respectively. This amount is classified as a component of other long-term liabilities on the consolidated balance sheets.

In 2011, \$11.2 million of the accumulated actuarial loss and prior services cost associated with the Pension Plan were reclassified from accumulated comprehensive loss to a component of net periodic benefit cost. Additionally, the Pension Plan had net losses of \$41.5 million primarily the result of a decrease in the discount rate at the end of 2011. We expect that \$12.9 million of the total balance included in accumulated other comprehensive loss at December 31, 2011 will be recognized as a component of net periodic benefit costs in 2012. We do not expect to receive any refunds from the Pension Plan in 2012.

The components of net periodic expense (benefit) of the Pension Plan are as follows (table in thousands):



Edgar Filing: EMC CORP - Form 10-K

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Interest cost	\$ 22,663	\$ 22,685	\$ 22,027
Expected return on plan assets	(25,008)	(23,304)	(23,832)
Recognized actuarial loss	11,174	12,616	14,584
Net periodic expense (benefit)	\$ 8,829	\$ 11,997	\$ 12,779

The weighted-average assumptions used in the Pension Plan to determine benefit obligations at December 31 are as follows:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Discount rate	4.6%	5.4%	6.0%
Rate of compensation increase	N/A	N/A	N/A

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

The weighted-average assumptions used in the Pension Plan to determine periodic benefit cost for the years ended December 31 are as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Discount rate	5.4%	6.0%	6.6%
Expected long-term rate of return on plan assets	6.75%	6.75%	8.25%
Rate of compensation increase	N/A	N/A	N/A

The benefit payments are expected to be paid in the following years (table in thousands):

2012	\$ 20,260
2013	21,247
2014	22,343
2015	23,642
2016	25,168
2017-2021	148,392

*Fair Value of Plan Assets*

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2011:

*Common Collective Trusts* valued at the net asset value calculated by the fund manager based on the underlying investments. These are all classified within Level 2 of the valuation hierarchy. These include: Collective Trust High Yield Fund, EB Daily Valued Large Cap Growth Stock Index Fund, EB Daily Valued Large Cap Value Stock Index Fund, EB Daily Valued Small Cap Stock Index Fund, EB Daily Valued Stock Index Fund, EB Daily Valued International Stock Index Fund, EB Daily Valued Emerging Markets Index Fund, EB Long Term Credit Bond Index and EB Long Term Government Bond Index Fund.

*Corporate Debt Securities* valued daily at the closing price reported in active U.S. financial markets and are classified within Level 2 of the valuation hierarchy.

The following table sets forth, by level within the fair value hierarchy, the Pension Plan's assets at fair value as of December 31, 2011 and 2010 (tables in thousands):

	December 31, 2011			Total
	Level 1	Level 2	Level 3	
Common collective trusts	\$	\$ 284,250	\$	\$ 284,250
Mutual funds		2,666		2,666
U.S. treasury securities	2,979			2,979
Corporate debt securities		105,082		105,082
<b>Total</b>	<b>\$ 2,979</b>	<b>\$ 391,998</b>	<b>\$</b>	<b>\$ 394,977</b>

Plan payables, net of accrued interest and dividends 882

Edgar Filing: EMC CORP - Form 10-K

Total	\$ 395,859
-------	------------

	December 31, 2010			Total
	Level 1	Level 2	Level 3	
Common collective trusts	\$	\$ 278,447	\$	\$ 278,447
Mutual funds		3,656		3,656
U.S. agency securities		20,700		20,700
U.S. treasury securities	11,799			11,799
Corporate debt securities		57,067		57,067
Municipal obligations		980		980
Asset-backed securities		2,602		2,602
Mortgaged-backed securities		3,837		3,837
<b>Total</b>	<b>\$ 11,799</b>	<b>\$ 367,289</b>	<b>\$</b>	<b>\$ 379,088</b>

Plan payables, net of accrued interest and dividends	529
--	-----

Total	\$ 379,617
-------	------------

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

Dividends, accrued interest and net plan payables are not material to the plan assets. Accordingly, we have not classified these into the fair value hierarchy above at December 31, 2011 and 2010.

*Concentration of Risks*

Pension Plan investments at fair value as of December 31, 2011 and 2010 which represented 5% or more of the Pension Plan's net assets were as follows:

	2011	2010
Collective Trust High Yield Fund	\$	\$ 21,956
EB Daily Valued Large Cap Growth Stock Index Fund		18,497
EB Daily Valued Large Cap Value Stock Index Fund		19,605
EB Daily Valued Small Cap Stock Index Fund	23,038	34,069
EB Daily Valued Stock Index Fund	82,060	110,030
EB Daily Valued International Stock Index Fund	21,938	33,967
EB Long Term Government Bond Index	44,058	
EB Long Term Credit Bond Index	60,111	21,765
U.S. Treasury Securities		11,799
U.S. Agency Securities		20,700
Corporate Debt Securities	105,082	57,067
	\$ 336,287	\$ 349,455

*Investment Strategy*

The Pension Plan's assets are managed by outside investment managers. Our investment strategy with respect to pension assets is to maximize returns while preserving principal.

The expected long-term rate of return on the Pension Plan assets considers the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was weighted based on the target asset allocation to develop the expected long-term rate of return on assets. We continue to shift the asset allocation to lower the percentage of investments in equities and increase the percentage of investments in long-duration fixed-income securities. The continued changes could result in a reduction in the long-term rate of return on the Pension Plan assets and increase future pension expense. The long-term weighted average target asset allocations are as follows:

	December 31, 2011
U.S. large capitalization equities	17%
U.S. small capitalization equities	4
International equities	4
U.S. long-duration fixed income	75
High yield fixed income	

Edgar Filing: EMC CORP - Form 10-K

Total 100%

The actual allocation of the assets in the Pension Plan at December 31, 2011 and 2010 were as follows:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
U.S. large capitalization equities	29%	39%
U.S. small capitalization equities	6	9
International equities	7	11
U.S. long-duration fixed income	55	
U.S. core fixed income		35
High yield fixed income	3	6
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****N. Commitments and Contingencies***Operating Lease Commitments*

We lease office and warehouse facilities and equipment under various operating leases. Facility leases generally include renewal options. Rent expense was as follows (table in thousands):

	<b>2011</b>	<b>2010</b>	<b>2009</b>
Rent expense	\$ 308,561	\$ 276,030	\$ 300,609
Sublease proceeds	(4,700)	(7,090)	(6,114)
<b>Net rent expense</b>	<b>\$ 303,861</b>	<b>\$ 268,940</b>	<b>\$ 294,495</b>

Our future operating lease commitments as of December 31, 2011 are as follows (table in thousands):

2012	\$ 254,888
2013	215,187
2014	170,408
2015	129,099
2016	90,048
Thereafter	641,413
<b>Total minimum lease payments</b>	<b>\$ 1,501,043</b>

We sublet certain of our office facilities. Expected future non-cancelable sublease proceeds as of December 31, 2011 are as follows (table in thousands):

2012	\$ 3,250
2013	1,602
2014	1,607
2015	1,616
2016	1,276
Thereafter	3,159
<b>Total sublease proceeds</b>	<b>\$ 12,510</b>

*Outstanding Purchase Orders*

At December 31, 2011, we had outstanding purchase orders aggregating approximately \$2.3 billion. The purchase orders are for manufacturing and non-manufacturing related goods and services. While the purchase orders are generally cancelable without penalty, certain vendor agreements provide for percentage-based cancellation fees or minimum restocking charges based on the nature of the product or service.

*Line of Credit*

We have available for use a credit line of \$50.0 million. As of December 31, 2011, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At December 31, 2011, 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 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

---

**Table of Contents**

**EMC CORPORATION**

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

profile organizations. At December 31, 2011, we had a remaining reserve of \$46.6 million included in accrued liabilities on the consolidated balance sheet. We considered whether additional losses might result from the pending remediation efforts beyond our existing accrual and concluded that no additional material losses related to the remediation efforts are reasonably possible. We expect that the remediation efforts will be substantially completed by the end of the second quarter of 2012.

*Guarantees and Indemnification Obligations*

EMC's subsidiaries have entered into arrangements with financial institutions for such institutions to provide guarantees for rent, taxes, insurance, leases, performance bonds, bid bonds and customs duties aggregating \$115 million as of December 31, 2011. The guarantees vary in length of time. In connection with these arrangements, we have agreed to guarantee substantially all of the guarantees provided by these financial institutions. EMC and certain of its subsidiaries have also entered into arrangements with financial institutions in order to facilitate the management of currency risk. EMC has agreed to guarantee the obligations of its subsidiaries under these arrangements.

We enter into agreements in the ordinary course of business with, among others, customers, resellers, joint ventures, OEMs, systems integrators and distributors. Most of these agreements require us to indemnify the other party against third-party claims alleging that an EMC product infringes a patent and/or copyright. Certain agreements in which we grant limited licenses to specific EMC-trademarks require us to indemnify the other party against third-party claims alleging that the use of the licensed trademark infringes a third-party trademark. Certain of these agreements require us to indemnify the other party against certain claims relating to the loss or processing of data, to real or tangible personal property damage, personal injury or the acts or omissions of EMC, its employees, agents or representatives. In addition, from time to time, we have made certain guarantees regarding the performance of our systems to our customers. We have also made certain guarantees for obligations of affiliated third parties.

We have agreements with certain vendors, financial institutions, lessors and service providers pursuant to which we have agreed to indemnify the other party for specified matters, such as acts and omissions of EMC, its employees, agents or representatives.

We have procurement or license agreements with respect to technology that is used in our products and agreements in which we obtain rights to a product from an OEM. Under some of these agreements, we have agreed to indemnify the supplier for certain claims that may be brought against such party with respect to our acts or omissions relating to the supplied products or technologies.

We have agreed to indemnify the directors, executive officers and certain other officers of EMC and our subsidiaries, to the extent legally permissible, against all liabilities reasonably incurred in connection with any action in which such individual may be involved by reason of such individual being or having been a director or officer.

In connection with certain acquisitions, we have agreed to indemnify the current and former directors, officers and employees of the acquired company in accordance with the acquired company's by-laws and charter in effect immediately prior to the acquisition or in accordance with indemnification or similar agreements entered into by the acquired company and such persons. In a substantial majority of instances, we have maintained the acquired company's directors' and officers' insurance, which should enable us to recover a portion of any future amounts paid. These indemnities vary in length of time.

Based upon our historical experience and information known as of December 31, 2011, we believe our liability on the above guarantees and indemnities at December 31, 2011 is not material.

*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



## Edgar Filing: EMC CORP - Form 10-K

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.

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****O. Stockholders' Equity***Net Income Per Share*

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

	2011	2010	2009
<b>Numerator:</b>			
Net income attributable to EMC Corporation	\$ 2,461,337	\$ 1,899,995	\$ 1,088,077
Incremental dilution from VMware	(14,082)	(9,267)	(2,252)
Net income diluted attributable to EMC Corporation	\$ 2,447,255	\$ 1,890,728	\$ 1,085,825
<b>Denominator:</b>			
Weighted average shares, basic	2,055,536	2,055,959	2,022,371
Weighted common stock equivalents	52,460	49,616	29,393
Assumed conversion of the Notes and associated warrants	121,117	42,356	3,382
Weighted average shares, diluted	2,229,113	2,147,931	2,055,146

Due to the cash settlement feature of the principal amount of the Notes, we only include the impact of the premium feature in our diluted earnings per share calculation for our matured 2011 Notes and for our 2013 Notes when the average stock price exceeds the conversion price.

Concurrent with the issuance of the Notes, we also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. We also include the impact of the sold warrants in our diluted earnings per share calculation for our matured 2011 Notes and for our 2013 Notes when the average stock price exceeds the exercise price.

Restricted stock awards, restricted stock units and options to acquire 13.3 million, 54.5 million and 162.0 million shares of our common stock for the years ended December 31, 2011, 2010 and 2009, respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive. The incremental dilution from VMware represents the impact of VMware's dilutive securities on EMC's consolidated diluted net income per share and is calculated by multiplying the difference between VMware's basic and diluted earnings per share by the number of VMware shares owned by EMC.

*Repurchases of Common Stock*

We utilize both authorized and unissued shares (including repurchased shares) for all issuances under our equity plans. In 2008, our Board of Directors authorized the repurchase of 250.0 million shares of our common stock. Of the 250.0 million shares authorized for repurchase, we have repurchased 195.8 million shares at a total cost of \$3.7 billion, leaving a remaining balance of 54.2 million shares authorized for future repurchases. For the year ended December 31, 2011, we spent \$2.0 billion to repurchase 81.8 million shares of our common stock. We plan to spend up to \$700.0 million in 2012 on common stock repurchases.

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

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

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
Foreign currency translation adjustments	\$ (10,780)	\$ (6,983)
Unrealized losses on temporarily impaired investments, net of tax benefits of \$(8,492) and \$(7,278)	(15,044)	(12,533)
Unrealized gains on investments, net of taxes of \$18,343 and \$32,684	30,608	53,823
Unrealized losses on derivatives, net of tax benefits of \$(62,210) and \$(3,403)	(100,446)	(5,934)
Recognition of actuarial net loss from pension and other postretirement plans, net of tax benefits of \$(81,798) and \$(70,388)	(139,108)	(117,058)
	(234,770)	(88,685)
Less: Accumulated Other Comprehensive Income attributable to the non-controlling interest in VMware, Inc.	(239)	(3,932)
	\$ (235,009)	\$ (92,617)

*EMC Preferred Stock*

Our preferred stock may be issued from time to time in one or more series, with such terms as our Board of Directors may determine, without further action by our shareholders.

**P. Stock-Based Compensation***EMC Information Infrastructure Equity Plans*

The EMC Corporation Amended and Restated 2003 Stock Plan (the 2003 Plan) provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units. The exercise price for a stock option shall not be less than 100% of the fair market value of our common stock on the date of grant. Options generally become exercisable in annual installments over a period of three to five years after the date of grant and expire ten years after the date of grant. Incentive stock options will expire no later than ten years after the date of grant. Restricted stock is common stock that is subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Restricted stock units represent the right to receive shares of common stock in the future, with the right to future delivery of the shares subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Grants of restricted stock awards or restricted stock units that vest only by the passage of time will not vest fully in less than three years after the date of grant, except for grants to non-employee Directors that are not subject to this minimum three-year vesting requirement. The 2003 Plan allows us to grant up to 360.0 million shares of common stock. We recognize restricted stock awards and restricted stock units against the 2003 Plan share reserve as two shares for every one share issued in connection with such awards.

In addition to the 2003 Plan, we have four other stock option plans (the 1985 Plan, the 1993 Plan, the 2001 Plan and the 1992 Directors Plan). May 2007, these four plans were consolidated into the 2003 Plan such that all future grants will be granted under the 2003 Plan and shares that are not issued as a result of cancellations, expirations or forfeitures, will become available for grant under the 2003 Plan.

## Edgar Filing: EMC CORP - Form 10-K

A total of 922.4 million shares of common stock have been reserved for issuance under the above five plans. At December 31, 2011, there were an aggregate of 84.2 million shares of common stock available for issuance pursuant to future grants under the 2003 Plan.

We have, in connection with the acquisition of various companies, assumed the stock option plans of these companies. We do not intend to make future grants under any of such plans.

### *EMC Information Infrastructure Employee Stock Purchase Plan*

Under our Amended and Restated 1989 Employee Stock Purchase Plan (the 1989 Plan ), eligible employees may purchase shares of common stock through payroll deductions at 85% of the fair market value at the time of exercise. Options to purchase

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

shares are granted twice yearly, on January 1 and July 1, and are exercisable on the succeeding June 30 or December 31. A total of 153.0 million shares of common stock have been reserved for issuance under the 1989 Plan. The following table summarizes the 1989 Plan activity in the years ended December 31, 2011, 2010 and 2009 (table in thousands, except per share amounts):

	For the Year Ended		
	December 31, 2011	December 31, 2010	December 31, 2009
Cash Proceeds	\$ 141,023	\$ 120,694	\$ 115,312
Common shares purchased	6,899	6,949	10,324
Weighted-average price per share	\$ 20.44	\$ 17.37	\$ 11.17

*EMC Information Infrastructure Stock Options*

The following table summarizes our option activity under all equity plans since January 1, 2009 (shares in thousands):

	Number of Shares	Weighted Average Exercise Price (per share)
Outstanding, January 1, 2009	250,119	\$ 19.14
Options granted relating to business acquisitions	24,089	5.68
Granted	14,243	15.20
Forfeited	(10,178)	14.64
Expired	(14,953)	29.35
Exercised	(28,402)	8.85
Outstanding, December 31, 2009	234,918	18.31
Options granted relating to business acquisitions	12,595	5.57
Granted	3,286	20.07
Forfeited	(6,632)	14.36
Expired	(14,970)	70.59
Exercised	(56,781)	11.63
Outstanding, December 31, 2010	172,416	15.23
Options granted relating to business acquisitions	141	3.24
Granted	1,665	25.31
Forfeited	(4,159)	13.00
Expired	(13,866)	40.05
Exercised	(44,659)	11.91
Outstanding, December 31, 2011	111,538	13.69
Exercisable, December 31, 2011	78,845	13.33
Vested and expected to vest, December 31, 2011	109,546	\$ 13.68

At December 31, 2011, the weighted-average remaining contractual term was 4.3 years and the aggregate intrinsic value was \$649.5 million for the 78.8 million exercisable shares. For the 109.5 million shares vested and expected to vest at December 31, 2011, the weighted-average remaining contractual term was 5.1 years and the aggregate intrinsic value was \$868.9 million. The intrinsic value is based on our closing stock price of \$21.54 as of December 31, 2011, which would have been received by the option holders had all in-the-money options been exercised as of that date. The total pre-tax intrinsic values of options exercised in 2011, 2010 and 2009 were \$619.2 million, \$470.2 million and \$191.6

## Edgar Filing: EMC CORP - Form 10-K

million, respectively. Cash proceeds from the exercise of stock options were \$532.4 million, \$660.0 million and \$251.1 million in 2011, 2010 and 2009, respectively. Income tax benefits realized from the exercise of stock options in 2011, 2010 and 2009 were \$126.7 million, \$75.3 million and \$30.9 million, respectively.

### *EMC Information Infrastructure Restricted Stock and Restricted Stock Units*

Our restricted stock awards are valued based on our stock price on the grant date. Our restricted stock awards have various vesting terms from the date of grant, including pro rata vesting over three or four years, cliff vesting at the end of three or five

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

years with acceleration for achieving specified performance criteria and vesting on various dates contingent on achieving specified performance criteria. For awards with performance conditions, management evaluates the criteria in each grant to determine the probability that the performance condition will be achieved.

The following table summarizes our restricted stock and restricted stock unit activity since January 1, 2009 (shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock and restricted stock units at January 1, 2009	28,902	\$ 15.49
Granted	21,431	14.58
Vested	(10,951)	14.83
Forfeited	(2,019)	15.56
Outstanding, December 31, 2009	37,363	15.01
Granted	19,261	20.31
Vested	(11,062)	15.09
Forfeited	(2,185)	15.82
Outstanding, December 31, 2010	43,377	17.20
Granted	20,945	25.12
Vested	(14,832)	16.44
Forfeited	(3,959)	20.56
Restricted stock and restricted stock units at December 31, 2011	45,531	\$ 21.10

The total intrinsic values of restricted stock and restricted stock units that vested in 2011, 2010 and 2009 were \$371.1 million, \$203.7 million and \$138.4 million, respectively. As of December 31, 2011, restricted stock and restricted stock units representing 45.5 million shares were outstanding and unvested, with an aggregate intrinsic value of \$980.7 million. These shares and units are scheduled to vest through 2016. Of the total shares of restricted stock and restricted stock units outstanding, 40.2 million shares and units will vest upon fulfilling service conditions, of which vesting for 10.3 million shares and units will accelerate upon achieving performance conditions. The remaining 5.3 million shares and units will vest only if certain performance conditions are achieved.

*VMware Equity Plans*

In June 2007, VMware adopted its 2007 Equity and Incentive Plan (the 2007 Plan). In May 2009, VMware amended its 2007 Plan to increase the number of shares available for issuance by 20.0 million shares for total shares available for issuance of 100.0 million. Awards under the 2007 Plan may be in the form of stock options or other stock-based awards, including awards of restricted stock units. The exercise price for a stock option awarded under the 2007 Plan shall not be less than 100% of the fair market value of VMware Class A common stock on the date of grant. Most options granted under the 2007 Plan vest 25% after the first year and then monthly thereafter over the following three years. All options granted pursuant to the 2007 Plan expire between six and seven years from the date of grant. Most restricted stock unit awards granted under the 2007 Plan have a three-year to four-year period over which they vest. VMware's Compensation and Corporate Governance Committee determines the vesting schedule for all equity awards. VMware utilizes both authorized and unissued shares to satisfy all shares issued under the 2007 Plan.

*VMware Stock Repurchase Plan*

## Edgar Filing: EMC CORP - Form 10-K

In March 2010, VMware's Board of Directors approved a stock repurchase program, authorizing the purchase of up to \$400.0 million of its Class A common stock through the end of 2011. Purchases under the March 2010 authorization were completed in March 2011. In February 2011, a committee of VMware's Board of Directors authorized the repurchase of up to an additional \$550.0 million of VMware's Class A common stock through the end of 2012.

From time to time, subject to market conditions, stock was purchased pursuant to these programs in the open market or through private transactions as permitted by securities laws and other legal requirements. In the year ended December 31, 2011, VMware repurchased and retired 6.0 million shares of its Class A common stock at a weighted-average price of \$88.37 per share for an aggregate purchase price of \$526.2 million, including commissions. In the year ended December 31, 2010, VMware



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

repurchased and retired 4.9 million shares of its Class A common stock at a weighted-average price of \$68.96 per share for an aggregate purchase price of \$338.5 million, including commissions. The amounts of repurchased shares were classified as a reduction to additional paid-in capital. VMware is not obligated to purchase any shares under its stock repurchase programs. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including VMware's stock price, corporate and regulatory requirements and other market and economic conditions. Purchases can be discontinued at any time that VMware feels additional purchases are not warranted. As of December 31, 2011, the authorized amount remaining for repurchase was \$85.3 million.

*VMware Employee Stock Purchase Plan*

In June 2007, VMware adopted its 2007 Employee Stock Purchase Plan (the ESPP), which is intended to be qualified under Section 423 of the Internal Revenue Code. A total of 6.4 million shares of VMware Class A common stock were reserved for future issuance. Under the ESPP, eligible VMware employees are granted options to purchase shares at the lower of 85% of the fair market value of the stock at the time of grant or 85% of the fair market value at the time of exercise. Options to purchase shares are generally granted twice yearly on February 1 and August 1 and exercisable on the succeeding July 31 and January 31, respectively, of each year. The following table summarizes ESPP activity in the years ended December 31, 2011, 2010 and 2009 (table in thousands, except per share amounts):

	For the Year Ended		
	December 31, 2011	December 31, 2010	December 31, 2009
Cash Proceeds	\$ 56,964	\$ 45,162	\$ 18,267
Class A common shares purchased	816	1,510	907
Weighted-average price per share	\$ 69.81	\$ 29.90	\$ 20.14

As of December 31, 2011, \$31.5 million of ESPP withholdings were recorded as a liability on the consolidated balance sheet for the next purchase in January 2012. As of December 31, 2010, \$24.8 million of ESPP withholdings were recorded as a liability on the consolidated balance sheet for the purchase in January 2011.

*VMware Stock Options*

The following table summarizes activity since January 1, 2009 for VMware employees in VMware stock options (shares in thousands):

	Number of Shares	Weighted Average Exercise Price (per share)
Outstanding, January 1, 2009	42,436	\$ 26.54
Granted	12,500	29.86
Forfeited	(3,736)	28.11
Expired	(177)	45.24
Exercised	(9,516)	22.01
Outstanding, December 31, 2009	41,507	28.34
Granted	3,362	57.60
Forfeited	(2,220)	30.78
Expired	(151)	83.86
Exercised	(15,574)	24.79
Outstanding, December 31, 2010	26,924	33.54

Edgar Filing: EMC CORP - Form 10-K

Granted	171		5.68
Forfeited	(1,011)		40.98
Expired	(112)		101.66
Exercised	(9,798)		28.64
Outstanding, December 31, 2011	16,174		35.27
Exercisable, December 31, 2011	9,863		32.75
Vested and expected to vest	15,808	\$	35.05

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

As of December 31, 2011, for the VMware stock options, the weighted-average remaining contractual term was 2.5 years and the aggregate intrinsic value was \$508.5 million for the 9.9 million exercisable shares. For the 15.8 million options vested and expected to vest at December 31, 2011, the weighted-average remaining contractual term was 3.0 years and the aggregate intrinsic value was \$772.3 million. These aggregate intrinsic values represent the total pre-tax intrinsic values based on VMware's closing stock price of \$83.19 as of December 31, 2011, which would have been received by the option holders had all in-the-money options been exercised as of that date.

Cash proceeds from the exercise of VMware stock options for the years ended December 31, 2011, 2010 and 2009 were \$280.6 million, \$386.1 million and \$209.4 million, respectively. The options exercised in 2011, 2010 and 2009 had a pre-tax intrinsic value of \$647.8 million, \$678.8 million and \$132.6 million, respectively.

*VMware Restricted Stock*

VMware restricted stock primarily consists of restricted stock units granted to employees and also includes restricted stock awards and other restricted stock. Other restricted stock primarily includes shares issued in 2009 to certain employees of SpringSource who agreed to accept shares of VMware Class A common stock subject to vesting restrictions in lieu of a portion of their cash merger proceeds.

The following table summarizes restricted stock activity since January 1, 2009 for VMware restricted stock (shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock at January 1, 2009	7,626	\$ 32.35
Granted	5,200	33.63
Vested	(2,881)	31.31
Forfeited	(734)	34.81
Outstanding, December 31, 2009	9,211	33.21
Granted	4,933	74.87
Vested	(3,688)	32.38
Forfeited	(704)	39.05
Outstanding, December 31, 2010	9,752	54.17
Granted	4,548	91.51
Vested	(3,853)	35.00
Forfeited	(907)	64.70
Outstanding, December 31, 2011	9,540	\$ 72.74

The total intrinsic value of VMware restricted stock-based awards that vested in the years ended December 31, 2011, 2010 and 2009 was \$356.1 million, \$258.0 million and \$88.8 million, respectively. As of December 31, 2011, restricted stock unit awards and other restricted stock representing 9.5 million shares of VMware were outstanding, with an aggregate intrinsic value of \$793.6 million based on VMware's closing share price as of December 31, 2011. These shares are scheduled to vest through 2015.

The VMware restricted stock unit awards are valued based on the VMware stock price on the date of grant. Shares underlying restricted stock unit awards are not issued until the restricted stock units vest. The majority of VMware's restricted stock unit awards have pro rata vesting over three or four years.



**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)***Stock-Based Compensation Expense*

The following tables summarize the components of total stock-based compensation expense included in our consolidated income statements in 2011, 2010 and 2009 (in thousands):

	Year Ended December 31, 2011		
	Stock Options	Restricted Stock	Total Stock-Based Compensation
Cost of product sales	\$ 29,504	\$ 31,194	\$ 60,698
Cost of services	25,221	37,758	62,979
Research and development	106,556	192,699	299,255
Selling, general and administrative	164,760	248,479	413,239
Stock-based compensation expense before income taxes	326,041	510,130	836,171
Income tax benefit	73,293	119,850	193,143
Total stock-based compensation, net of tax	\$ 252,748	\$ 390,280	\$ 643,028

	Year Ended December 31, 2010		
	Stock Options	Restricted Stock	Total Stock-Based Compensation
Cost of product sales	\$ 29,586	\$ 20,646	\$ 50,232
Cost of services	29,493	28,928	58,421
Research and development	112,484	146,262	258,746
Selling, general and administrative	156,059	161,595	317,654
Stock-based compensation expense before income taxes	327,622	357,431	685,053
Income tax benefit	75,771	89,902	165,673
Total stock-based compensation, net of tax	\$ 251,851	\$ 267,529	\$ 519,380

	Year Ended December 31, 2009		
	Stock Options	Restricted Stock	Total Stock-Based Compensation
Cost of product sales	\$ 33,423	\$ 15,836	\$ 49,259
Cost of services	35,004	15,130	50,134
Research and development	118,875	95,679	214,554
Selling, general and administrative	189,154	102,605	291,759
Restructuring charges	(1,015)	(306)	(1,321)
Stock-based compensation expense before income taxes	375,441	228,944	604,385
Income tax benefit	78,517	56,326	134,843
Total stock-based compensation, net of tax	\$ 296,924	\$ 172,618	\$ 469,542

## Edgar Filing: EMC CORP - Form 10-K

Stock-based compensation expense includes \$43.6 million, \$34.9 million and \$46.9 million of expense associated with our employee stock purchase plans for 2011, 2010 and 2009, respectively.

The table below presents the net change in amounts capitalized or accrued in 2011 and 2010 for the following items (in thousands):

	<b>Increased (decreased) during the year ended December 31, 2011</b>	<b>Increased (decreased) during the year ended December 31, 2010</b>
Inventory	\$ 111	\$ (850)
Accrued expenses (accrued warranty expenses)	(1,702)	553
Other assets	4,552	11

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

As of December 31, 2011, the total unrecognized after-tax compensation cost for stock options, restricted stock and restricted stock units was \$1,059.2 million. This non-cash expense will be recognized through 2016 with a weighted-average remaining period of 1.5 years.

*Fair Value of EMC Information Infrastructure Options*

The fair value of each option granted during the years ended December 31, 2011, 2010 and 2009 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

EMC Stock Options	For the Year Ended December 31,		
	2011	2010	2009
Dividend yield	None	None	None
Expected volatility	33.3%	32.9%	35.4%
Risk-free interest rate	1.6%	1.8%	2.4%
Expected term (in years)	4.9	4.8	4.5
Weighted-average fair value at grant date	\$ 8.00	\$ 6.25	\$ 5.04

EMC Employee Stock Purchase Plan	For the Year Ended December 31,		
	2011	2010	2009
Dividend yield			None
Expected volatility			58.1%
Risk-free interest rate			0.4%
Expected term (in years)			0.5
Weighted-average fair value at grant date	\$	\$	\$ 3.16

For all equity awards granted in 2011, 2010 and 2009, volatility was based on an analysis of historical stock prices and implied volatilities from traded options in our stock. We use EMC historical data to estimate the expected term of options granted within the valuation model. For all periods presented, EMC's expected dividend yield input was zero as it has not historically paid, nor expects in the future to pay, cash dividends on its common stock. The risk-free interest rate was based on a U.S. Treasury instrument whose term is consistent with the expected term of the stock options.

The assumptions for 2009 for the EMC 1989 Plan include only the January 1, 2009 grant due to the elimination of the look-back feature as of July 1, 2009. Accordingly, there are no assumptions for the 1989 Plan for 2010 and 2011.

*Fair Value of VMware Options*

The fair value of each option to acquire VMware Class A common stock granted during the years ended December 31, 2011, 2010 and 2009 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

VMware Stock Options	For the Year Ended December 31,		
	2011	2010	2009
Dividend yield	None	None	None
Expected volatility	37.7%	38.0%	36.1%
Risk-free interest rate	1.0%	1.5%	1.9%
Expected term (in years)	3.0	3.5	3.7

Edgar Filing: EMC CORP - Form 10-K

Weighted-average fair value at grant date	\$ 88.40	\$ 18.05	\$ 12.18
	<b>For the Year Ended December 31,</b>		
<b>VMware Employee Stock Purchase Plan</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Dividend yield	None	None	None
Expected volatility	34.9%	33.1%	50.9%
Risk-free interest rate	0.2%	0.2%	0.3%
Expected term (in years)	0.5	0.5	0.5
Weighted-average fair value at grant date	\$ 23.69	\$ 15.18	\$ 7.79



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

The weighted-average grant date fair value of VMware stock options in 2011 was higher than in prior periods primarily due to higher valued options assumed through business combinations with exercise prices lower than the fair market value of VMware's stock on the date of grant.

For all equity awards granted in 2011, 2010 and 2009, volatility was based on an analysis of historical stock prices and implied volatilities of publicly-traded companies with similar characteristics, including industry, stage of life cycle, size, financial leverage, as well as the implied volatilities of VMware's Class A common stock. The expected term was calculated based upon an analysis of the expected term of similar grants of comparable publicly-traded companies, the term of the purchase period for grants made under the ESPP, or the weighted-average remaining term for options assumed in acquisitions.

For all periods presented, VMware's expected dividend yield input was zero as it has not historically paid, nor expects in the future to pay, cash dividends on its common stock. The risk-free interest rate was based on a U.S. Treasury instrument whose term is consistent with the expected term of the stock options.

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

In 2011, 2010 and 2009, we incurred restructuring and acquisition-related charges of \$97.3 million, \$84.4 million and \$107.5 million, respectively. In 2011, we incurred \$86.0 million of restructuring charges, of which \$63.2 million primarily related to our current year restructuring programs and \$11.3 million of charges in connection with acquisitions for financial, advisory, legal and accounting services. In 2010, we incurred \$76.7 million of restructuring charges, of which \$37.8 million primarily related to our 2010 restructuring program and \$7.7 million of charges in connection with acquisitions for financial, advisory, legal and accounting services. In 2009, we incurred \$88.4 million of restructuring charges, of which \$69.3 million primarily related to our 2008 restructuring program and \$19.1 million of charges in connection with acquisitions for financial, advisory, legal and accounting services.

During 2011, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 787 positions and the vacation of certain facilities. These actions will impact positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions will be completed by the end of 2012.

During 2010, we implemented a restructuring program to create further operational efficiencies which resulted in a workforce reduction of approximately 400 positions. These actions impacted positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions have been completed by the end of 2011.

During 2011, 2010 and 2009, we recognized \$26.1 million, \$31.6 million and \$27.1 million, respectively, of lease termination costs for facilities vacated and other contractual obligations in the respective periods as part of all of our restructuring programs. These costs are expected to be utilized by the end of 2015. The remaining cash portion owed for these programs in 2012 is approximately \$62.0 million, plus an additional \$19.7 million over the period from 2013 and beyond.

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

*Twelve Months Ended December 31, 2011*

**2011 Programs**

<b>Category</b>	<b>Beginning Balance</b>	<b>2011 Charges</b>	<b>Utilization</b>	<b>Ending Balance</b>
Workforce reductions	\$	\$ 61,593	\$ (19,475)	\$ 42,118
Consolidation of excess facilities		1,596	(906)	690
<b>Total</b>	<b>\$</b>	<b>\$ 63,189</b>	<b>\$ (20,381)</b>	<b>\$ 42,808</b>

**Other Programs**

<u>Category</u>	<b>Beginning Balance</b>	<b>2011 Charges</b>	<b>Utilization</b>	<b>Ending Balance</b>
Workforce reductions	\$ 53,946	\$ (1,631)	\$ (44,570)	\$ 7,745
Consolidation of excess facilities and other contractual obligations	27,818	24,461	(22,857)	29,422
<b>Total</b>	<b>\$ 81,764</b>	<b>\$ 22,830</b>	<b>\$ (67,427)</b>	<b>\$ 37,167</b>

**Table of Contents****EMC CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)***Twelve Months Ended December 31, 2010*

<b>Category</b>	<b>Beginning Balance</b>	<b>2010 Charges</b>	<b>Utilization</b>	<b>Ending Balance</b>
Workforce reductions	\$ 87,238	\$ 45,055	\$ (78,347)	\$ 53,946
Consolidation of excess facilities and other contractual obligations	18,522	31,607	(22,311)	27,818
<b>Total</b>	<b>\$ 105,760</b>	<b>\$ 76,662</b>	<b>\$ (100,658)</b>	<b>\$ 81,764</b>

*Twelve Months Ended December 31, 2009*

<b>Category</b>	<b>Beginning Balance</b>	<b>2009 Charges</b>	<b>Utilization</b>	<b>Ending Balance</b>
Workforce reductions	\$ 200,599	\$ 55,090	\$ (168,451)	\$ 87,238
Abandoned and impaired assets		6,203	(6,203)	
Consolidation of excess facilities and other contractual obligations	24,105	27,131	(32,714)	18,522
<b>Total</b>	<b>\$ 224,704</b>	<b>\$ 88,424</b>	<b>\$ (207,368)</b>	<b>\$ 105,760</b>

**R. Related Party Transactions**

In 2011, 2010 and 2009, we leased certain real estate from a company owned by a member of our Board of Directors and such Director's siblings, for which payments aggregated approximately \$4.8 million in each year. Such lease was initially assumed by us as a result of our acquisition of Data General in 1999 and renewed in 2003 for a ten-year term. We are currently in the process of vacating the facility and do not intend to renew the lease upon its expiration.

In accordance with its written policy and procedures relating to related person transactions, EMC's Audit Committee has approved the above transaction.

EMC is a large global organization which engages in thousands of purchase, sales and other transactions annually. We enter into purchase and sales transactions with other publicly-traded and privately-held companies, universities, hospitals and not-for-profit organizations with which members of our Board of Directors or executive officers are affiliated. We enter into these arrangements in the ordinary course of our business.

From time to time, we make strategic investments in publicly-traded and privately-held companies that develop software, hardware and other technologies or provide services supporting our technologies. We may purchase from or make sales to these organizations.

We believe that the terms of each of these arrangements described above were fair and not less favorable to us than could have been obtained from unaffiliated parties.

**S. 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

## Edgar Filing: EMC CORP - Form 10-K

performance measures, including stock-based compensation expense and acquisition-related intangible asset amortization expense. Additionally, in certain instances, restructuring and acquisition-related charges, transition costs and infrequently occurring charges, 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, SG&A, and other income associated with the EMC Information Infrastructure business are not allocated to the segments within the EMC Information Infrastructure business, as they are managed centrally at the business unit level. For the three segments within the EMC Information Infrastructure business, gross profit is the segment operating performance measure.

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

During 2010, VMware acquired certain software product technology and expertise from the EMC Information Infrastructure segment's Ionix IT management business for cash consideration of \$175.0 million. The acquisition of the Ionix net assets and expertise was accounted for as a business combination between entities under common control. During the years ended December 31, 2011 and 2010, VMware paid \$14.4 million and \$10.6 million, respectively, of contingent amounts to EMC. We did not revise our segment presentation for prior periods, as the historical impact of the acquired business was not material to the VMware Virtual Infrastructure segment.

Our segment information for the years ended 2011, 2010 and 2009 are as follows (tables in thousands, except percentages):

	EMC Information Infrastructure				VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
2011:	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure			
Revenues:							
Product revenues	\$ 10,090,338	\$ 219,472	\$ 440,790	\$ 10,750,600	\$ 1,840,142	\$	\$ 12,590,742
Services revenues	4,623,842	482,879	387,413	5,494,134	1,922,712		7,416,846
Total consolidated revenues	14,714,180	702,351	828,203	16,244,734	3,762,854		20,007,588
Cost of sales	6,414,305	250,995	357,669	7,022,969	533,329	282,348	7,838,646
Gross profit	\$ 8,299,875	\$ 451,356	\$ 470,534	9,221,765	3,229,525	(282,348)	12,168,942
Gross profit percentage	56.4%	64.3%	56.8%	56.8%	85.8%		60.8%
Research and development				1,239,333	587,902	322,552	2,149,787
Selling, general and administrative				4,392,205	1,480,792	606,385	6,479,382
Restructuring and acquisition-related charges						97,334	97,334
Total costs and expenses				5,631,538	2,068,694	1,026,271	8,726,503
Operating income				3,590,227	1,160,831	(1,308,619)	3,442,439
Other income (expense), net				(148,924)	6,734	(50,979)	(193,169)
Income before tax				3,441,303	1,167,565	(1,359,598)	3,249,270
Income tax provision				860,713	128,634	(348,962)	640,385
Net income				2,580,590	1,038,931	(1,010,636)	2,608,885
Net income attributable to the non-controlling interest in VMware, Inc.					(208,894)	61,346	(147,548)
Net income attributable to EMC Corporation				\$ 2,580,590	\$ 830,037	\$ (949,290)	\$ 2,461,337



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

	EMC Information Infrastructure						
2010:	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
<b>Revenues:</b>							
Product revenues	\$ 8,824,287	\$ 269,138	\$ 400,151	\$ 9,493,576	\$ 1,399,281	\$	\$ 10,892,857
Services revenues	3,874,825	466,759	329,233	4,670,817	1,451,452		6,122,269
Total consolidated revenues	12,699,112	735,897	729,384	14,164,393	2,850,733		17,015,126
Cost of sales	5,836,382	258,239	221,579	6,316,200	425,257	242,688	6,984,145
Gross profit	\$ 6,862,730	\$ 477,658	\$ 507,805	7,848,193	2,425,476	(242,688)	10,030,981
Gross profit percentage	54.0%	64.9%	69.6%	55.4%	85.1%		59.0%
Research and development				1,122,835	477,799	287,381	1,888,015
Selling, general and administrative				3,737,081	1,160,768	477,456	5,375,305
Restructuring and acquisition-related charges						84,375	84,375
Total costs and expenses				4,859,916	1,638,567	849,212	7,347,695
Operating income				2,988,277	786,909	(1,091,900)	2,683,286
Other income (expense), net				48,214	(16,458)	(107,059)	(75,303)
Income before tax				3,036,491	770,451	(1,198,959)	2,607,983
Income tax provision				742,736	128,233	(232,672)	638,297
Net income				2,293,755	642,218	(966,287)	1,969,686
Net income attributable to the non-controlling interest in VMware, Inc.					(124,728)	55,037	(69,691)
Net income attributable to EMC Corporation				\$ 2,293,755	\$ 517,490	\$ (911,250)	\$ 1,899,995

	EMC Information Infrastructure						
2009:	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
<b>Revenues:</b>							
Product revenues	\$ 7,198,051	\$ 260,836	\$ 340,272	\$ 7,799,159	\$ 1,028,986	\$	\$ 8,828,145
Services revenues	3,461,358	478,753	265,678	4,205,789	991,976		5,197,765
Total consolidated revenues	10,659,409	739,589	605,950	12,004,948	2,020,962		14,025,910
Cost of sales	5,256,682	274,763	186,462	5,717,907	316,278	246,826	6,281,011

Edgar Filing: EMC CORP - Form 10-K

Gross profit	\$ 5,402,727	\$ 464,826	\$ 419,488	6,287,041	1,704,684	(246,826)	7,744,899
Gross profit percentage	50.7%	62.8%	69.2%	52.4%	84.4%		55.2%
Research and development				1,022,147	369,514	235,848	1,627,509
Selling, general and administrative				3,258,055	842,097	495,473	4,595,625
Restructuring and acquisition-related charges						107,490	107,490
Total costs and expenses				4,280,202	1,211,611	838,811	6,330,624
Operating income				2,006,839	493,073	(1,085,637)	1,414,275
Other income (expense), net				52,325	(9,499)	(82,525)	(39,699)
Income before tax				2,059,164	483,574	(1,168,162)	1,374,576
Income tax provision				424,708	78,069	(250,002)	252,775
Net income				1,634,456	405,505	(918,160)	1,121,801
Net income attributable to the non-controlling interest in VMware, Inc.					(69,285)	35,561	(33,724)
Net income attributable to EMC Corporation				\$ 1,634,456	\$ 336,220	\$ (882,599)	\$ 1,088,077



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

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):

	2011	2010	2009
United States	\$ 10,549,594	\$ 9,152,363	\$ 7,384,308
Europe, Middle East and Africa	5,667,610	4,942,104	4,290,274
Asia Pacific	2,639,397	1,965,154	1,603,107
Latin America, Mexico and Canada	1,150,987	955,505	748,221
<b>Total</b>	<b>\$ 20,007,588</b>	<b>\$ 17,015,126</b>	<b>\$ 14,025,910</b>

No country other than the United States accounted for 10% or more of revenues in 2011, 2010 or 2009.

Long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, in the United States were \$3,622.8 million at December 31, 2011 and \$2,936.8 million at December 31, 2010. Internationally, long-lived assets, excluding financial instruments and deferred tax assets, were \$616.5 million at December 31, 2011 and \$600.3 million at December 31, 2010. No country other than the United States and Ireland accounted for 10% or more of total long-lived assets, excluding financial instruments and deferred tax assets, at December 31, 2011 or 2010.

**T. Selected Quarterly Financial Data (unaudited)**

Quarterly financial data for 2011 and 2010 is as follows (tables in thousands, except per share amounts):

<b>2011</b>	<b>Q1 2011</b>	<b>Q2 2011</b>	<b>Q3 2011</b>	<b>Q4 2011</b>
Revenues	\$ 4,607,618	\$ 4,845,338	\$ 4,980,201	\$ 5,574,431
Gross profit	2,699,051	2,880,287	3,066,265	3,523,339
Net income attributable to EMC Corporation	477,148	546,494	605,649	832,046
Net income per weighted average share, diluted: common shareholders	\$ 0.21	\$ 0.24	\$ 0.27	\$ 0.38

<b>2010</b>	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>
Revenues	\$ 3,890,692	\$ 4,023,497	\$ 4,212,271	\$ 4,888,666
Gross profit	2,218,519	2,359,199	2,486,974	2,966,289
Net income attributable to EMC Corporation	372,704	426,216	472,516	628,559
Net income per weighted average share, diluted: common shareholders	\$ 0.17	\$ 0.20	\$ 0.22	\$ 0.29

The second quarter of 2011 includes an after-tax charge related to the expansion of customer remediation programs resulting from a cyber attack on RSA of \$56.2 million or \$0.03 per diluted share, as well as an after-tax realized gain on the sale of VMware's strategic investment in Terremark Worldwide, Inc. of \$28.9 million or \$0.01 per diluted share, net of the related portion of non-controlling interest in VMware. The fourth quarter of 2010 includes a special tax charge related to our tax-related reorganizations of \$83.3 million or \$0.04 per diluted share.

**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. 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 Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. 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.

*Management's Annual Report on Internal Control Over Financial Reporting.* Management's Report on Internal Control Over Financial Reporting on page 44 is incorporated herein by reference.

*Report of the Independent Registered Public Accounting Firm.* The Report of Independent Registered Public Accounting Firm on page 45 is incorporated herein by reference.

*Changes in Internal Control Over Financial Reporting.* There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**Table of Contents****PART III****STOCK PRICE PERFORMANCE GRAPH**

	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
EMC	\$ 100.00	\$ 140.38	\$ 79.32	\$ 132.35	\$ 173.48	\$ 163.18
S&P 500 Index	\$ 100.00	\$ 103.53	\$ 63.69	\$ 78.62	\$ 88.67	\$ 88.67
S&P 500 Information Technology Sector Index	\$ 100.00	\$ 115.53	\$ 65.06	\$ 104.05	\$ 113.55	\$ 118.03

Source: Returns were generated from Thomson ONE

\* \$100 invested on December 31, 2006 in EMC Common Stock, S&P 500 Index and S&P 500 Information Technology Sector Index, including reinvestment of dividends, if any.

*Note: The stock price performance shown on the graph above is not necessarily indicative of future price performance. This graph shall not be deemed filed for purposes of Section 18 of the Securities and Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of any general incorporation language in such filing.*

**Table of Contents****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

We will furnish to the SEC a definitive Proxy Statement not later than 120 days after the close of the fiscal year ended December 31, 2011. Certain information required by this item is incorporated herein by reference to the Proxy Statement under the headings Proposal 1 Election of Directors, Board Independence and Committees, Certain Transactions and Section 16(a) Beneficial Ownership Reporting Compliance. Also see Executive Officers of the Registrant in Part I of this Annual Report on Form 10-K.

We have Business Conduct Guidelines that apply to all of our employees and non-employee directors. Our Business Conduct Guidelines (available on our website) satisfy the requirements set forth in Item 406 of Regulation S-K and apply to all relevant persons set forth therein. We intend to disclose on our website at [www.emc.com](http://www.emc.com) amendments to, and, if applicable, waivers of, our Business Conduct Guidelines.

**ITEM 11. EXECUTIVE COMPENSATION**

Certain information required by this item is incorporated herein by reference to the Proxy Statement under the headings Compensation Committee Interlocks and Insider Participation, Leadership and Compensation Committee Report, Compensation Discussion and Analysis, Compensation of Executive Officers and Director Compensation.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item is incorporated herein by reference to the Proxy Statement under the heading Security Ownership of Certain Beneficial Owners and Management.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth certain information regarding EMC's equity compensation plans as of December 31, 2011.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>1</sup> (a)	Weighted-average exercise price per share of outstanding options, warrants and rights <sup>1</sup> (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	97,258,954	\$ 14.78	98,999,265 <sup>2</sup>
Equity compensation plans not approved by security holders <sup>3</sup>	10,000	\$ 15.60	
<b>Total:</b>	<b>97,268,954</b>	<b>\$ 14.78</b>	<b>98,999,265</b>

1 Does not include an aggregate of 14,268,813 shares of common stock to be issued (subject to vesting) upon the exercise of outstanding option grants, with a weighted-average exercise price of \$6.26 per share, assumed by EMC in connection with various acquisitions. The option plans relating to such outstanding options were approved by the respective security holders of the acquired companies.

2 Includes 14,799,867 shares of common stock available for future issuance under our Amended and Restated 1989 Employee Stock Purchase Plan.

3 In January 2002, EMC entered into a Stock Option Agreement with its Secretary pursuant to which EMC granted to such person non-qualified options to purchase 10,000 shares of common stock. Such option grant did not receive shareholder approval. The options are exercisable in annual increments of 20% over a five-year period and will expire on the tenth anniversary of the grant date; provided, however, that if the option holder ceases to serve as an officer of EMC for any reason, the options will terminate on the date such service terminates with respect to any shares subject to the options, whether such shares are vested or unvested on such date. The exercise price for the options is \$15.60 per share. As of December 31, 2011, an aggregate of 10,000 shares of common stock were issuable upon the exercise of the options.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is incorporated herein by reference to the Proxy Statement under the headings Board Independence and Committees, Review and Approval of Transactions with Related Persons and Certain Transactions and included in Note R to the consolidated financial statements.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the Proxy Statement under the heading Pre-Approval of Audit and Non-Audit Services.

**Table of Contents**

**PART IV**

***ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

(a)

1. Financial Statements

The financial statements listed in the Index to consolidated financial statements are filed as part of this report.

2. Schedule

The Schedule on page S-1 is filed as part of this report.

3. Exhibits

See Index to Exhibits on page 99 of this report.

The exhibits are filed with or incorporated by reference in this report.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, EMC Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 24, 2012.

EMC CORPORATION

By: /s/ JOSEPH M. TUCCI  
Joseph M. Tucci

*Chairman, President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of EMC Corporation and in the capacities indicated as of February 24, 2012.

Signature	Title
/s/ JOSEPH M. TUCCI Joseph M. Tucci	Chairman, President and Chief Executive Officer <i>(Principal Executive Officer)</i>
/s/ DAVID I. GOULDEN David I. Goulden	Executive Vice President and Chief Financial Officer <i>(Principal Financial Officer)</i>
/s/ DENIS CASHMAN Denis Cashman	Chief Accounting Officer and Chief Operating Officer, Finance <i>(Principal Accounting Officer)</i>
/s/ MICHAEL W. BROWN Michael W. Brown	Director
/s/ RANDOLPH L. COWEN Randolph L. Cowen	Director
/s/ GAIL DEEGAN Gail Deegan	Director
/s/ JAMES S. DiSTASIO James S. DiStasio	Director
/s/ JOHN R. EGAN John R. Egan	Director
/s/ EDMUND F. KELLY Edmund F. Kelly	Director

Edgar Filing: EMC CORP - Form 10-K

Edmund F. Kelly

/s/ WINDLE B. PRIEM

Director

Windle B. Priem

/s/ PAUL SAGAN

Director

Paul Sagan

/s/ DAVID N. STROHM

Director

David N. Strohm



**Table of Contents**

**Exhibit Index**

The exhibits listed below are filed with or incorporated by reference in this Annual Report on Form 10-K.

3.1	Restated Articles of Organization of EMC Corporation. <sup>(1)</sup>
3.2	Amended and Restated Bylaws of EMC Corporation. <sup>(2)</sup>
4.1	Form of Stock Certificate. <sup>(3)</sup>
4.2	Indenture with Wells Fargo Bank, N.A., as trustee, dated as of November 17, 2006. <sup>(14)</sup>
4.3	Registration Rights Agreement with Goldman, Sachs & Co., Lehman Brothers Inc. and Citigroup Global Markets Inc., dated as of November 17, 2006. <sup>(14)</sup>
10.1*	EMC Corporation 1985 Stock Option Plan, as amended. <sup>(4)</sup>
10.2*	EMC Corporation 1992 Stock Option Plan for Directors, as amended. <sup>(5)</sup>
10.3*	EMC Corporation 1993 Stock Option Plan, as amended. <sup>(4)</sup>
10.4*	EMC Corporation 2001 Stock Option Plan, as amended April 29, 2010. <sup>(12)</sup>
10.5*	EMC Corporation Amended and Restated 2003 Stock Plan, as amended and restated as of May 4, 2011. <sup>(13)</sup>
10.6*	EMC Corporation Deferred Compensation Retirement Plan, as amended and restated as of January 1, 2011. (filed herewith)
10.7*	EMC Corporation Executive Incentive Bonus Plan. <sup>(6)</sup>
10.8*	Form of Change in Control Severance Agreement for Executive Officers. (filed herewith)
10.9*	Form of EMC Corporation Amended and Restated 2003 Stock Plan Stock Option Agreement. <sup>(3)</sup>
10.10*	Form of Restricted Stock Agreement under the EMC Corporation 2003 Stock Plan. <sup>(7)</sup>
10.11*	Form of EMC Corporation Amended and Restated 2003 Stock Plan Performance Stock Option Agreement. <sup>(3)</sup>
10.12*	Form of EMC Corporation Amended and Restated 2003 Stock Plan Performance Restricted Stock Unit Agreement. <sup>(3)</sup>
10.13*	Form of EMC Corporation Amended and Restated 2003 Stock Plan Restricted Stock Unit Agreement. <sup>(3)</sup>
10.14*	Form of Amended and Restated Indemnification Agreement. <sup>(3)</sup>
10.15	EMC Corporation Amended and Restated 1989 Employee Stock Purchase Plan, as amended and restated as of August 5, 2009. <sup>(11)</sup>
10.16*	Employment Arrangement with Joseph M. Tucci dated November 28, 2007. <sup>(8)</sup>
10.17*	Amendment to Employment Arrangement with Joseph M. Tucci dated December 4, 2008. <sup>(1)</sup>
10.18*	Amendment No. 2 to Employment Arrangement with Joseph M. Tucci dated May 7, 2009. <sup>(9)</sup>
10.19*	Amendment No. 3 to Employment Arrangement with Joseph M. Tucci dated October 30, 2009. <sup>(10)</sup>
10.20*	Amendment No. 4 to Employment Arrangement with Joseph M. Tucci dated January 20, 2012. <sup>(15)</sup>
12.1	Statement regarding Computation of Ratio of Earnings to Fixed Charges. (filed herewith)
21.1	Subsidiaries of Registrant. (filed herewith)
23.1	Consent of Independent Registered Public Accounting Firm. (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)

**Table of Contents**

- \* This exhibit is a management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(a) of Form 10-K.
- \*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

- (1) Incorporated by reference to EMC Corporation s Annual Report on Form 10-K filed February 27, 2009 (No. 1-9853).
- (2) Incorporated by reference to EMC Corporation s 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 Quarterly Report on Form 10-Q filed July 30, 2002 (No. 1-9853).
- (5) Incorporated by reference to EMC Corporation s Quarterly Report on Form 10-Q filed April 27, 2005 (No. 1-9853).
- (6) Incorporated by reference to EMC Corporation s Current Report on Form 8-K filed February 2, 2005 (No. 1-9853).
- (7) Incorporated by reference to EMC Corporation s Quarterly Report on Form 10-Q filed November 3, 2004 (No. 1-9853).
- (8) Incorporated by reference to EMC Corporation s Current Report on Form 8-K filed November 30, 2007 (No. 1-9853).
- (9) Incorporated by reference to EMC Corporation s Quarterly Report on Form 10-Q filed May 8, 2009 (No. 1-9853).
- (10) Incorporated by reference to EMC Corporation s Quarterly Report on Form 10-Q filed November 6, 2009 (No. 1-9853).
- (11) Incorporated by reference to EMC Corporation s Annual Report on Form 10-K filed February 26, 2010 (No. 1-9853).
- (12) Incorporated by reference to EMC Corporation s Quarterly Report on Form 10-Q filed May 7, 2010 (No. 1-9853).
- (13) Incorporated by reference to EMC Corporation s Definitive Proxy Statement on Schedule 14A filed March 24, 2011 (No. 1-9853).
- (14) Incorporated by reference to EMC Corporation s Current Report on Form 8-K filed November 17, 2006 (No. 1-9853).
- (15) Incorporated by reference to EMC Corporation s Current Report on Form 8-K filed January 24, 2012 (No. 1-9853).

**Table of Contents****EMC CORPORATION AND SUBSIDIARIES****SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

(in thousands)

**Allowance for Bad Debts**

Description	Balance at Beginning of Period	Allowance for Bad Debts Charged to Selling, General and Administrative Expenses	Charged to Other Accounts	Bad Debts Write-Offs	Balance at End of Period
Year ended December 31, 2011 allowance for doubtful accounts	\$ 60,535	\$ 20,255	\$	\$ (16,136)	\$ 64,654
Year ended December 31, 2010 allowance for doubtful accounts	51,114	18,965		(9,544)	60,535
Year ended December 31, 2009 allowance for doubtful accounts	50,580	14,351		(13,817)	51,114

Note: The allowance for doubtful accounts includes both current and non-current portions.

**Allowance for Sales Returns**

Description	Balance at Beginning of Period	Allowance for Sales Returns Accounted for as a Reduction in Revenue	Charged to Other Accounts	Sales Returns	Balance at End of Period
Year ended December 31, 2011 allowance for sales returns	\$ 157,830	\$ 18,861	\$	\$ (43,808)	\$ 132,883
Year ended December 31, 2010 allowance for sales returns	129,205	47,229		(18,604)	157,830
Year ended December 31, 2009 allowance for sales returns	89,433	69,346		(29,574)	129,205

**Tax Valuation Allowance**

Description	Balance at Beginning of Period	Tax Valuation Allowance Charged to Income Tax Provision	Charged (credited) to Other Accounts*	Tax Valuation Allowance Credited to Income Tax Provision	Balance at End of Period
Year ended December 31, 2011 income tax valuation allowance	\$ 4,350	\$ 943	\$	\$	\$ 5,293
Year ended December 31, 2010 income tax valuation allowance	21,815		(662)	(16,803)	4,350
Year ended December 31, 2009 income tax valuation allowance	15,993		5,822		21,815

\* Amount represents valuation allowances recognized in connection with business combinations and equity.

