

EMC CORP  
Form 10-K  
February 27, 2013

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, 2012

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

04-2680009

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

176 South Street

01748

Hopkinton, Massachusetts

(Zip Code)

(Address of principal executive offices)

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  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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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.

Edgar Filing: EMC CORP - Form 10-K

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant was \$53,647,086,547 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, 2012).

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of January 31, 2013 was 2,104,430,304.

**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, 2013.

---

---

## EMC CORPORATION

|   | Page No.   |
|---|------------|
| PART I  |            |
| ITEM 1. <u>Business</u>   | <u>3</u>   |
| ITEM 1A. <u>Risk Factors</u>  | <u>13</u>  |
| ITEM 1B. <u>Unresolved Staff Comments</u>   | <u>22</u>  |
| ITEM 2. <u>Properties</u>   | <u>23</u>  |
| ITEM 3. <u>Legal Proceedings</u>  | <u>23</u>  |
| ITEM 4. <u>Mine Safety Disclosures</u>  | <u>23</u>  |
| PART II   |            |
| ITEM 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>27</u>  |
| ITEM 6. <u>Selected Consolidated Financial Data</u>   | <u>28</u>  |
| ITEM 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                        | <u>29</u>  |
| ITEM 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>46</u>  |
| ITEM 8. <u>Financial Statements and Supplementary Data</u>  | <u>48</u>  |
| ITEM 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>                         | <u>104</u> |
| ITEM 9A. <u>Controls and Procedures</u>   | <u>104</u> |
| ITEM 9B. <u>Other Information</u>   | <u>104</u> |
| PART III  |            |
| ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>  | <u>105</u> |
| ITEM 11. <u>Executive Compensation</u>  | <u>106</u> |
| ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>              | <u>106</u> |
| ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                                   | <u>106</u> |
| ITEM 14. <u>Principal Accountant Fees and Services</u>  | <u>106</u> |
| PART IV   |            |
| ITEM 15. <u>Exhibits and Financial Statement Schedules</u>  | <u>107</u> |
| <u>Signatures</u>   | <u>108</u> |

## 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-sized businesses.

We manage our business in two broad categories: EMC Information Infrastructure and VMware Virtual Infrastructure. As data centers move to a Cloud Computing model, managing information will be central to their operations. 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 leader in virtualization infrastructure 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 to access information in new ways.

At the same time data growth is exploding: industry experts expect data to grow 50-fold from the beginning of 2010 to 2020. New, powerful cloud infrastructure represents the best platform for organizations to mine through massive quantities of “Big Data,” enabling them to identify new business opportunities or efficiencies in their operations. 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 that 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. Whether customers are expanding their traditional data centers or 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.

3

---

## 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 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 then can consume IT “as a service” and understand what is being delivered, at what service level and how much it costs.

To drive the maximum efficiency and agility, data centers will increasingly become software-defined data centers. In the software-defined data center, all infrastructure is virtualized and delivered as a service while the control of the data center is largely automated by software. The virtualization platform manages policy and drives automation through integration with intelligent infrastructure systems, providing end-to-end automation and maximizing efficiency and agility.

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 called a “hybrid cloud”.

We believe companies will choose EMC to transform their IT for three reasons. We believe we can deliver the greatest improvements in efficiency of the IT infrastructure; we provide IT with a solution that leaves customers 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 a broad range of applications on their virtual and information infrastructure and to run applications on different infrastructures.

## Big Data Transforms Business

The continued growth of data in the digital universe creates a huge challenge for IT departments that 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 to turn all of this data into insightful information and deliver it to business users in a timely fashion.

Many modern business-critical systems now have 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 and security 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.

## Trust Accelerates Transformation

We believe that the adoption of Cloud Computing and the use of Big Data will be accelerated by an IT organization's ability to demonstrate Trust and security in Big Data assets and the cloud.

Cloud Computing architectures break the physical boundaries that define traditional and increasingly ineffective perimeter-based IT security approaches. While the value of accessing information grows and boundaries around IT environments dissolve, IT security threats are becoming stealthier and more advanced. New, intelligence-driven security approaches must analyze the flow of information to spot anomalies in user behavior and prevent or halt the loss of critical assets. We believe IT must move from an outdated approach of static security to new, dynamic security in order to secure Trust in Cloud Computing models.

Trusted IT comes from an organization that can anticipate, identify and repel advanced threats and ensure availability of applications, systems and data in the era of Cloud Computing and Big Data.

## 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 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 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 2012 was driven by storage innovations, new features and capabilities and a focused emphasis on expanding EMC's partner ecosystem. All EMC storage systems leverage the latest Intel processor technology designed to consume less energy than alternative solutions and are optimized for virtual environments. EMC has more than 90 integration points between EMC and VMware products, which is critical to customers managing and optimizing their storage in virtual data centers. VMware and virtualization integration continues to be a key competitive differentiator and enabler for EMC, helping customers realize the potential of transforming their IT to virtual infrastructures.

EMC continues to lead the mid-range storage market with its award-winning EMC VNX unified storage family, which includes the VNX and VNXe. The VNX family was created with simplicity, efficiency, affordability and performance in mind. It simplifies the deployment and management of virtualized applications, such as those from Microsoft and Oracle, as well as virtual desktop infrastructure (VDI) solutions from VMware and Citrix. 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.

In 2012, EMC extended our commitment to supporting hybrid cloud infrastructures with the EMC Storage Analytics Suite for VNX, integrating VNX storage intelligence with the analytics capabilities of the VMware vCenter Operations Management Suite - which was jointly developed and is being sold and delivered by EMC and VMware. EMC also released a new version of the VNXe in 2012, offering 50 percent more performance and capacity than the previous version.

In 2012, EMC refreshed the EMC VMAX family, consisting of the VMAX 10K, VMAX 20K and the newest member of the family, the VMAX 40K, thereby defining an entirely new class of storage with industry-leading performance and capacity. EMC also introduced an innovative technology called Federated Tiered Storage (FTS) for the VMAX family. By federating and managing other storage arrays through VMAX, FTS provides customers with an additional tier of storage, while maximizing the value of their existing storage investments - including non-EMC storage arrays. Additionally, to meet the unique needs of service providers and enterprises wanting to offer storage services to their internal clients, EMC introduced the industry's first self-service, enterprise-class delivery platform based on EMC VMAX technology to enable service providers and enterprises to power private, hybrid, and public cloud services.

EMC continues to expand and innovate across its product portfolio to maximize the performance and efficiency benefits of enterprise Flash technology. The systems support the latest in enterprise Flash technology to optimize both performance and efficiency. The EMC FAST (Fully Automated Storage Tiering) Suite enables customers to leverage the performance benefits of Flash technology in an automated and cost-effective fashion. In 2012, EMC created a new



Flash Products Division, committed to innovating and bringing the industry's most comprehensive and flexible portfolio of Flash-optimized products to market. With Flash being one of the most powerful enabling technologies driving innovation within the storage market, EMC is focused on extending its lead in the enterprise Flash market, which was established in 2008 with the introduction of the storage industry's first Flash-enabled enterprise storage array. In 2012, EMC introduced a server Flash caching solution called VFCache, previewed its future all-Flash storage array through the acquisition of XtremIO, and continued to innovate our Isilon, VMAX and VNX portfolios to provide hybrid Flash arrays. This comprehensive Flash portfolio is designed to meet the storage performance needs for virtually every customer need and budget.

Through our Backup and Recovery Systems division, EMC seeks to align customers' backup and recovery infrastructures to the transformational initiatives underway at IT organizations around the globe. EMC has a portfolio of next-generation disk-based backup and recovery 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, among others. During 2012, EMC continued to deepen the level of integration between its backup hardware and software solutions, offering new capabilities through purpose-built backup appliances. In addition, we have increased our focus on tightly integrating our backup and recovery products with enterprise applications from Oracle, SAP and Microsoft and virtual infrastructure from VMware and Microsoft. 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.

EMC Isilon storage systems simplify and reduce the cost to manage Big Data storage environments by offering an innovative scale-out NAS architecture that enables rapid scaling of both capacity and performance while decreasing the need for management resources. In 2012, EMC introduced new Isilon products with improved security, data protection, interoperability and native integration with the Hadoop Distributed File System (HDFS), a critical component of many Big Data environments. 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, continued to strengthen its Unified Analytics Platform in 2012 and expanded the scope of our offerings through the acquisitions of agile software development firm, Pivotal Labs, and database performance and monitoring software company, MoreVRP. 2012 also marked Greenplum's entry into the open-source arena with the launch of several new initiatives. The EMC Greenplum Analytics Workbench, a 1,000-node cluster that provides an environment for validating Apache Hadoop code base at scale, further speeds the development of Hadoop as a revolutionary technology for Big Data. Greenplum continued to expand upon its industry-leading Hadoop distribution, as the first to support virtualized Hadoop environments with VMware Hadoop Virtualized Extension; with the creation of a new deployment and management utility; and with integration with the Spring framework, which boasts hundreds of thousands of users. Greenplum's OpenChorus Project features the release of Greenplum Chorus source code under an Apache open-source license. Partners that support the OpenChorus Project include Actuate, ADVIZOR Solutions, Alpine Data Labs, Gnip, Informatica, Kaggle, Pentaho, Pervasive, SAS, Syncsort and Tableau Software. Finally, Greenplum and Kaggle joined forces to tackle the short supply and heavy demand for data scientists with an integration between the Kaggle data science community and EMC Greenplum Chorus, the platform for data science.

#### EMC Global Services

EMC Global Services provides strategic guidance and technology expertise to help organizations optimize and transform IT to deliver IT as a Service, unlock the value in Big Data, and secure and protect their information in order to meet their business challenges and 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 and an extensive knowledge base derived from a lengthy history of working with customers to reduce risk, lower costs and speed time-to-value.

EMC's comprehensive services capabilities enable customer success by addressing the full spectrum of needs across the IT solutions lifecycle - strategize, design, deploy, operate, educate and support - in traditional, virtual and Cloud Computing environments. EMC Global Services offerings include consulting services, technology deployment and integration, managed services, customer support services, and training and certification.

In 2012, we expanded our portfolio of cloud services to help organizations accelerate the adoption, consumption, optimization and management of cloud technologies. The new cloud services align closely with VMware to facilitate joint solutions delivery, and address critical elements of delivering IT as a Service including cloud infrastructure, application modernization and end-user computing. EMC also introduced security and risk management advisory

services that enable organizations to build new levels of trust and control for next-generation IT infrastructures. We continued to expand our customers' choice of support management options with the mobile EMC Support Application, and helped a growing number of organizations close a skills gap through EMC training and certification for data center architects, cloud architects and data scientists. We also expanded the EMC Academic Alliance program, which has educated more than 150,000 students in 60+ countries on information storage and management, to more than 1,000 colleges and universities worldwide.

Additionally, EMC introduced new initiatives that will help our channel partners worldwide accelerate their customers' journey to Cloud Computing, including a Cloud Builder practice that enables partners to provide advanced capabilities for the design, deployment, and operation of cloud infrastructures based on EMC technology. Also, a new Cooperative Services joint-delivery model provides service components that partners can incorporate into a larger customer deliverable using proven EMC

methodologies, best practices and analytical tools, augmenting existing sell-through and partner-enabled delivery models to provide partners with an additional choice of how to bring EMC services to market.

#### 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 2012, RSA strengthened its leadership in the information security market through several strategic initiatives, product enhancements and technology partnerships. Among these strategic initiatives was the acquisition of Silver Tail Systems, a leading web fraud detection and security software provider. Silver Tail's Big Data approach to fighting cybercrime will help accelerate RSA's strategy to leverage data analytics and adaptive risk-based controls for broader consumer and enterprise security use cases. RSA also acquired Silicium Security whose endpoint monitoring technology has added vital threat detection and mitigation capabilities to the RSA Advanced Cyber Defense Services.

RSA introduced a number of innovative solutions throughout the year including the aforementioned RSA Advanced Cyber Defense Services which helps commercial and public sector customers with cyber attack preparedness and incident response. Significant product updates were released in 2012 including the RSA Archer GRC platform as well as RSA's flagship risk-based RSA Adaptive Authentication solution that currently helps protect more than 300 million online identities worldwide. RSA also introduced RSA Distributed Credential Protection, a unique innovation from RSA Labs designed to help web portal operators and large enterprises mitigate the risk of stolen passwords and other stored credentials and secrets from cyber attacks. Finally, RSA expanded strategic and technology partnerships with leading consulting company Booz Allen Hamilton, cloud security service provider ZScaler and multiple partners in mobility including Citrix, Good, Juniper and VMware.

#### Information Intelligence Group Segment

EMC's Information Intelligence Group (IIG) helps global organizations transform their business with software, cloud solutions and services that connect information to work. The division's strategy is comprised of four key elements: supporting the new user in the post-PC era by simplifying the user experience and supporting device mobility; accelerating our customers' journey to the cloud; providing pervasive governance solutions for customers to understand and secure their information; and finally, to help customers transform their business with solutions.

The IIG portfolio is comprised of EMC Documentum xCP for building dynamic business and case management solutions, and can serve as an action engine for Big Data. EMC Captiva for intelligent enterprise capture, EMC Document Sciences for customer communications management, EMC SourceOne Kazeon for eDiscovery, the EMC Documentum platform for creating, managing and deploying business applications and solutions and the EMC OnDemand private cloud deployment model for enterprise-class applications.

In 2012, IIG acquired Syncplicity, a cloud-based file sync and share company, to enrich our collaboration offerings, and expanded our vertical-specific content management solutions. IIG has a rich community of developers and a robust ecosystem of partners for helping customers develop, deploy and integrate comprehensive business solutions.

Customers rely on IIG to collaborate, manage, access, distribute and control information securely from anywhere, at any time, from any device.

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

VMware is the leader in virtualization infrastructure solutions utilized by organizations to help transform the way they build, deliver and consume IT resources. VMware virtualization and cloud solutions reflect a pioneering approach to computing that separates application software from the underlying hardware to help achieve improvements in efficiency, agility, availability, flexibility and manageability. VMware seeks to expand its role as a pioneer of virtualization technologies that simplify IT infrastructure throughout the data center and to the virtual workspace. VMware's broad and proven suite of virtualization technologies address a range of complex IT problems that includes cost and operational inefficiencies, facilitating access to Cloud

Computing capacity, business continuity, and corporate end-user computing device management. VMware solutions run on industry-standard desktop computers and servers to support a wide range of operating system and application environments, as well as networking and storage infrastructures.

VMware's solutions enable organizations to aggregate multiple servers, storage infrastructure 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 customers include lower IT costs, cost-effective high availability across a wide range of applications and a more automated and resilient systems infrastructure capable of responding dynamically to variable business demands.

In 2012, VMware released VMware vCloud Suite 5.1, which includes its flagship technology, VMware vSphere. VMware vCloud Suite is the first integrated solution designed to meet the requirements of the software-defined data center ("SDDC") by pooling industry-standard hardware and running compute, networking, storage and management functions in the data center as software-defined services. Additionally, significant updates were made to VMware's portfolio of end-user computing solutions, including VMware View 5.1.

To support VMware's strategy for the software-defined data center, VMware acquired several technology companies in 2012, including DynamicOps, Nicira and Wanova.

#### Pivotal Initiative

The industry-wide transition to Cloud Computing and the vast quantities of Big Data present a significant opportunity for both VMware and EMC to provide thought and technology leadership, not only at the infrastructure level, but also across the rapidly growing and fast-moving application development and Big Data markets. To capitalize on this opportunity, in December 2012, VMware and EMC announced the commitment of technology, people and programs from both companies to focus on Big Data Analytics and Cloud Application Platforms under one virtual organization.

This virtual organization, currently called the Pivotal Initiative, is led by Paul Maritz, Chief Strategist of EMC, and will include most employees and resources working within EMC's Greenplum and Pivotal Labs organizations, VMware's vFabric (including Spring and Gemfire), Cloud Foundry and Cetas organizations, as well as related efforts.

#### 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 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 2012, 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 a broad product portfolio and a program that rewards partners who are trained to effectively position, sell and service

EMC products. We announced new initiatives and products to enable our worldwide network of channel partners to accelerate their customers' journey to Cloud Computing. In April, we announced EMC VSPEX Proven Infrastructure - a reference architecture that includes EMC's award-winning storage systems and next-generation backup products, along with best-of-breed virtualization, server and network technology from EMC alliance partners Brocade, Cisco, Citrix, Intel, Microsoft and VMware. In 2012, partners sold more than 1,300 VSPEX systems. EMC also began enabling EMC Velocity distributors worldwide with the skills and resources required to assemble multi-vendor solutions that feature EMC's award-winning unified storage systems and next-generation backup solutions. Distributors worldwide are provided with the technical training, proven methodologies and the backing of EMC's Global Services organization so they may assemble EMC VSPEX Proven Infrastructure and other EMC solutions for their reseller partners.

Also in 2012, EMC announced a series of enhancements to the EMC Velocity Service Provider program to help service provider and reseller partners capture the potential of the cloud services market, differentiate their business in the marketplace, and provide more value to customers. One example is the launch of the Velocity Cloud Builder Practice to enable channel partners to provide advanced capabilities for the design, deployment and operation of cloud infrastructures based on EMC technology. Additionally, in 2012, we revised our Enterprise Select go-to-market program to enable channel partners to sell directly into every market segment, including small- to medium-sized businesses, mid-market and Enterprise. The revisions enable EMC's direct sales representatives to leverage our partner ecosystem by building virtual sales teams comprised of many trusted partner sales representatives to open new selling opportunities in new and existing accounts.

### Technology Alliances

EMC engages in numerous alliances with other technology companies to improve the total customer experience with our products and services.

In 2012, 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 system, 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.

In 2012, VCE expanded its product portfolio including new Vblock 300 and Vblock 700 updates, Cisco UCS and Nexus updates, the introduction of Vblock Data Protection incorporating EMC VPLEX, EMC RecoverPoint, EMC Data Domain and EMC Avamar into Vblock solution offerings, and support for VMware vCloud Suite 5.1. VCE established strategic alliances with CA technologies and BMC to complement management offerings from VMware, Cisco and EMC. VCE expanded and enhanced the VCE partner program and forged several key agreements incorporating Vblock systems into partners' cloud offerings.

In 2012, 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 SAP, Cisco, Brocade, Citrix, Microsoft, Oracle and VMware to help accelerate customers' journey to private, public or hybrid cloud. Building upon a Memorandum of Understanding signed between EMC, VMware and SAP in 2011, EMC delivered SAP HANA appliance solution for in-memory database, working with Cisco as an OEM partner. Additionally, EMC has delivered a virtual stack solution for SAP applications, encapsulating best practices that optimize SAP customer deployments for performance, resilience and manageability, including guidance for virtualizing SAP environments with an emphasis on private and hybrid clouds. EMC introduced new Microsoft offerings to 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, including support for all product updates delivered by Microsoft in 2012.



In 2012, EMC also launched VSPEX, a solution program for channel partners. EMC partners use VSPEX Tested and Validated private clouds so they can focus on higher value business level solutions for their customers, delivering rapid deployment of critical applications such as SharePoint, Exchange, SQL and Oracle. VSPEX supports the latest operating environments including Windows Server 2012 and vSphere 5.1, and includes full backup and recovery plus stack management via ecosystem partners.

As a core element of EMC's hybrid cloud strategy, EMC continues to establish focused and committed partnerships with 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 changes to our Velocity Service Provider Partner program announced in 2012. The program provides focus on increasing sales, marketing, planning and education benefits for our partners with the singular goal of delivering compelling cloud services to the global IT market. We also made available business development and services creation resources to enable partners to develop differentiated offerings built on EMC technology as well as marketing support including market development funds, campaigns, field execution and sales enablement tools. The Velocity Service Provider program is open to cloud service

providers of all kinds, including telco/cableco, hosters, outsourcers, ISVs, resellers, value added resellers, distributors and enterprises. The program has evolved to enable qualified partner companies to participate and capture cloud opportunities.

### 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 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 hardware 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 2012, 2011 and 2010, our research and development ("R&D") expenses totaled \$2,559.6 million, \$2,149.8 million and \$1,888.0 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

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.

We have been granted or own by assignment approximately 3,400 patents issued by, and have approximately 2,200 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, 2012, we had approximately 60,000 employees worldwide, of which approximately 13,800 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. 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.

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 believe that investing in a sustainable future makes EMC a stronger and healthier company and creates long-term value for our shareholders and other stakeholders. Sustainable business practices create financial value by generating savings from more efficient products and operations, and revenues from leveraging new market opportunities. Incorporating principles of sustainability in our product designs, operations, and decision-making enhances our resilience and agility in the face of global social and environmental events. And our commitment to a healthy future plays an increasingly important role in attracting, retaining and energizing our talent pool.

EMC's sustainability efforts are founded on three pillars: Sustaining Ecosystems (the environmental dimension), Strengthening Communities (the social dimension) and Delivering Value (the economic dimension). These pillars are built on a foundation of Transformative IT: the transformation of how IT products are designed, produced, used and managed at end of life; how IT services are delivered, secured and consumed; and how information is leveraged to derive new knowledge for business and society.

Our commitment to Sustaining Ecosystems centers upon addressing and reporting on the areas in which our business has the largest impacts - direct or indirect - and the greatest potential to drive change. Accordingly, our top environmental priorities continue to be energy use and climate change, and material use and waste.

Our primary greenhouse gas (“GHG”) emissions arise indirectly from the generation and transmission of electricity needed to run our business and even more, to power our products at customer sites. Therefore, our energy and climate change strategy is focused on increasing energy efficiency in our products as well as our facilities and data centers; supplying technology that enables energy efficient operations in our customers' data centers; engaging with suppliers to reduce emissions in the supply chain; and leveraging the transformative power of technology to reduce global energy demand.

We have set global targets to reduce our energy consumption and GHG emissions with a long-term objective of an absolute reduction of 80% in emissions in accordance with the Intergovernmental Panel on Climate Change's (IPCC's) Fourth Assessment Report recommendations. We achieved our 2012 goal to reduce our GHG intensity 30% per US\$M revenue over 2005 and we are working toward goals of a 40% reduction in GHG intensity and in energy consumed per employee. In 2012, we submitted our fifth annual GHG disclosure report to the Carbon Disclosure Project.

Material use and waste is a second major area of impact for the IT industry. We are continuously pursuing opportunities to reduce material used 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. For example, we have eliminated the use of leaded solder in our products and reduced brominated flame retardants by greater than 50% in all new printed circuit boards. We are currently working with our suppliers to evaluate alternatives for the use of phthalates, a material of high concern, in our products. We have also identified and qualified a plasticizer for our cable sheathing that is free of halogens, PVCs, and phthalates though demand within the industry is not yet sufficient to mitigate the supply chain risks of switching to this substitute material.

Our global eWaste program offers product take back to all of our customers worldwide to help ensure those products are recycled or disposed of responsibly and in compliance with the law. Our published principles include commitments to avoid shipment of eWaste from OECD to non-OECD countries, and to ensure that no prison, child or forced labor is used in the processing of our eWaste. We are requiring our disposal suppliers to be properly certified by third parties, and in 2012, developed an audit protocol and program, meeting our commitment to complete independent audits of 80% of those suppliers.

EMC has a relatively small operational water footprint, with our primary usage in general building operations such as drinking, cooling and sanitation. However, water is required to generate and transmit the energy we consume, and energy is used to supply the water we use. Our suppliers also use water in their operations to produce the material components in our products. Because water conservation and efficiency activities save energy and help reduce the carbon emissions generated from these activities, we have taken a conscientious approach to conserving this important resource. In our owned and operated facilities, we minimize water use and manage wastewater streams to protect local water quality, and our manufacturing facilities produce no industrial wastewater. In 2012, we submitted our second water disclosure report to the Carbon Disclosure Project.

Environmental and social responsibility within our supply chain is central to our sustainability principles. EMC is committed to establishing and maintaining a world-class supply network in a competitive landscape. We work directly with suppliers in more than 20 countries, and rely indirectly on many more. We believe it is critical that conditions in our global supply chain be fair and legal, and that they protect human health and the environment. In support of these goals, we engage suppliers through our Supply Chain Social and Environmental Responsibility program. Given the complexity of supply chains and supplier relationships, we have different degrees of control and influence on these suppliers. However, we believe we must continually engage with our suppliers to develop a shared mindset and drive positive change throughout our supply chain.

We are advancing social sustainability efforts in our workforce and our communities by cultivating a collaborative and inclusive workplace, and building open and honest relationships with stakeholders. EMC and our employees invest time, talent and funds to support global education initiatives to strengthen educational systems, particularly in the area of science, technology, engineering and math education, and we leverage our technology to digitally preserve and protect cultural treasures for future generations. We

hold ourselves, our suppliers, and our partners to high standards in protecting human rights and our beliefs, including that freedom of expression is a basic human right, are embodied in our Global Labor and Human Rights Principles.

We actively engage with internal and external stakeholders to help improve our performance and sustainability reporting. In 2012, we continued our dialogue with key stakeholders and published our annual sustainability report “Transformation with Purpose” which is based upon the Global Reporting Initiative framework and incorporated feedback from our multi-stakeholder forum.

EMC is proud to have been listed in the 2012 Dow Jones Sustainability Index for North America for the second consecutive year.

Please see EMC's most current sustainability report for more information about EMC's sustainability initiatives and performance.

#### 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/corporate/investor-relations/governance/corporate-governance.htm](http://www.emc.com/corporate/investor-relations/governance/corporate-governance.htm). Copies will be provided to any shareholder upon request. Please go to [www.emc.com/corporate/investor-relations/index.htm](http://www.emc.com/corporate/investor-relations/index.htm) 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 that are beyond our control. If these conditions remain challenging or deteriorate, our business, results of operations or financial condition could be materially adversely affected. Possible consequences from macroeconomic global challenges such as the debt crisis in certain countries in the European Union or slowing economies in parts of Asia, or the impact of continuing uncertainty associated with the budget “sequestration” in the United States government 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 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 sectors and across many geographies. Any adverse effects to such markets could materially adversely affect demand for our products and services which could result in decreased revenues or earnings.

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

Our gross margins are impacted by a variety of factors, including competitive pricing, component and product design costs as well as the volume and relative mixture of product and services revenues. Increased component costs, increased pricing pressures,

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

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

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

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

We purchase or license many sophisticated components and products from one or a limited number of qualified suppliers, including some of our competitors. These components and products include flash drives, 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 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 is impacted by the financial performance of VMware.

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

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

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

- VMware's ability to develop, introduce and ship in a timely manner new products and product enhancements that meet customer demand, certification requirements and technical requirements;
- the introduction of new pricing and packaging models for VMware's product offerings;
- the timing of the announcement or release of upgrades or new products by VMware or by its competitors;
- VMware's ability to maintain scalable internal systems for reporting, order processing, license fulfillment, product delivery, purchasing, billing and general accounting, among other functions;
- VMware's ability to control costs, including its operating expenses;
- changes to VMware's effective tax rate;
- the increasing scale of VMware's business and its effect on VMware's ability to maintain historical rates of growth;
- VMware's ability to attract and retain highly skilled employees, particularly those with relevant experience in software development and sales;
- VMware's ability to conform to emerging industry standards and to technological developments by its competitors and customers;
- renewal rates for enterprise license agreements, or ELA's, as original ELA terms expire;
- the timing and amount of software development costs that may be 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 acquired 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.

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 our relationship with VMware; and
- factors impacting the 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, Big Data and Trust 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 inability to successfully manage the interoperability and transition from older products;
- the impact of customers' demand for new products on the products being replaced, thereby causing a decline in sales of existing products and an excessive, obsolete supply of inventory; and
- delays in initial shipments of new products.

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

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

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

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

We may have difficulty managing operations.

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

- retaining and hiring, as required, the appropriate number of qualified employees;
- managing, protecting and enhancing, as appropriate, our infrastructure, including but not limited to, our information systems (and such systems' ability to protect confidential information residing on the systems) and internal controls;
- accurately forecasting revenues;
- training our sales force to sell effectively, given the breadth of our offerings;
- 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 \$6.6 billion in short- and long-term investments as of December 31, 2012. The investments are invested primarily in investment grade debt securities, and we limit the amount of investment with any one issuer. A further deterioration in the economy, including a tightening of credit markets, increased defaults by issuers, or significant volatility in interest rates, including the downgrade of U.S. government debt, could cause the investments to decline in value or could impact the liquidity of the portfolio. If market conditions deteriorate significantly, our results of operations or financial condition could be materially adversely affected.

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

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

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

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

- the relative dollar amount of our product and services offerings in relation to many of our customers' budgets, resulting in long lead times for customers' budgetary approval, which tends to be given late in a quarter;
- the tendency of customers to wait until late in a quarter to commit to purchase in the hope of obtaining more favorable pricing from one or more competitors seeking their business;
- the fourth-quarter influence of customers spending their remaining capital budget authorization prior to new budget constraints in the first nine months of the following year; and
- seasonal influences.

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

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

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



- we generally ship products shortly after receipt of the order; and
- customers may generally reschedule or cancel orders with little or no penalty.

Loss of infrastructure, due to factors such as an information systems failure, loss of public utilities, natural disasters or extreme weather conditions, could impact our ability to book orders or 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 derive a significant percentage of our revenues from such distribution channels. Our financial results could be materially adversely affected if our contracts with channel partners were terminated, if our relationship with channel partners were to deteriorate, if the financial condition of our channel partners were to weaken, if our channel partners were not able to timely and effectively implement their planned actions or if the level of demand for our channel partners' products and services were to decrease. In addition, as our market opportunities change, we may have an increased reliance on channel partners, which may negatively impact our gross margins. There can be no assurance that we will be successful in maintaining or expanding these channels. If we are not successful, we may lose sales opportunities, customers and market share. Furthermore, the partial reliance on channel partners may materially reduce the visibility to our management of potential customers and demand for products and services, thereby making it more difficult to accurately forecast such demand. In addition, there can be no assurance that our channel partners will not develop, market or sell products or services or acquire other companies that develop, market or sell products or services in competition with us in the future.

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

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

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

- changes in foreign currency exchange rates;
- changes in a specific country's or region's economic conditions;
- political or social unrest;
- 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.

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

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

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

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

We have alliances, such as our VCE joint venture, with leading information technology companies, some of whom may be our competitors in other areas, 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 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. In the past, VMware has been made aware of public postings by hackers of portions of their source code.

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

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

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

We are in the process of upgrading our enterprise resource planning, or ERP, computer system to enhance operating efficiencies and provide more effective management of our business operations. While one phase of our upgrade was implemented in the third quarter of 2012, we still have further planned phases to our upgrade. The upgrade could cause substantial business interruption that could adversely impact our operating results. We are investing significant financial and personnel resources into this project. However, there is no assurance that the design will meet our current and future business needs or that it will operate as designed. We are heavily dependent on such computer systems, and any significant failure or delay in the system upgrade, if encountered, could cause a substantial interruption to our business and additional expense which could result in an adverse impact on our operating results, cash flows and financial condition.

We may have exposure to additional income tax liabilities.

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

As part of the current Administration's ongoing budget negotiations, President Obama and House of Representatives and Senate committees have called for a comprehensive tax reform, which might change certain U.S. tax rules for U.S. corporations doing business outside the United States. While the scope of future changes differs among various tax proposals and remains unclear, proposed changes might 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. The enactment of some or all of these proposals could increase the Company's effective tax rate and adversely affect our profitability.

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 which includes "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.

Changes in regulations could materially adversely affect us.

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

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

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

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

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 or failing to close an announced 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 and to, from time to time, create new joint ventures or alliances. These investments and ventures 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, 2012. We continue to gradually shift the asset allocation to lower the percentage of investment in equity securities and increase the percentage of investments in long-duration fixed-income securities. The effect of such change could result in a reduction in the long-term rate of return on plan assets and an increase in future pension expense. As of December 31, 2012, the ten-year historical rate of return on plan assets was 8.4%, and the inception to date return on plan assets was 9.9%. In 2012, we experienced an 13.7% gain on plan assets. Should we not achieve the expected rate of return on the plan's assets or if the plan experiences a decline in the fair value of its assets, we may be required to contribute assets to the plan which could materially adversely affect our results of operations or financial condition.

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

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

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

Terrorist acts, acts of war, natural disasters, or the direct and indirect effects of climate change (such as sea level rise, increased storm severity, drought, flooding, wildfires, pandemics, and social unrest from resource depletion and rising food prices) may cause damage or disruption to our employees, facilities, customers, partners, suppliers, distributors and resellers, which could have a material adverse effect on our business, results of operations or financial condition. Such events may also cause damage or disruption to transportation and communication systems and to our ability to manage logistics in such an environment, including receipt of components and distribution of products.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

22

---

## ITEM 2. PROPERTIES

As of December 31, 2012, we owned or leased the facilities described below:

| Location   | Approximate Sq. Ft.*                  | Principal Use(s)   | Principal Segment(s)                                |
|--|---------------------------------------|--|---|
| Hopkinton, MA  | owned: 1,681,000                      | executive and administrative offices, R&D, customer service, sales and marketing               | Information Storage, Information Intelligence Group |
| Franklin, MA   | owned: 922,000<br>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                                 |
| Palo Alto, CA  | owned: 1,458,000<br>leased: 184,000   | executive and administrative offices, R&D, sales, marketing and data center                    | VMware Virtual Infrastructure                       |
| Other North American Locations                           | owned: 1,215,000<br>leased: 4,451,000 | executive and administrative offices, sales, customer service, R&D, data center and marketing  | **  |
| Asia Pacific   | leased: 2,638,000                     | sales, marketing, customer service, R&D, data center and administrative offices                | **  |
| Cork, Ireland  | owned: 588,000<br>leased: 136,000     | manufacturing, customer service, R&D, administrative offices, sales and marketing              | **  |
| Europe, Middle East and Africa (excluding Cork, Ireland) | owned: 35,000<br>leased: 1,593,000    | sales, manufacturing, customer service, R&D, data center, marketing and administrative offices | **  |
| Latin America  | leased: 179,000                       | sales, customer service and marketing  | **  |

Of the total square feet owned and leased, approximately 364,000 square feet was vacant, approximately 112,000 square feet was leased or subleased to non-EMC businesses and approximately 1,016,000 square feet were under construction for various VMware projects.

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

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:

| Name                    | Age | Position  |
|-------------------------|-----|---|
| Joseph M. Tucci         | 65  | Chairman and Chief Executive Officer                              |
| William J. Teuber, Jr.  | 61  | Vice Chairman   |
| Jeremy Burton           | 45  | Executive Vice President, Product Operations and Marketing        |
| Arthur W. Coviello, Jr. | 59  | Executive Chairman, RSA, the Security Division of EMC             |
| Paul T. Dacier          | 55  | Executive Vice President and General Counsel                      |
| Richard R. Devenuti     | 54  | President, Information Intelligence Group                         |
| Howard D. Elias         | 55  | President and Chief Operating Officer, Global Enterprise Services |
| David I. Goulden        | 53  | President, Chief Operating Officer and Chief Financial Officer    |
| ML Krakauer             | 56  | Executive Vice President, Human Resources                         |
| Paul Maritz             | 57  | Chief Strategist  |
| William F. Scannell     | 50  | President, Global Sales and Customer Operations                   |
| Harry L. You            | 53  | Executive Vice President  |

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 served as President from January 2000 to July 2012. 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 and Chief Executive Officer in the day-to-day management of EMC. From 2006 to July 2012, he oversaw EMC Customer Operations, our global sales and distribution organization where he was responsible for driving EMC's growth and market leadership worldwide. 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, Product Operations and Marketing since July 2012. Mr. Burton joined EMC in March 2010 as our Chief Marketing Officer. 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.

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 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 systems for energy conservation.

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, Global Enterprise Services since January 2013 and was our President and Chief Operating Officer, EMC Information Infrastructure and Cloud Services from September 2009 to January 2013. 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.

David I. Goulden has been our President and Chief Operating Officer since July 2012. In this role, he oversees EMC's business units as well as Global Sales and Customer Operations, Global Services, Global Marketing and G&A functions. Mr. Goulden has been our Chief Financial Officer since August 2006. Prior to this, Mr. Goulden served as Executive Vice President and Chief Financial Officer from August 2006 to July 2012 and 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.

ML Krakauer has been our Executive Vice President, Human Resources since April 2012. Ms. Krakauer served as Chief Operating Officer, Technical Solutions and Services from April 2011 to April 2012. She joined EMC as Senior Vice President, Technical Solutions and Services in September 2008. Prior to joining EMC, she held multiple executive leadership roles at Hewlett-Packard Company. Before joining Hewlett-Packard, she was at Compaq, Digital Equipment and other technology companies.

Paul Maritz has been our Chief Strategist since September 2012. Prior to that, Mr. Maritz was Chief Executive Officer of VMware, Inc. from July 2008 to August 2012 and President from July 2008 to January 2011. Prior to joining VMware, he was President of EMC's Cloud Infrastructure and Services Division after EMC acquired Pi Corporation ("Pi") in February 2008. Mr. Maritz was a founder of Pi and served as its Chief Executive Officer. Pi was a software company focused on building cloud-based solutions. Before founding Pi, he spent 14 years working at Microsoft Corporation, where he served as a member of the five-person Executive Committee that managed the overall company. As Vice President of the Platform Strategy and Developer Group, among other roles, he oversaw the development and marketing of System Software Products (including Windows 95, Windows NT and Windows 2000), Development Tools (Visual Studio) and Database Products (SQL Server) and the complete Office and Exchange Product Lines. Prior to Microsoft, he spent five years working at Intel Corporation as a software and tools developer. Mr. Maritz is a director of VMware.



William F. Scannell has been our President, Global Sales and Customer Operations since July 2012. He is responsible for driving EMC's global growth and continued market leadership by delivering and supporting the full range of EMC products, services and solutions to organizations in established and new markets around the world. Mr. Scannell was Executive Vice President, Americas and EMEA Sales from March 2011 to July 2012, in which role he oversaw customer operations in the Americas and EMEA, and he was Executive Vice President, Americas from August 2010 to March 2011. He served as Executive Vice President, Sales Americas and Global Sales Programs from March 2007 to August 2011. Mr. Scannell joined EMC in 1986 and has held various positions including Senior Vice President, Worldwide Sales and Vice President, North America Regional Sales.

Harry L. You has been our Executive Vice President 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, EMC RecoverPoint, Archer, Atmos, Avamar, Captiva, Data Domain, Document Sciences, Documentum, FAST, Greenplum, Greenplum Chorus, Ionix, Isilon, Kazeon, NetWitness, NetWorker, RSA, RSA Security, SecurID, SourceOne, Syncplicity, Symmetrix, Vblock, Velocity, VMAX, VNX, VNXe, VPLEX and VSPEX are either registered trademarks or trademarks of EMC Corporation in the United States and other countries. VMware, VMware vCloud, VMware View, vCenter, vSphere, Cloud Foundry and Gemfire 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.

## PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. 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.

|                |         |         |
|----------------|---------|---------|
| Fiscal 2012    | High    | Low     |
| First Quarter  | \$30.00 | \$21.60 |
| Second Quarter | 29.98   | 22.77   |
| Third Quarter  | 28.18   | 22.79   |
| Fourth Quarter | 27.89   | 23.24   |
| Fiscal 2011    | High    | Low     |
| First Quarter  | \$27.59 | \$22.84 |
| Second Quarter | 28.72   | 25.39   |
| Third Quarter  | 28.24   | 19.84   |
| Fourth Quarter | 25.13   | 20.00   |

We had 10,423 holders of record of our common stock as of February 26, 2013.

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 2012

| Period                               | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|---|------------------------------|--|--|
| October 1, 2012 – October 31, 2012   | 985,256   | \$24.09                      | 824,400  | 38,004,739   |
| November 1, 2012 – November 30, 2012 | 25,870,405                                      | 24.46                        | 5,821,033  | 32,183,706   |
| December 1, 2012 – December 31, 2012 | 5,119,624                                       | 25.15                        | 5,078,382  | 27,105,324   |
| Total                                | 11,975,285                                      | <sup>(2)</sup> \$24.73       | 11,723,815   | 27,105,324   |

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

(2)Includes an aggregate of 251,470 shares withheld from employees for the payment of taxes.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA  
 FIVE YEAR SELECTED CONSOLIDATED FINANCIAL DATA  
 (in thousands, except per share amounts)

|  | Year Ended December 31, |                     |                     |                     |                     |
|--|-------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2012 <sup>(1)</sup>     | 2011 <sup>(2)</sup> | 2010 <sup>(4)</sup> | 2009 <sup>(5)</sup> | 2008 <sup>(6)</sup> |
| Summary of Operations:   |                         |                     |                     |                     |                     |
| Revenues   | \$21,713,902            | \$20,007,588        | \$17,015,126        | \$14,025,910        | \$14,876,163        |
| Operating income   | 3,963,874               | 3,442,439           | 2,683,286           | 1,414,275           | 1,568,936           |
| Net income attributable to EMC Corporation                                     | 2,732,613               | 2,461,337           | 1,899,995           | 1,088,077           | 1,275,104           |
| Net income attributable to EMC Corporation per weighted average share, basic   | \$1.31                  | \$1.20              | \$0.92              | \$0.54              | \$0.62              |
| Net income attributable to EMC Corporation per weighted average share, diluted | \$1.23                  | \$1.10              | \$0.88              | \$0.53              | \$0.61              |
| Weighted average shares, basic   | 2,093,372               | 2,055,536           | 2,055,959           | 2,022,371           | 2,048,506           |
| Weighted average shares, diluted   | 2,205,639               | 2,229,113           | 2,147,931           | 2,055,146           | 2,079,853           |
| Balance Sheet Data:  |                         |                     |                     |                     |                     |
| Working capital  | \$1,904,613             | \$1,326,013         | \$405,308           | \$5,390,135         | \$5,446,593         |
| Total assets   | 38,068,685              | 34,469,267          | 30,833,284          | 26,812,003          | 23,874,575          |
| Current obligations <sup>(3)</sup>   | 1,652,442               | 3,304,974           | 3,214,771           | —                   | —                   |
| Long-term obligations  | —                       | —                   | —                   | 3,100,290           | 2,991,943           |
| Total shareholders' equity   | 23,523,791              | 20,279,703          | 18,633,925          | 16,560,088          | 14,110,353          |

(1) In 2012, EMC acquired all of the outstanding shares of 17 companies (see Note C to the consolidated financial statements).

(2) In 2011, EMC acquired all of the outstanding shares of 7 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. Current obligations relate to the convertible debt at December 31, 2012 (see Note E to the consolidated financial statements).

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

(5) In 2009, EMC acquired all of the outstanding shares of 5 companies.

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

## 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 up 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 grow our earnings per share at a rate faster than the rate at which we grow our revenue. During 2012, we continued to innovate and invest in expanding our total addressable market through internal research and development ("R&D") and acquisitions. Our continued investment in new technologies and solutions is reflected in our roadmap for 2013, with numerous innovations, refreshes and brand-new products. We have developed a product portfolio with customers' 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, Big Data and Trust.

Cloud Computing leverages an on-demand, self-managed, virtualized infrastructure to deliver IT as a Service in a more efficient, flexible and cost-effective manner. While the fundamental transition to Cloud Computing architectures is gaining traction, customers are increasingly recognizing that their ability to compete is tied to the efficiency, flexibility and agility of their IT operations and that transitioning to a cloud-based architecture will be a key component to their success. We believe our offerings are well-suited to capitalize on this trend as it unfolds over the next several years. Big Data, which is a primary contributor to the pace of overall data growth, refers to the large repositories of corporate and external data, including unstructured information created by new applications (e.g. medical, entertainment, energy and geophysical), social media and other web repositories. It is triggering new approaches for our customers to derive business insight and create new opportunities to expand revenues. The successful transition to a model that leverages Cloud Computing and Big Data is dependent upon both the right infrastructure and the ability to build Trust into that infrastructure. The ability for customers to have and offer Trusted IT is a valuable competitive advantage. We believe we are well-positioned in this market to continue assisting our customers in storing, managing and unlocking the value contained within their information and to enable them to leverage our data-centric approach to security to take full advantage of Cloud Computing and Big Data.

Our go to market model, where we continue to leverage our direct sales force and services organization, as well as our channel and services partners and service providers, positions us well to help customers transition to Cloud Computing and benefit from Big Data. We offer three alternatives to help our customers transition to cloud architectures and leverage Big Data: our best of breed infrastructure components, proven infrastructure through VSPEX and converged infrastructure with Vblock from VCE Company LLC, our joint venture with Cisco, and other investors VMware and Intel. Our service provider program is another important part of our strategy to get our customers to the public cloud. Additionally, in December 2012, we announced the Pivotal Initiative ("Pivotal") with VMware, to which both companies plan to commit technology, people and programs from both companies. Pivotal will focus on Big Data Analytics and Cloud Application Platforms in 2013.

#### 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, end-user devices and Cloud Computing through a combination of internal development and acquisitions. VMware expects to grow its business by building long-term relationships with its customers through the adoption of enterprise license agreements ("ELAs").

Additionally, VMware has made, and expects to continue to consider strategic business acquisitions in the future. In January 2013, VMware announced a realignment of their strategy to refocus their resources and investments in support of three growth priorities that focus on their core opportunities as a provider of virtualization technologies that simplify IT infrastructure: the software-defined data center, the hybrid cloud and end-user computing. The software-defined data center ("SDDC") is where increasingly infrastructure is virtualized and delivered as a service, and the control of this data center is entirely

automated by software. To further this vision, in the third quarter of 2012, VMware released the VMware vCloud Suite, which is the first integrated solution designed to meet the requirements of the SDDC by pooling industry-standard hardware and running compute, networking, storage and management functions in the data center as software-defined services. For the SDDC, VMware plans to continue to invest in the development and delivery of innovations in networking, security, storage and management as they continue to roll out and enhance the features of their vCloud Suite. For the hybrid cloud, VMware plans to focus on expanding their capabilities to deliver enterprise-class cloud services that are complementary to private clouds in order to enhance their customer's flexibility to run applications on and off premise, as they choose on a compatible, high-quality, secure and resilient hybrid cloud platform. For end-user computing, they plan to enhance their offerings to enable a virtual workspace for both existing PC environments and emerging mobile devices in a secure enterprise environment.

On a consolidated basis, our vision, strategy and roadmap allowed us to leverage our strengths through 2012 and position us to capitalize on the evolving trends of Cloud Computing and Big Data and Trust in 2013. As a result, we believe we will grow faster than the markets we serve in 2013 while simultaneously investing in the business and growing earnings per share at a rate faster than the rate at which we will grow our revenue.

## RESULTS OF OPERATIONS

### Revenues

The following table presents revenue by our segments:

|                                | 2012       | 2011       | 2010       | Percentage Change |              |              |              |
|--------------------------------|------------|------------|------------|-------------------|--------------|--------------|--------------|
|                                |            |            |            | 2012 vs 2011      | 2011 vs 2010 | 2012 vs 2011 | 2011 vs 2010 |
| Information Storage            | \$15,589.4 | \$14,755.2 | \$12,699.1 | 5.7               | %            | 16.2         | %            |
| Information Intelligence Group | 640.2      | 661.4      | 735.9      | (3.2              | )            | (10.1        | )            |
| RSA Information Security       | 888.7      | 828.2      | 729.4      | 7.3               |              | 13.5         |              |
| VMware Virtual Infrastructure  | 4,595.6    | 3,762.9    | 2,850.7    | 22.1              |              | 32.0         |              |
| Total revenues                 | \$21,713.9 | \$20,007.6 | \$17,015.1 | 8.5               | %            | 17.6         | %            |

Consolidated product revenues increased 3.7% to \$13,060.5 in 2012. 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 2012 was due to a continued higher demand for our portfolio of offerings to address the storage, data analysis and virtualization needs for continued information growth, particularly as customers continue to build out their own data centers to develop and support their private or public cloud infrastructures.

The Information Storage segment's product revenues increased 2.6% to \$10,362.8 in 2012. Within the networked storage platforms portfolio, which includes our high-end and mid-tier platform products, product revenues increased 5.7%. Within the high-end of the Information Storage segment, product revenues increased 0.8%, primarily due to demand for our scale-out block solution, VMAX, which was refreshed in the second quarter of 2012, as customers continue to purchase VMAX for mission-critical data sets needing to scale. Within the mid-tier of the Information Storage segment, which includes VNX family, Backup and Recovery Systems, EMC Isilon and EMC Atmos, product revenues increased 9.3% in 2012 due to continued performance across each of our mid-tier product groups. Our VNX family, which includes VNX and VNXe, plays an important role in our storage platform because of its simplicity and efficiency with a rich feature set on a unified platform. Within our Backup and Recovery Systems products, deduplication solutions continue to be in demand and our purpose-built back up appliance, Data Domain and our Avamar product delivered strong growth for the year in 2012. Our scale-out file offering from EMC Isilon continues to benefit from the acquisition synergies as it delivers strong revenue growth in new markets while continuing rapid growth in its more traditional verticals. The EMC Atmos object-storage solution ended 2012 with great momentum. Finally, our EMC Greenplum analytics database combined with their Hadoop implementation drove very strong year-over-year growth.

The VMware Virtual Infrastructure segment's product revenues increased 13.3% to \$2,084.6 in 2012. VMware's license revenues increased in 2012 primarily due to continued demand for its product offerings. ELAs comprised between one-quarter and one-third of their overall sales during 2012 and 2011, with the balance represented by non-ELA, or transactional business. In 2012, their overall sales growth rate declined compared to 2011, with the growth rate in transactional sales lower than the growth rate in ELAs.

The RSA Information Security segment's product revenues decreased 6.5% to \$412.3 in 2012. The decrease in product revenues was primarily due to the effects of slower global employment growth, especially in Europe and Asia, which negatively impacted



our Identity and Data Protection business as well as lingering effects from the prior year remediation of tokens which disrupted the normal renewal cycles.

The Information Intelligence Group segment's product revenues decreased 4.1% to \$200.8 in 2012. The year-over-year decrease in product revenues was primarily attributable to changing customer demand, particularly in the first quarter of 2012. The Information Intelligence Group segment continues to innovate, creating solutions that we believe will be easier to deploy, easier to use and more aligned with customer needs.

Consolidated 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 Information Storage segment's product revenues increased 14.5% to \$10,100.5 in 2011. The VMware Virtual Infrastructure segment's product revenues increased 31.5% to \$1,840.1 in 2011. The RSA Information Security segment's product revenues increased 10.2% to \$440.8 in 2011. The increase in product revenues in each of these segments in 2011 was primarily attributable to continued higher demand for our portfolio of offerings to address the storage, virtualization and security 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 Intelligence Group segment's product revenues decreased 22.2% to \$209.3 in 2011 primarily due to changing customer demand.

Consolidated services revenues increased 16.7% to \$8,653.4 in 2012. The consolidated services revenues increase was primarily driven by the Information Storage and the VMware Virtual Infrastructure segments' services revenues resulting from increased demand for maintenance-related services. In addition, we continue to provide expertise to customers on effective ways to enable Cloud Computing and to leverage their Big Data assets.

The Information Storage segment's services revenues increased 12.3% to \$5,226.6 in 2012. The increase in services revenues was primarily attributable to higher demand for maintenance-related services associated with a larger installed base as well as increased maintenance renewals. In addition, there has been a growing demand for professional services as we assist with customers' transitions to cloud architectures, transforming IT infrastructures and virtualizing mission-critical applications also contributed to the increase in services revenues.

The VMware Virtual Infrastructure segment's services revenues increased 30.6% to \$2,511.0 in 2012. The increase in services revenues was primarily attributable to growth in VMware's software maintenance revenues. In 2012, 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 RSA Information Security segment's services revenues increased 23.0% to \$476.5 in 2012. Services revenues increased due to an increase in maintenance revenues and professional services resulting from continued demand for support from our installed base. The Information Intelligence Group segment's services revenues decreased 2.8% to \$439.4 in 2012.

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. The Information Storage segment's services revenues increased 20.1% to \$4,654.7 in 2011. The VMware Virtual Infrastructure segment's services revenues increased 32.5% to \$1,922.7 in 2011. The RSA Information Security segment's services revenues increased 17.7% to \$387.4 in 2011. The Information Intelligence Group segment's services revenues decreased 3.2% to \$452.0 in 2011. Services revenues increased across the Information Storage, VMware Virtual Infrastructure and RSA Information Security segments due to an increase in maintenance and professional

services resulting from continued demand for support from our installed base.

31

---

Consolidated revenues by geography were as follows:

|                                  | 2012       | 2011       | 2010      | Percentage Change |              |      |   |
|----------------------------------|------------|------------|-----------|-------------------|--------------|------|---|
|                                  |            |            |           | 2012 vs 2011      | 2011 vs 2010 |      |   |
| United States                    | \$11,510.2 | \$10,549.6 | \$9,152.4 | 9.1               | %            | 15.3 | % |
| Europe, Middle East and Africa   | 5,908.2    | 5,667.6    | 4,942.1   | 4.2               | %            | 14.7 | % |
| Asia Pacific                     | 3,016.5    | 2,639.4    | 1,965.2   | 14.3              | %            | 34.3 | % |
| Latin America, Mexico and Canada | 1,279.0    | 1,151.0    | 955.5     | 11.1              | %            | 20.5 | % |

Revenues increased in 2012 compared to 2011 and in 2011 compared to 2010 in all of our markets due to greater demand for our products and services offerings.

Changes in exchange rates impacted the total revenue increase by 1.1% in 2012 compared to 2011. The impact of the change in rates was most significant in the Euro zone and Latin America markets, and in particular, Brazil. 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 Asia Pacific markets, primarily Australia and Japan, Canada and Brazil, partially offset by the Euro and the pound sterling.

#### Costs and Expenses

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

|   | 2012      | 2011      | 2010      | Percentage Change |              |       |   |
|---|-----------|-----------|-----------|-------------------|--------------|-------|---|
|   |           |           |           | 2012 vs 2011      | 2011 vs 2010 |       |   |
| Cost of revenue:  |           |           |           |                   |              |       |   |
| Information Storage   | \$6,650.1 | \$6,428.7 | \$5,851.4 | 3.4               | %            | 9.9   | % |
| Information Intelligence Group  | 208.2     | 236.6     | 243.2     | (12.0)            | )            | (2.8) | ) |
| RSA Information Security  | 284.5     | 357.7     | 221.6     | (20.5)            | )            | 61.4  |   |
| VMware Virtual Infrastructure   | 542.9     | 533.3     | 425.3     | 1.8               |              | 25.4  |   |
| Corporate reconciling items   | 389.8     | 282.3     | 242.7     | 38.1              |              | 16.3  |   |
| Total cost of revenue   | 8,075.5   | 7,838.6   | 6,984.1   | 3.0               |              | 12.2  |   |
| Gross margins:  |           |           |           |                   |              |       |   |
| Information Storage   | 8,939.3   | 8,326.5   | 6,890.7   | 7.4               |              | 20.9  |   |
| Information Intelligence Group  | 432.0     | 424.7     | 449.7     | 1.7               |              | (5.5) | ) |
| RSA Information Security  | 604.3     | 470.5     | 507.8     | 28.4              |              | (7.3) | ) |
| VMware Virtual Infrastructure   | 4,052.7   | 3,229.5   | 2,425.5   | 25.5              |              | 33.1  |   |
| Corporate reconciling items   | (389.8)   | (282.3)   | (242.7)   | 38.1              |              | 16.3  |   |
| Total gross margin  | 13,638.4  | 12,168.9  | 10,031.0  | 12.1              |              | 21.3  |   |
| Operating expenses:   |           |           |           |                   |              |       |   |
| Research and development <sup>(1)</sup>                                       | 2,559.6   | 2,149.8   | 1,888.0   | 19.1              |              | 13.9  |   |
| Selling, general and administrative <sup>(2)</sup>                            | 7,004.3   | 6,479.4   | 5,375.3   | 8.1               |              | 20.5  |   |
| Restructuring and acquisition-related charges                                 | 110.6     | 97.3      | 84.4      | 13.7              |              | 15.3  |   |
| Total operating expenses  | 9,674.5   | 8,726.5   | 7,347.7   | 10.9              |              | 18.8  |   |
| Operating income  | 3,963.9   | 3,442.4   | 2,683.3   | 15.1              |              | 28.3  |   |
| Investment income, interest expense and other expenses, net                   | (160.3)   | (193.2)   | (75.3)    | (17.0)            | )            | 156.6 |   |
| Income before income taxes  | 3,803.6   | 3,249.3   | 2,608.0   | 17.1              |              | 24.6  |   |
| Income tax provision  | 917.6     | 640.4     | 638.3     | 43.3              |              | 0.3   |   |
| Net income  | 2,886.0   | 2,608.9   | 1,969.7   | 10.6              |              | 32.5  |   |
| Less: Net income attributable to the non-controlling interest in VMware, Inc. | (153.4)   | (147.5)   | (69.7)    | 4.0               |              | 111.6 |   |
| Net income attributable to EMC Corporation                                    | \$2,732.6 | \$2,461.3 | \$1,900.0 | 11.0              | %            | 29.5  | % |

<sup>(1)</sup> Amount includes corporate reconciling items of \$337.9, \$322.6 and \$287.4 for the years ended December 31, 2012, 2011 and 2010, respectively.

(2) Amount includes corporate reconciling items of \$640.4, \$606.4 and \$477.5 for the years ended December 31, 2012, 2011 and 2010, respectively.

32

---

### Gross Margins

Our gross margin percentages were 62.8%, 60.8% and 59.0% in 2012, 2011 and 2010, respectively. The increase in the gross margin percentage in 2012 compared to 2011 was attributable to the VMware Virtual Infrastructure segment, which increased overall gross margins by 149 basis points, the RSA Information Security segment, which increased overall gross margins by 47 basis points, the Information Storage segment, which increased overall gross margins by 46 basis points and the Information Intelligence Group segment, which increased overall gross margins by 10 basis points. The increase in corporate reconciling items, consisting of stock-based compensation, acquisition-related intangible asset amortization, restructuring and acquisition-related charges and amortization of VMware's capitalized software from prior periods, decreased the consolidated gross margin percentage by 53 basis points. 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, the Information Storage segment, which increased overall gross margins by 126 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 4 basis points. The increase in corporate reconciling items, consisting of stock-based compensation, acquisition-related intangible asset amortization and restructuring and acquisition-related charges, decreased the consolidated gross margin percentage by 22 basis points.

For segment reporting purposes, stock-based compensation, acquisition-related intangible asset amortization, restructuring and acquisition-related charges and amortization of VMware's capitalized software from prior periods are recognized as corporate expenses and are not allocated among our various operating segments. The increase of \$107.5 in the corporate reconciling items in 2012 was attributable to a \$61.5 increase in amortization of VMware's capitalized software from prior periods, a \$41.9 increase in intangible asset amortization expense and a \$1.8 increase in stock-based compensation expense. The \$41.9 increase in intangible asset amortization expense is due to a larger intangible asset balance resulting from business acquisitions. 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. The \$15.0 increase in stock-based compensation expense was primarily attributable to the full-year impact of options exchanged in the acquisition of Isilon, which was acquired in the fourth quarter of 2010.

The gross margin percentages for the Information Storage segment were 57.3%, 56.4% and 54.1% in 2012, 2011 and 2010, respectively. The increase in gross margin percentage in 2012 compared to 2011 was primarily attributable to improved product gross margins driven by a shift in mix towards higher margin products and higher sales volume. The increase in gross margin percentage in 2011 compared to 2010 was primarily attributable to improved product and service gross margins driven by a shift in mix towards higher margin products and services, higher sales volume and an improved cost structure.

The gross margin percentages for the VMware Virtual Infrastructure segment were 88.2%, 85.8% and 85.1% in 2012, 2011 and 2010, respectively. The increase in gross margin percentage in 2012 compared to 2011 was primarily attributable to improvements in services margins due to growth in maintenance revenue as well as improved license margins resulting from decreased software capitalized amortization expense. The increase in gross margin percentage in 2011 compared to 2010 was primarily attributable to improved license gross margins resulting from decreased software capitalization amortization expense due to VMware's go-to-market strategy and the timing of products reaching technological feasibility.

The gross margin percentages for the RSA Information Security segment were 68.0%, 56.8% and 69.6% in 2012, 2011 and 2010, respectively. The increase in the gross margin percentage in 2012 compared to 2011 and the decrease in gross margin percentage in 2011 compared to 2010 was due to an increase in product margins primarily due to the one-time impact of RSA remediation associated with working with customers to implement remediation programs which negatively impacted gross margin in 2011, as well as a release of the residual reserve, which positively impacted gross margins in 2012.

The gross margin percentages for the Information Intelligence Group segment were 67.5%, 64.2% and 64.9% in 2012, 2011 and 2010, respectively. The increase in gross margin percentage in 2012 compared to 2011 was attributable to a continued containment of fixed costs and services margin improvement. The 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.

#### Research and Development

As a percentage of revenues, R&D expenses were 11.8%, 10.7% and 11.1% in 2012, 2011 and 2010, respectively. R&D expenses increased \$409.8 in 2012 primarily due to an increase in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, infrastructure costs and depreciation expense. Personnel-related costs increased by \$354.5, infrastructure costs increased by \$15.2 and depreciation expense increased by \$11.3. Also increasing these

costs was a decrease in capitalized software development costs of \$23.2. R&D expenses increased \$261.8 in 2011 primarily due to an increase in personnel-related costs, including stock-based compensation, infrastructure costs, depreciation expense and travel costs, partially offset by greater levels of software capitalization. Personnel-related costs increased by \$274.0, infrastructure costs 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.

Corporate reconciling items within R&D, which consist of stock-based compensation and acquisition-related intangible asset amortization, increased \$15.3 and \$35.2 to \$337.9 and \$322.6 in 2012 and 2011, respectively. Stock-based compensation expense increased \$25.5 and \$40.5 in 2012 and 2011, respectively. Acquisition-related intangible asset amortization decreased \$6.4 and \$7.1 in 2012 and 2011, respectively. The increase in stock-based compensation expense in 2012 was primarily driven by VMware's issuance of restricted stock in connection with the acquisition of Nicira in the third quarter of 2012. The increase in stock-based compensation expense in 2011 was primarily driven by EMC's issuance of stock options in connection with the acquisition of Isilon in the fourth quarter of 2010.

R&D expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 8.4%, 7.6% and 7.9% in 2012, 2011 and 2010, respectively. R&D expenses increased \$206.0 in 2012 primarily due to an increase in personnel-related costs, depreciation expense, business development costs and travel costs. Personnel-related costs increased by \$221.3, depreciation expense increased by \$15.1, business development costs increased by \$17.0 and travel costs increased by \$5.6. Partially offsetting these increased costs was a decrease in capitalized software development costs of \$49.5. R&D expenses increased \$116.5 in 2011 primarily due to increases in personnel-related costs, depreciation expense, travel costs and infrastructure costs. Personnel-related costs increased by \$124.8, depreciation expense increased by \$17.8, travel costs increased by \$6.1 and infrastructure costs increased by \$4.2. Partially offsetting these increased costs was an increase in capitalized software development costs of \$60.4.

R&D expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 16.9%, 15.6% and 16.8% in 2012, 2011 and 2010, respectively. R&D expenses increased \$188.4 in 2012 largely due to an increase in personnel-related costs of \$110.2 and to a decrease in VMware's capitalized software development costs of approximately \$74.0 in 2012, primarily due to a change in VMware's go-to-market strategy and the timing of products reaching technological feasibility. 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.

#### Selling, General and Administrative

As a percentage of revenues, selling, general and administrative ("SG&A") expenses were 32.3%, 32.4% and 31.6% in 2012, 2011 and 2010, respectively. SG&A expenses increased by \$524.9 in 2012 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, commissions, business development costs, infrastructure costs and depreciation expense. Personnel-related costs increased by \$248.6, commissions increased by \$131.3, business development costs increased

by \$67.4, infrastructure costs increased by \$29.9 and depreciation expense increased by \$22.1 in 2012. SG&A expenses increased by \$1,104.1 in 2011 from 2010 primarily due to increases in personnel-related costs, travel costs, commissions, infrastructure costs and depreciation expense. Personnel-related costs increased by \$768.0, travel costs increased by \$61.8, commissions increased by \$51.9, infrastructure costs increased by \$43.8 and depreciation expense increased by \$29.7 in 2011.

Corporate reconciling items within SG&A, which consist of stock-based compensation and acquisition-related intangible asset amortization increased \$34.1 to \$640.4 in 2012 and increased \$128.9 to \$606.4 in 2011. In 2012, stock-based compensation expense increased \$56.9, somewhat offset by decreases in intangible asset amortization of \$12.7. Stock-based compensation expense increased in 2012 primarily due to VMware's issuance of restricted stock in connection with the acquisition of Nicira. In 2011, intangible asset amortization increased \$38.2 and stock-based compensation expense increased \$95.6. Stock-based compensation expense increased in 2011 primarily due to the Isilon acquisition.



SG&A expenses within EMC's Information Infrastructure business, as a percentage of EMC's Information Infrastructure business revenues, were 26.7%, 27.0% and 26.4% in 2012, 2011 and 2010, respectively. SG&A expenses increased \$172.3 in 2012 primarily due to increases in personnel-related costs, commissions, business development costs, infrastructure costs and depreciation expense. Personnel-related costs increased slightly due to careful discretionary spending exceeding increases in salary resulting from strategic hiring and business acquisitions. Personnel-related costs increased by \$2.7, commissions increased by \$100.8, business development costs increased \$14.9, infrastructure costs increased by \$12.9 and depreciation expense increased by \$34.4 in 2012. SG&A expenses increased \$655.1 in 2011 primarily due to increases in personnel-related costs, travel costs, commissions, infrastructure costs and depreciation. Personnel-related costs increased by \$435.4, travel costs increased by \$45.8, commissions increased by \$28.7, infrastructure costs increased by \$21.2 and depreciation expense increased by \$20.7 in 2011.

SG&A expenses within the VMware Virtual Infrastructure business, as a percentage of VMware's revenues, were 39.2%, 39.4% and 40.7% in 2012, 2011 and 2010, respectively. SG&A expenses increased \$318.6 in 2012 primarily due to growth in personnel-related expenses driven by incremental headcount and by higher commission expense due to increased sales volume as well as an increase in the costs of marketing programs. SG&A as a percentage of revenues decreased in 2012 compared to 2011 due to the increase in revenue outpacing the increase in costs during the period. SG&A expenses increased \$320.0 in 2011. The increase in SG&A expenses in 2011 was primarily the result of growth in personnel-related expenses driven by incremental headcount and by higher commission expense due to increased sales volume.

#### Restructuring and Acquisition-Related Charges

In 2012, 2011 and 2010, we incurred restructuring and acquisition-related charges of \$110.6, \$97.3 and \$84.4, respectively. In 2012, we incurred \$100.9 of restructuring charges, primarily related to our current year restructuring programs and \$9.7 of charges in connection with acquisitions for financial, advisory, legal and accounting services. In 2011, we incurred \$86.0 of restructuring charges, of which \$63.2 primarily related to our 2011 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.

During 2012, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 1,163 positions. The actions impacted positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions are expected to be completed within a year of the start of each program.

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

During 2012, 2011 and 2010, we recognized \$20.8, \$26.1 and \$31.6, 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 2013 is approximately \$11.7, plus an additional \$12.3 over the period from 2013 and beyond.

#### Investment Income

Investment income was \$115.0, \$129.2 and \$142.5 in 2012, 2011 and 2010, respectively. Investment income decreased in 2012 and 2011 primarily due to a decrease in coupon income. Net realized gains were \$9.3, \$10.1 and \$15.8 in 2012, 2011 and 2010, respectively.

#### Interest Expense

Interest expense was \$78.9, \$170.5 and \$178.3 in 2012, 2011 and 2010, 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 \$60.6, \$115.9 and \$114.5 in 2012, 2011 and 2010, respectively. The decrease in interest expense from 2011 to 2012 is due to the

settlement of the 2011 Notes in the first quarter of 2012. We are accreting our Notes to their stated values over their terms. See Note E to the consolidated financial statements.

#### Other Income (Expense), Net

Other income (expense), net was \$(196.3), \$(152.0) and \$(39.5) in 2012, 2011 and 2010, respectively. Our 2012 other income (expense), net primarily consists of our consolidated share of the losses from our converged infrastructure joint venture, VCE Company LLC, of \$244.9 and losses on interest rate swaps, partially offset by our net gains from the sale of strategic investments including a non-recurring gain on our investment in XtremIO of \$31.6 as well as the divestiture of a business. Our 2011 other income (expense), net primarily consists of our consolidated share of the losses from VCE of \$209.2, partially offset by the non-recurring gain on the sale of VMware's investment in Terremark Worldwide, Inc. of \$56.0. Other income (expense), net in 2010 was primarily attributable to our consolidated share of the losses from VCE of \$42.8.

The VCE joint venture is accounted for under the equity method and our consolidated share of VCE's losses is based upon our portion of the overall funding, which was approximately 63.2%, and represents our share of the net losses of the joint venture net of equity accounting adjustments. The losses recognized from the joint venture exclude our consolidated revenues and gross margins from sales of products and services to VCE, and any additional related selling expenses. See Note J to the consolidated financial statements.

#### Provision for Income Taxes

Our effective income tax rate was 24.1%, 19.7% and 24.5% in 2012, 2011 and 2010, respectively. The effective income tax rate is based upon the income for the year, the composition of the income in different countries, effect of tax law changes 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 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 2012, the lower aggregate income tax rate in foreign jurisdictions reduced our effective rate by 13.6 percentage points compared to our statutory federal tax rate of 35.0%. The net effect of tax credits, state taxes, non-deductible permanent differences, prior year true up adjustments, change in tax contingency reserves and other items collectively increased the rate by 2.7 percentage points.

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.

The effective tax rate increased from 2011 to 2012 by 4.4%, from 19.7% to 24.1%, respectively. This increase was principally attributable to the federal tax credit for increasing research activities as well as a decrease in unrecognized tax benefits as a result of various tax audit closures recorded in 2011 with no comparable amounts in 2012. The effective tax rate decreased from 2010 to 2011 by 4.8%, from 24.5% to 19.7%, respectively. 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.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law. Some of the provisions were retroactive to January 1, 2012 including an extension of the U.S. federal tax credit for increasing research activities through December 31, 2013. Because the extension was enacted after December 31, 2012, our 2012 effective tax rate does not reflect our estimated 2012 federal tax credit for increasing research activities even though it will be reported on our 2012 federal income tax returns. Had the extension been enacted prior to January 1, 2013, our overall tax provision would have been approximately \$66.5 lower reducing our effective tax rate from 24.1% to 22.4%. We expect that our income tax provision for the first quarter of 2013 will include the estimated 2012 federal tax credit for increasing research activities as a discrete tax benefit which will reduce our effective tax rate for the quarter and to a lesser extent our annual effective tax rate for 2013.

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

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

The net income attributable to the non-controlling interest in VMware was \$153.4, \$147.5 and \$69.7 in 2012, 2011 and 2010, respectively. The increases year over year 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 \$745.7, \$723.9 and \$357.4 in 2012, 2011 and 2010, respectively. The weighted-average non-controlling interest in VMware was approximately 20.3%, 20.4% and 19.5% in 2012, 2011 and 2010, respectively. In the first quarter of 2010, we announced a stock purchase program of VMware's Class A common stock to maintain an approximately 80% majority ownership in VMware over the long term. As of December 31, 2012, we have purchased approximately 14.0 million shares for \$1,099.1.

#### Financial Condition

Cash provided by operating activities was \$6,262.4, \$5,668.8 and \$4,548.8 for 2012, 2011 and 2010, respectively. Cash received from customers was \$22,584.8, \$21,144.7 and \$17,585.4 in 2012, 2011 and 2010, respectively. The increase in cash received from customers from 2010 to 2011 and from 2011 to 2012 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 \$16,018.5, \$15,218.7 and \$12,830.7 in 2012, 2011 and 2010, respectively. The increase in cash paid to suppliers and employees from 2010 to 2011 and from 2011 to 2012 was primarily due to a general growth in the business to support the increased revenue base. Income taxes paid was \$374.4, \$323.1 and \$232.1 in 2012, 2011 and 2010, 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.

Cash used in investing activities was \$3,905.1, \$3,543.5 and \$6,476.0 in 2012, 2011 and 2010, respectively. Cash used for business acquisitions, net of cash acquired, was \$2,135.8, \$536.6 and \$3,194.6 in 2012, 2011 and 2010, respectively. The increase in cash used from 2011 to 2012 was due to an increase in acquisition activity with EMC and VMware collectively acquiring seventeen companies during 2012, including the acquisition of Nicira for \$1,099.6, compared to the acquisition of seven businesses during 2011. In 2010, we acquired ten companies including the acquisition of Isilon for \$2,301.1 net of cash acquired. Net cash used for strategic and other related investments was \$46.5 and \$300.5 in 2012 and 2011, respectively, and net cash provided by strategic and other related investments was \$123.9 in 2010. In 2011, cash used for strategic and other related investments included \$112.5 spent on the purchase of patents from Novell. During 2012, we provided funding of \$227.9 to our joint ventures, VCE Company LLC, Canopy, our joint venture with Atos, and LenovoEMC, our joint venture with Lenovo Group Limited. In 2011

and 2010, we provided VCE funding of \$383.2 and \$29.6, respectively. During 2011, VMware purchased a leasehold interest for \$151.1. During 2012, we received \$58.1 in cash proceeds from the divestiture of our Iomega business. Capital additions were \$819.2, \$801.4 and \$745.4 in 2012, 2011 and 2010, respectively. Capitalized software development costs were \$419.1, \$442.3 and \$363.0 in 2012, 2011 and 2010, respectively. The decrease in 2012 compared to 2011 was primarily attributable to VMware's change in its go-to-market strategy, somewhat offset by EMC Information Infrastructure's efforts on its software development activities. The increase in 2011 was primarily attributable to EMC Information Infrastructure's software development activities. Net purchases of investments were \$314.8, \$928.4 and \$2,267.3 in 2012, 2011 and 2010, respectively. This activity varies from period to period based upon our cash collections, cash requirements and maturity dates of our investments. Cash used in financing activities was \$2,149.0, \$1,718.5 and \$243.8 in 2012, 2011 and 2010, respectively. In 2012, we spent \$1,699.8 for payment of our convertible debt. In 2012, 2011 and 2010, cash used to repurchase 27.1 million, 81.8 and 52.7 million

shares of EMC common stock was \$684.6, \$2,000.0 and \$999.9, respectively. Additionally, in 2012, 2011 and 2010, cash used to purchase 3.4 million, 4.6 million and 6.0 million shares of VMware common stock was \$290.3, \$400.0 and \$399.2, respectively. In 2012, 2011 and 2010, VMware spent \$467.5, \$526.2 and \$338.5 to repurchase 5.1 million, 6.0 million and 4.9 million shares of its common stock, respectively. We generated \$813.4, \$1,011.0 and \$1,212.0 in 2012, 2011 and 2010, respectively, from the exercise of stock options and the purchase of shares within the employee stock plans. We generated \$260.7, \$361.6 and \$281.9 in 2012, 2011 and 2010, respectively, of excess tax benefits from stock-based compensation. In 2012 and 2011, we spent \$69.9 and \$141.0, respectively, 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.

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

The remaining \$1,710.1 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, 2012, the contingent conversion thresholds on the 2013 Notes were exceeded. As a result, the 2013 Notes are convertible at the option of the holder through March 31, 2013. Upon conversion, we are obligated to pay cash up to the principal amount of the debt converted. We have the option to settle any conversion value in excess of the principal amount with cash, shares of our common stock, or a combination thereof. Approximately \$14.9 of the 2013 Notes have been converted as of December 31, 2012.

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. We paid an aggregate amount of \$669.1 of the proceeds from the sale of the Notes for the Purchased Options that was recorded as additional paid-in-capital in shareholders' equity. In the fourth quarter of 2011, we exercised 107.5 million of the Purchased Options in conjunction with the planned settlements of the 2011 Notes, and we received 29.5 million shares of net settlement on January 9, 2012, representing the excess conversion value of the options. The remaining 107.5 million of the Purchased Options expire on December 1, 2013.

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

We have available for use a credit line of \$50.0 in the United States. As of December 31, 2012, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At December 31, 2012, we were in compliance with the covenants. As of December 31, 2012, the aggregate amount of liabilities of our subsidiaries was approximately \$5,884.5.

At December 31, 2012, our total cash, cash equivalents, and short-term and long-term investments were \$11,395.7. This balance includes approximately \$4,630.8 held by VMware, of which \$2,996.7 is held overseas, and \$2,743.8 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, amortization of VMware's capitalized software from prior periods, infrequently occurring gains, losses, benefits 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. In addition, the benefit of the U.S. research and development ("R&D") tax credit for 2012 is included in the non-GAAP results for the fourth quarter of 2012. 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, 2012 and 2011 were as follows:

|  | For the Three Months Ended |                      | For the Year Ended   |                      |   |
|--|----------------------------|----------------------|----------------------|----------------------|---|
|  | December 31,<br>2012       | December 31,<br>2011 | December 31,<br>2012 | December 31,<br>2011 |   |
| Gross margin                                   | \$3,990.6                  | \$3,595.8            | \$14,000.6           | \$12,516.1           |   |
| Gross margin percentage                        | 66.2                       | % 64.5               | % 64.5               | % 62.6               | % |
| Operating income                               | 1,656.2                    | 1,467.8              | 5,397.1              | 4,784.0              |   |
| Operating income percentage                    | 27.5                       | % 26.3               | % 24.9               | % 23.9               | % |
| Income tax provision                           | 358.3                      | 253.4                | 1,233.5              | 949.3                |   |
| Net income attributable to EMC                 | 1,193.6                    | 1,065.2              | 3,759.5              | 3,380.5              |   |
| Diluted earnings per share attributable to EMC | \$0.54                     | \$0.49               | \$1.70               | \$1.51               |   |

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

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

| For the Three Months Ended December 31, 2012 |                             |                                     |  |   |                          |                      |          |
|--|-----------------------------|-------------------------------------|--|---|--------------------------|----------------------|----------|
| GAAP   | Stock-based<br>compensation | Intangible<br>asset<br>amortization | Restructuring<br>and<br>acquisition-<br>related<br>charges | Amortization<br>of<br>VMware's<br>capitalized<br>software | Special<br>tax<br>charge | R&D<br>tax<br>credit | Non-GAAP |
|  |                             |                                     |  |   |                          |                      |          |

Edgar Filing: EMC CORP - Form 10-K

|  |           |         |         |        |                       |         |         |            |
|--|-----------|---------|---------|--------|-----------------------|---------|---------|------------|
|  |           |         |         |        | from prior<br>periods |         |         |            |
| Gross margin   | \$3,890.2 | \$ 30.8 | \$ 57.1 | \$—    | \$ 12.5               | \$—     | \$—     | \$ 3,990.6 |
| Operating income                                     | 1,268.6   | 246.9   | 98.1    | 30.0   | 12.5                  | —       | —       | 1,656.2    |
| Income tax provision                                 | 327.0     | 68.8    | 29.1    | 7.3    | 4.1                   | (11.5 ) | (66.5 ) | 358.3      |
| Net income attributable<br>to EMC                    | 869.9     | 159.6   | 63.9    | 22.7   | 6.7                   | 10.7    | 60.0    | 1,193.6    |
| Diluted earnings per<br>share attributable to<br>EMC | \$0.39    | \$ 0.07 | \$0.03  | \$0.01 | \$—                   | \$0.01  | \$0.03  | \$ 0.54    |

39

---

Edgar Filing: EMC CORP - Form 10-K

For the Three Months Ended December 31, 2011

|  | GAAP      | Stock-based compensation | Intangible asset amortization | Restructuring and acquisition-related charges | 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 Twelve Months Ended December 31, 2012

|  | GAAP       | Stock-based compensation | Intangible asset amortization | Restructuring and acquisition-related charges | Amortization of VMware's capitalized software from prior periods | RSA special charge (release) | Loss on interest rate swaps | Gain on strategic investment | Special tax charge | R&D tax credit | Non-GAAP   |
|--|------------|--------------------------|-------------------------------|---|--|------------------------------|-----------------------------|------------------------------|--------------------|----------------|------------|
| Gross margin                                   | \$13,638.4 | \$ 125.5                 | \$ 199.1                      | \$ —  | \$ 61.5  | \$(23.8)                     | \$ —                        | \$ —                         | \$ —               | \$ —           | \$14,000.6 |
| Operating income                               | 3,963.9    | 920.3                    | 364.7                         | 110.6   | 61.5   | (23.8)                       | —                           | —                            | —                  | —              | \$5,397.1  |
| Income tax provision                           | 917.6      | 230.5                    | 112.7                         | 21.5  | 19.9   | (5.7)                        | 15.0                        | —                            | (11.5)             | (66.5)         | 1,233.5    |
| Net income attributable to EMC                 | 2,732.6    | 622.5                    | 237.6                         | 88.3  | 33.0   | (18.1)                       | 24.5                        | (31.6)                       | 10.7               | 60.0           | 3,759.5    |
| Diluted earnings per share attributable to EMC | \$1.23     | \$ 0.28                  | \$ 0.11                       | \$ 0.04                                       | \$ 0.02  | \$(0.01)                     | \$ 0.01                     | \$ 0.01                      | \$ 0.01            | \$ 0.03        | \$ 1.70    |

For the Twelve Months Ended December 31, 2011

|  | GAAP       | Stock-based compensation | Intangible asset amortization | Restructuring and acquisition-related charges | RSA special charge (release) | Gain on strategic investment | 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      |
| 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                      | 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    |

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, 2012, our free cash flow was \$5,024.2, an increase

of 14% compared to the free cash flow generated for the year ended December 31, 2011. The free cash flow for the twelve months ended December 31, 2012 exceeded our non-GAAP net income attributable to EMC by \$1,264.7. EMC uses free cash flow, among other measures, to evaluate the ability of its operations to generate cash that is available for purposes other than capital expenditures and capitalized software development costs. Management believes that information regarding free cash flow provides investors with an important perspective on the cash available to make strategic acquisitions and investments, fund joint ventures, repurchase shares, service debt and fund ongoing operations. As free cash flow is not a measure of liquidity calculated in accordance with GAAP, free cash flow should be considered in addition to, but not as a substitute for, the analysis provided in the statements of cash flows.

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

|  | For the Three Months Ended |                      | For the Year Ended   |                      |
|--|----------------------------|----------------------|----------------------|----------------------|
|  | December 31,<br>2012       | December 31,<br>2011 | December 31,<br>2012 | December 31,<br>2011 |
| Cash Flow from Operations              | \$1,899.3                  | \$2,184.2            | \$6,262.4            | \$5,668.8            |
| Capital Expenditures                   | (295.7)                    | (200.2)              | (819.2)              | (801.4)              |
| Capitalized Software Development Costs | (103.3)                    | (100.3)              | (419.1)              | (442.3)              |
| Free Cash Flow                         | \$1,500.4                  | \$1,883.8            | \$5,024.2            | \$4,425.1            |

Free cash flow represents a non-GAAP measure related to operating cash flows. In contrast, our GAAP measures of cash flow consist of three components. These are cash flows provided by operating activities of \$6,262.4 and \$5,668.8 for the years ended December 31, 2012 and 2011, respectively, cash used in investing activities of \$3,905.1 and \$3,543.5 for the years ended December 31, 2012 and 2011, respectively, and net cash used in financing activities of \$2,149.0 and \$1,718.5 for the years ended December 31, 2012 and 2011, respectively.

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

#### Investments

The following table summarizes the composition of our investments at December 31, 2012:

|  | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>(Losses) | Aggregate<br>Fair Value |
|--|-------------------|---------------------|------------------------|-------------------------|
| U.S. government and agency obligations | \$2,187.0         | \$10.2              | \$(1.0)                | \$2,196.2               |
| U.S. corporate debt securities         | 1,470.8           | 10.2                | (0.5)                  | 1,480.5                 |
| High yield corporate debt securities   | 477.0             | 34.2                | (0.8)                  | 510.4                   |
| Asset-backed securities                | 2.1               | —                   | —                      | 2.1                     |
| Municipal obligations                  | 1,020.4           | 3.0                 | (0.5)                  | 1,022.9                 |
| Auction rate securities                | 73.5              | —                   | (3.4)                  | 70.1                    |
| Foreign debt securities                | 1,264.2           | 9.1                 | (0.3)                  | 1,273.0                 |
| Total fixed income securities          | 6,494.9           | 66.7                | (6.4)                  | 6,555.2                 |
| Publicly traded equity securities      | 48.5              | 38.7                | (0.7)                  | 86.5                    |
| Total                                  | \$6,543.4         | \$105.4             | \$(7.2)                | \$6,641.7               |

Our fixed income and equity investments are classified as available for sale and recorded at their fair market values. At December 31, 2012, 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, 2012, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating, third party guarantees

and the time to maturity.

41

---

## 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, 2012:

|   | Payments Due By Period |                  |            |             |                   |
|---|------------------------|------------------|------------|-------------|-------------------|
|   | Total                  | Less than 1 year | 1-2 years* | 3-4 years** | More than 4 years |
| Operating leases  | \$ 1,675.7             | \$ 284.5         | \$ 448.1   | \$ 247.7    | \$ 695.4          |
| Convertible debt  | 1,710.1                | 1,710.1          | —          | —           | —                 |
| Product warranty obligations  | 277.9                  | —                | —          | —           | —                 |
| Other long-term obligations, including notes payable and current portion of long-term obligations and post retirement obligations | 338.9                  | 153.3            | 1.3        | 0.7         | 1.0               |
| Purchase orders   | 2,370.3                | —                | —          | —           | —                 |
| Uncertain tax positions and related interest  | 304.9                  | —                | —          | —           | —                 |
| Total   | \$ 6,677.8             | \$ 2,147.9       | \$ 449.3   | \$ 248.5    | \$ 696.4          |

\*Includes payments from January 1, 2014 through December 31, 2015.

\*\*Includes payments from January 1, 2016 through December 31, 2017.

As of December 31, 2012, we had \$277.9 of product warranty obligations, \$182.7 of long-term post retirement obligations, \$2,370.3 of purchase orders and \$304.9 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 convertible debt pertains to the 2013 Notes. The holders of the 2013 Notes may convert their 2013 Notes at their option on any day prior to the close of business on the scheduled trading day immediately preceding September 1, 2013 only under the following circumstances: (1) during the five business-day period after any five consecutive trading-day period (the "measurement period") in which the price per 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, 2012, 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, 2013. Accordingly, since the terms of the 2013 Notes require the principal to be settled in cash, we reclassified from equity the portion of the 2013 Notes attributable to the conversion feature which had not yet been accreted to its face value and the 2013 Notes 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.

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 \$151.0 as of December 31, 2012. 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, 2012, we believe our liability on the above guarantees and indemnities at December 31, 2012 is not material.

#### Pension

We have a noncontributory defined benefit 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. This plan has been frozen resulting in employees no longer accruing pension benefits for future services. The assets for this defined benefit plan 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, 2012 remains at 6.75%. The Company has begun to shift, and may continue to shift in the future, its asset allocation to lower the percentage of investments in equity securities and increase the percentage of investments in long-duration fixed-income securities. The effect of such a change could result in a reduction to the long-term rate of return on plan assets and an increase in future pension expense consistent with the sensitivity described below. The actual long-term rate of return for the ten years ended December 31, 2012 was 8.40%. Based upon current market conditions, the expected long-term rate of return for 2013 will be 6.75%. A 25 basis point change in the expected long-term rate of return on the plans' assets would have approximately a \$1.1 impact on the 2013 pension expense.

As of December 31, 2012, the pension plan had a \$231.5 unrecognized actuarial loss that will be expensed over the average future working lifetime of active participants. For the year ended December 31, 2012, the discount rate to



determine the benefit obligation was 3.71%. 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 reflect high quality bond yields in effect at December 31, 2012. 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 \$0.4 impact on the 2013 pension expense.

### 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 \$13.9 and \$12.7 in 2012 and 2011, 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, 2012, 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.

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. We employ both qualitative and quantitative tests of our goodwill. For several of our reporting units, we performed a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary and determined there was no impairment. For other reporting units we evaluated goodwill using a quantitative model. For all of our goodwill assessments we determined that 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 2012, 2011, 2010 and prior years. The restructuring charges include, among other items, estimated employee termination benefit costs, subletting leased facilities and the cost of terminating 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.

## 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 daily rates. 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, 2012, 2011 and 2010 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 \$19.4 million, \$30.6 million and \$3.6 million at December 31, 2012, 2011 and 2010, 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 \$3.3 million as of December 31, 2012 and \$4.0 million as of December 31, 2011. The average, high and low value-at-risk amounts for 2012 and 2011 were as follows (in millions):

|      | Average | High  | Low   |
|------|---------|-------|-------|
| 2012 | \$3.3   | \$5.5 | \$2.3 |
| 2011 | \$4.0   | \$5.2 | \$3.1 |

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

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 and limit our exposure to Prime funds. 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 and institution. Due to the European financial crisis, in the fourth quarter of 2011, we took steps to limit exposure to investments and financial institutions 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 \$72.3 million and \$64.7 million at December 31, 2012 and 2011, 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.

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>                                     | <u>49</u>  |
| <u>Report of Independent Registered Public Accounting Firm</u>  | <u>50</u>  |
| <u>Consolidated Balance Sheets at December 31, 2012 and 2011</u>  | <u>51</u>  |
| <u>Consolidated Income Statements for the years ended December 31, 2012, 2011 and 2010</u>                  | <u>52</u>  |
| <u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010</u> | <u>53</u>  |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010</u>           | <u>54</u>  |
| <u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010</u> | <u>56</u>  |
| <u>Notes to Consolidated Financial Statements</u>   | <u>58</u>  |
| Schedule:   |            |
| <u>Schedule II-Valuation and Qualifying Accounts</u>  | <u>S-1</u> |

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.



## 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, 2012. 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, 2012, 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 50 of this Annual Report on Form 10-K.

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, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 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, 2012, 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 8. 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.

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 27, 2013

EMC CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except per share amounts)

|  | December 31, |              |
|--|--------------|--------------|
|  | 2012         | 2011         |
| <b>ASSETS</b>  |              |              |
| Current assets:  |              |              |
| Cash and cash equivalents  | \$4,754,060  | \$4,531,036  |
| Short-term investments   | 1,413,060    | 1,786,987    |
| Accounts and notes receivable, less allowance for doubtful accounts of \$68,465 and \$61,804                       | 3,433,389    | 2,937,499    |
| Inventories  | 1,201,020    | 1,009,968    |
| Deferred income taxes  | 941,775      | 852,848      |
| Other current assets   | 465,305      | 583,885      |
| Total current assets   | 12,208,609   | 11,702,223   |
| Long-term investments  | 5,228,608    | 4,525,106    |
| Property, plant and equipment, net   | 3,144,548    | 2,833,149    |
| Intangible assets, net   | 2,035,340    | 1,766,115    |
| Goodwill   | 13,839,700   | 12,154,970   |
| Other assets, net  | 1,611,880    | 1,487,704    |
| Total assets   | \$38,068,685 | \$34,469,267 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |              |              |
| Current liabilities:   |              |              |
| Accounts payable   | \$1,040,664  | \$1,101,659  |
| Accrued expenses   | 2,522,059    | 2,354,979    |
| Notes converted and payable (See Note E)   | —            | 1,699,832    |
| Income taxes payable   | 514,302      | 155,909      |
| Convertible debt (See Note E)  | 1,652,442    | 1,605,142    |
| Deferred revenue   | 4,574,529    | 3,458,689    |
| Total current liabilities  | 10,303,996   | 10,376,210   |
| Income taxes payable   | 293,105      | 238,851      |
| Deferred revenue   | 2,976,328    | 2,715,361    |
| Deferred income taxes  | 574,846      | 451,905      |
| Other liabilities  | 338,915      | 287,912      |
| Total liabilities  | 14,487,190   | 14,070,239   |
| Convertible debt (See Note E)  | 57,704       | 119,325      |
| 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 2,106,959 and 2,048,890 shares | 21,070       | 20,489       |
| Additional paid-in capital   | 3,691,112    | 3,405,513    |
| Retained earnings  | 18,853,234   | 16,120,621   |
| Accumulated other comprehensive loss, net  | (208,273 )   | (235,009 )   |
| Total EMC Corporation's shareholders' equity   | 22,357,143   | 19,311,614   |
| Non-controlling interest in VMware, Inc.   | 1,166,648    | 968,089      |
| Total shareholders' equity   | 23,523,791   | 20,279,703   |
| Total liabilities and shareholders' equity   | \$38,068,685 | \$34,469,267 |

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

51

---

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

|  | For the<br>Year Ended December 31, |               |               |
|--|------------------------------------|---------------|---------------|
|  | 2012                               | 2011          | 2010          |
| Revenues:  |                                    |               |               |
| Product sales  | \$ 13,060,523                      | \$ 12,590,742 | \$ 10,892,857 |
| Services   | 8,653,379                          | 7,416,846     | 6,122,269     |
|  | 21,713,902                         | 20,007,588    | 17,015,126    |
| Costs and expenses:  |                                    |               |               |
| Cost of product sales  | 5,258,164                          | 5,319,761     | 4,882,031     |
| Cost of services   | 2,817,375                          | 2,518,885     | 2,102,114     |
| Research and development   | 2,559,612                          | 2,149,787     | 1,888,015     |
| Selling, general and administrative  | 7,004,287                          | 6,479,382     | 5,375,305     |
| Restructuring and acquisition-related charges  | 110,590                            | 97,334        | 84,375        |
| Operating income   | 3,963,874                          | 3,442,439     | 2,683,286     |
| Non-operating income (expense):  |                                    |               |               |
| Investment income  | 114,993                            | 129,248       | 142,536       |
| Interest expense   | (78,903 )                          | (170,466 )    | (178,345 )    |
| Other income (expense), net  | (196,349 )                         | (151,951 )    | (39,494 )     |
| Total non-operating income (expense)   | (160,259 )                         | (193,169 )    | (75,303 )     |
| Income before provision for income taxes   | 3,803,615                          | 3,249,270     | 2,607,983     |
| Income tax provision   | 917,598                            | 640,385       | 638,297       |
| Net income   | 2,886,017                          | 2,608,885     | 1,969,686     |
| Less: Net income attributable to the non-controlling interest in VMware, Inc.                      | (153,404 )                         | (147,548 )    | (69,691 )     |
| Net income attributable to EMC Corporation   | \$ 2,732,613                       | \$ 2,461,337  | \$ 1,899,995  |
| Net income per weighted average share, basic attributable to EMC Corporation common shareholders   | \$ 1.31                            | \$ 1.20       | \$ 0.92       |
| Net income per weighted average share, diluted attributable to EMC Corporation common shareholders | \$ 1.23                            | \$ 1.10       | \$ 0.88       |
| Weighted average shares, basic   | 2,093,372                          | 2,055,536     | 2,055,959     |
| Weighted average shares, diluted   | 2,205,639                          | 2,229,113     | 2,147,931     |
| The accompanying notes are an integral part of the consolidated financial statements.              |                                    |               |               |

EMC CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(in thousands)

|   | For the<br>Year Ended December 31, |             |             |
|---|------------------------------------|-------------|-------------|
|   | 2012                               | 2011        | 2010        |
| Net income  | \$2,886,017                        | \$2,608,885 | \$1,969,686 |
| Other comprehensive income (loss), net of taxes (benefits):   |                                    |             |             |
| Foreign currency translation adjustments  | 1,994                              | (3,797)     | (4,634)     |
| Changes in market value of investments:   |                                    |             |             |
| Changes in unrealized gains (losses), net of taxes (benefits) of \$30,788, \$(11,379) and \$23,934  | 53,185                             | (20,525)    | 44,826      |
| Reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of \$(4,014), \$(4,175) and \$(4,178)            | (5,264)                            | (5,201)     | (11,792)    |
| Net change in market value of investments   | 47,921                             | (25,726)    | 33,034      |
| Changes in market value of derivatives:   |                                    |             |             |
| Changes in market value of derivatives, net of taxes (benefits) of \$(20,497), \$(58,332) and \$(3,095)   | (35,935)                           | (91,095)    | (1,614)     |
| Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of \$15,460, \$(475) and \$(907)                 | 27,736                             | (3,417)     | (6,531)     |
| Net change in the market value of derivatives   | (8,199)                            | (94,512)    | (8,145)     |
| Recognition of actuarial net gain (loss) from pension and other postretirement plan, net of taxes (benefits) of \$(5,490), \$(11,410) and \$(1,392) | (14,064)                           | (22,050)    | (4,057)     |
| Other comprehensive income (loss)   | 27,652                             | (146,085)   | 16,198      |
| Comprehensive income  | 2,913,669                          | 2,462,800   | 1,985,884   |
| Net income attributable to the non-controlling interest in VMware, Inc.   | (153,404)                          | (147,548)   | (69,691)    |
| Other comprehensive income (loss) attributable to the non-controlling interest in VMware, Inc.  | (916)                              | 3,693       | (3,093)     |
| Comprehensive income attributable to EMC Corporation  | \$2,759,349                        | \$2,318,945 | \$1,913,100 |

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

EMC CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

|   | For the Year Ended December 31, |               |               |
|---|---------------------------------|---------------|---------------|
|   | 2012                            | 2011          | 2010          |
| Cash flows from operating activities:   |                                 |               |               |
| Cash received from customers  | \$22,584,805                    | \$21,144,690  | \$17,585,447  |
| Cash paid to suppliers and employees  | (16,018,457 )                   | (15,218,678 ) | (12,830,684 ) |
| Dividends and interest received   | 103,174                         | 135,971       | 102,912       |
| Interest paid   | (32,751 )                       | (70,071 )     | (76,711 )     |
| Income taxes paid   | (374,352 )                      | (323,097 )    | (232,121 )    |
| Net cash provided by operating activities   | 6,262,419                       | 5,668,815     | 4,548,843     |
| Cash flows from investing activities:   |                                 |               |               |
| Additions to property, plant and equipment  | (819,159 )                      | (801,375 )    | (745,412 )    |
| Capitalized software development costs  | (419,079 )                      | (442,341 )    | (362,956 )    |
| Purchases of short- and long-term available-for-sale securities                   | (6,346,580 )                    | (7,180,169 )  | (6,329,894 )  |
| Sales of short- and long-term available-for-sale securities                       | 4,982,790                       | 5,121,454     | 3,625,260     |
| Maturities of short- and long-term available-for-sale securities                  | 1,048,979                       | 1,130,321     | 437,297       |
| Business acquisitions, net of cash acquired                                       | (2,135,758 )                    | (536,624 )    | (3,194,611 )  |
| Purchases of strategic and other related investments                              | (117,103 )                      | (329,483 )    | (24,946 )     |
| Sales of strategic and other related investments                                  | 70,623                          | 29,007        | 148,813       |
| Joint venture funding   | (227,881 )                      | (383,211 )    | (29,600 )     |
| Proceeds from divestiture of business   | 58,100                          | —             | —             |
| Purchase of leasehold interest  | —                               | (151,083 )    | —             |
| Net cash used in investing activities   | (3,905,068 )                    | (3,543,504 )  | (6,476,049 )  |
| Cash flows from financing activities:   |                                 |               |               |
| Issuance of EMC's common stock from the exercise of stock options                 | 560,275                         | 673,389       | 780,732       |
| Issuance of VMware's common stock from the exercise of stock options              | 253,159                         | 337,618       | 431,306       |
| EMC repurchase of EMC's common stock  | (684,559 )                      | (1,999,968 )  | (999,924 )    |
| EMC purchase of VMware's common stock   | (290,294 )                      | (399,984 )    | (399,224 )    |
| VMware repurchase of VMware's common stock  | (467,534 )                      | (526,203 )    | (338,527 )    |
| Excess tax benefits from stock-based compensation                                 | 260,747                         | 361,632       | 281,872       |
| Payment of long-term and short-term obligations                                   | (15,629 )                       | (27,089 )     | (4,128 )      |
| Proceeds from long-term and short-term obligations                                | 4,604                           | 3,096         | 4,066         |
| Payment of convertible debt   | (1,699,816 )                    | —             | —             |
| Interest rate contract settlement   | (69,905 )                       | (140,993 )    | —             |
| Net cash used in financing activities   | (2,148,952 )                    | (1,718,502 )  | (243,827 )    |
| Effect of exchange rate changes on cash and cash equivalents                      | 14,625                          | 5,089         | (12,328 )     |
| Net increase (decrease) in cash and cash equivalents                              | 223,024                         | 411,898       | (2,183,361 )  |
| Cash and cash equivalents at beginning of period                                  | 4,531,036                       | 4,119,138     | 6,302,499     |
| Cash and cash equivalents at end of period  | \$4,754,060                     | \$4,531,036   | \$4,119,138   |
| Reconciliation of net income to net cash provided by operating activities:        |                                 |               |               |
| Net income  | \$2,886,017                     | \$2,608,885   | \$1,969,686   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |               |               |
| Depreciation and amortization   | 1,527,748                       | 1,421,598     | 1,167,550     |
| Non-cash interest expense on convertible debt                                     | 46,178                          | 102,907       | 105,649       |
| Non-cash restructuring and other special charges                                  | 12,974                          | (1,484 )      | 6,861         |

Edgar Filing: EMC CORP - Form 10-K

|   |             |             |             |
|---|-------------|-------------|-------------|
| Stock-based compensation expense                        | 895,384     | 822,576     | 667,728     |
| Provision for doubtful accounts                         | 39,313      | 20,255      | 18,965      |
| Deferred income taxes, net                              | (117,573)   | (19,423)    | (49,787)    |
| Excess tax benefits from stock-based compensation       | (260,747)   | (361,632)   | (281,872)   |
| Gain on XtremIO common stock                            | (31,599)    | —           | —           |
| Other, net  | 20,337      | 4,573       | (21,250)    |
| Changes in assets and liabilities, net of acquisitions: |             |             |             |
| Accounts and notes receivable                           | (535,371)   | (391,672)   | (405,758)   |
| Inventories   | (458,663)   | (393,156)   | (114,111)   |
| Other assets  | 174,386     | (61,830)    | (54,469)    |
| Accounts payable  | 89,299      | 34,871      | 154,496     |
| Accrued expenses  | (64,238)    | 5,147       | 4,162       |
| Income taxes payable                                    | 660,819     | 336,711     | 455,964     |
| Deferred revenue  | 1,366,961   | 1,508,520   | 957,114     |
| Other liabilities                                       | 11,194      | 31,969      | (32,085)    |
| Net cash provided by operating activities               | \$6,262,419 | \$5,668,815 | \$4,548,843 |

Non-cash investing and financing activity:



EMC CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

|   | For the Year Ended December 31, |         |          |
|---|---------------------------------|---------|----------|
|   | 2012                            | 2011    | 2010     |
| Issuance of common stock and stock options exchanged in business acquisitions | \$23,572                        | \$3,224 | \$28,668 |
| Investment in joint venture   | \$32,745                        | \$—     | \$—      |

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

55

---

EMC CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(in thousands)

|   | Common Stock |           | Additional      | Retained     | Accumulated              | Non-controlling    | Shareholders' |
|---|--------------|-----------|-----------------|--------------|--------------------------|--------------------|---------------|
|   | Shares       | Par Value | Paid-in Capital | Earnings     | Other Comprehensive Loss | Interest in VMware | Equity        |
| Balance, January 1, 2010  | 2,052,441    | \$20,524  | \$4,375,405     | \$11,759,289 | \$(105,722 )             | \$ 510,592         | \$16,560,088  |
| 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.                   | —            | —         | (218,642 )      | —            | —                        | 224,669            | 6,027         |
| 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)/from 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    | 4,283,830       | 13,659,284   | (92,617 )                | 762,736            | 18,633,925    |
| 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       |
|   | 9,869        | 99        | (120,179 )      | —            | —                        | —                  | (120,080 )    |

|   |           |        |              |            |            |           |              |
|---|-----------|--------|--------------|------------|------------|-----------|--------------|
| Restricted stock grants, cancellations and withholdings, net      |           |        |              |            |            |           |              |
| 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.                   | —         | —      | (416,533 )   | —          | —          | 106,664   | (309,869 )   |
| 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)/from 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 | 3,405,513    | 16,120,621 | (235,009 ) | 968,089   | 20,279,703   |
| Stock issued through stock option and stock purchase plans        | 41,972    | 420    | 559,855      | —          | —          | —         | 560,275      |
| Tax benefit from stock options exercised                          | —         | —      | 267,122      | —          | —          | —         | 267,122      |
| Restricted stock grants, cancellations and withholdings, net      | 10,819    | 109    | (126,180 )   | —          | —          | —         | (126,071 )   |

Edgar Filing: EMC CORP - Form 10-K

|   | Common Stock<br>Shares | Par<br>Value | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Non-controlling<br>Interest in<br>VMware | Shareholders'<br>Equity |
|---|------------------------|--------------|----------------------------------|----------------------|---|--|-------------------------|
| Repurchase of common stock  | (27,067 )              | (271 )       | (699,729 )                       | —                    | —   | —  | (700,000 )              |
| EMC purchase of VMware stock                                      | —                      | —            | (258,296 )                       | —                    | —   | (41,704 )                                | (300,000 )              |
| Stock options issued in business acquisitions                     | —                      | —            | 20,382                           | —                    | —   | —  | 20,382                  |
| Stock-based compensation  | —                      | —            | 897,617                          | —                    | —   | —  | 897,617                 |
| Impact from equity transactions of VMware, Inc.                   | —                      | —            | (435,766 )                       | —                    | —   | 85,943                                   | (349,823 )              |
| Actuarial loss on pension plan, net of tax benefit of \$5,490     | —                      | —            | —                                | —                    | (14,064 )                                     | —  | (14,064 )               |
| Change in market value of investments                             | —                      | —            | —                                | —                    | 47,026  | 895                                      | 47,921                  |
| Change in market value of derivatives                             | —                      | —            | —                                | —                    | (8,220 )                                      | 21                                       | (8,199 )                |
| Translation adjustment  | —                      | —            | —                                | —                    | 1,994   | —  | 1,994                   |
| Convertible debt conversions and warrant settlement               | 32,345                 | 323          | (1,027 )                         | —                    | —   | —  | (704 )                  |
| Reclassification of convertible debt (to)/from mezzanine (Note E) | —                      | —            | 61,621                           | —                    | —   | —  | 61,621                  |
| Net income  | —                      | —            | —                                | 2,732,613            | —   | 153,404                                  | 2,886,017               |
| Balance as of December 31, 2012                                   | 2,106,959              | \$21,070     | \$3,691,112                      | \$18,853,234         | \$(208,273 )                                  | \$1,166,648                              | \$23,523,791            |

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

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 cloud infrastructure solutions utilized by organizations to help them transform the way they build, deliver and consume IT resources. VMware’s virtualization infrastructure solutions, which include a suite of products designed to deliver a software defined data center, 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, 2012 and 2011. 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 at the date of the financial statements, 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. Delivery is achieved when our product has been physically shipped or electronically delivered and the risk of loss has been transferred which, for most of our product sales, occurs upon shipment. 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 storage hardware, required storage operating systems and hardware-related devices. Revenue for systems sales is generally recognized upon shipment.



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, software as a service subscriptions 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, software as a service subscriptions 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 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.

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.



EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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.

Deferred Revenue

Our deferred revenue consists primarily of deferred hardware and software maintenance and unearned license fees, which are 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 daily rates.

Gains and losses from foreign currency transactions are included in other income (expense), net, and consist of net losses of \$15.7 million in 2012, \$12.8 million in 2011 and \$4.5 million in 2010. 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. 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 income (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. We did not have any derivatives designated as fair value hedges as of December 31, 2012. All outstanding cash flow hedges are recognized on the consolidated balance sheets at fair value with changes in their fair value recorded in accumulated other comprehensive income (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 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 income (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

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, 2012, 2011 and 2010 were \$201.0 million, \$194.0 million and \$152.0 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 \$900.0 million. These swaps were designated as cash flow hedges of the semi-annual interest payments of the forecasted issuance of debt in 2011 when our 2011 Notes were scheduled to become due. As such, the unrealized loss on these hedges was recognized in other comprehensive loss. In November 2011, we settled the swaps and replaced them with new interest rate swap contracts for the forecasted issuance of debt in 2012. In April 2012, we settled the swaps and replaced them with new interest rate swap contracts for the forecasted issuance of debt in 2012. Each of these new swaps was deemed as an effective hedge as the notional amounts and other terms matched the underlying hedged item. Losses on the interest rate swap contracts at the time of settlement of \$141.0 million in November 2011 and \$23.0 million in April 2012 were deferred as they were expected to be realized over the life of the new debt issued under the related interest rate swap contracts and recognized as a component of interest expense in the consolidated income statements.

In June 2012, management changed its forecast date for the issuance of debt from December 31, 2012 to the first quarter of 2014. Consequently, hedge accounting effectively ceased as the terms of the swaps no longer matched the terms of the underlying hedged item resulting in changes in the fair value of the swaps being recorded in the consolidated income statement. The swaps were subsequently re-designated as cash flow hedges and achieved hedge accounting. The change in the forecasted timeframe for the issuance of debt resulted in certain previously anticipated hedge interest payments no longer being expected to occur within the window covered by the hedge designation. As a result, \$39.5 million of accumulated realized losses in other comprehensive income related to these previously-anticipated interest payments was reclassified from other comprehensive income and recognized as a component of other income (expense), net in the 2012 consolidated income statements.

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

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 commercial paper. Cash equivalents are stated at fair value. Total cash equivalents were \$3,260.2 million and \$1,434.8 million at December 31, 2012 and 2011, 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, 2012 and 2011 were as follows (table in thousands):

December 31,

Edgar Filing: EMC CORP - Form 10-K

|   | 2012     | 2011     |
|---|----------|----------|
| Current                                     | \$68,465 | \$61,804 |
| Non-current (included in other assets, net) | 3,850    | 2,850    |
|   | \$72,315 | \$64,654 |

61

---

## 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. For investments accounted for utilizing the fair value option, changes to fair value are recognized in the consolidated income statement in non-operating other income (expense), net.

## 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 | 5-10 years  |
| Equipment and software | 2-10 years  |
| Improvements           | 5-31 years  |
| Buildings              | 15-51 years |

Upon retirement or disposition, the asset cost and related accumulated depreciation are removed with any gain or loss recognized in the consolidated income statements. 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, stock-based compensation, 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 were not material in 2012 and are expected to be immaterial in future periods.

Unamortized software development costs were \$702.7 million and \$665.4 million at December 31, 2012 and 2011, respectively, and are included in other assets, net. Amortization expense was \$398.0 million, \$380.3 million and \$314.6 million in 2012, 2011 and 2010, respectively. Amounts capitalized were \$432.0 million, \$479.7 million and \$399.5 million in 2012, 2011 and 2010, 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 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.

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 cost, equity or fair value method accounting or whether it should be consolidated.

In 2009, Cisco and EMC formed VCE Company LLC ("VCE"), with investments from VMware and Intel. VCE, through Vblock infrastructure platforms, delivers an integrated IT offering that combines network, computing, storage, management, security and virtualization technologies for converged infrastructures and cloud based computing models.

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

On December 29, 2012, EMC and Lenovo Group Limited ("Lenovo") formed a joint venture, LenovoEMC, to provide Network Attached Storage ("NAS") systems to small- and medium-sized businesses and distributed enterprise sites which is accounted for using the fair value method of accounting.

#### Advertising

Advertising costs are expensed as incurred. Advertising expense was \$30.0 million, \$44.4 million and \$40.1 million in 2012, 2011 and 2010, 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.



EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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.

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 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 the 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 and limit our exposure to Prime funds. 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 on 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

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

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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.

**Reclassifications**

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

**Adjustments for Immaterial Prior Period Accounting Error**

During the second quarter of 2012, we determined that since VMware's public offering in 2007, we incorrectly recorded deferred tax liabilities on the gains and losses associated with changes in the non-controlling interest. These deferred tax liabilities were recorded as a reduction to additional paid-in capital and therefore had no impact on our previously reported consolidated income statements. The error resulted in an overstatement of our deferred tax liability and an understatement of our additional paid-in capital of \$352.6 million in our December 31, 2011 consolidated balance sheet and statement of shareholders' equity. These corrections are reflected in the consolidated balance sheets as of December 31, 2011 and in the 2012 statement of shareholders' equity and are not material to the consolidated balance sheets or statements of shareholders' equity for the years ended December 31, 2011, 2010, 2009 or 2008 or any related interim periods. In addition, the error resulted in an overstatement of our deferred tax liability and an understatement of our additional paid-in capital of \$467.1 million in our December 31, 2010 consolidated balance sheet and statement of shareholders' equity and an understatement of additional paid-in capital of \$499.6 million in our statement of shareholders' equity at December 31, 2009. These adjusted prior-period balances are reflected in this filing.

**Recent Accounting Pronouncements**

In February 2013, the Financial Accounting Standards Board ("FASB") issued new guidance which requires companies to present information about reclassification adjustments from accumulated other comprehensive income in their financial statements or footnotes. This new guidance is effective for fiscal periods beginning after December 15, 2012. We do not believe the adoption of the new guidance will have an impact on our consolidated financial position, results of operations or cash flows.

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

In May 2011, the FASB issued new guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased disclosures regarding valuation inputs and investment categorization. The adoption of this new accounting guidance in 2012 did not have a material impact on our consolidated financial position, results of operations or cash flows. In connection with our prospective adoption of this guidance, we have expanded our disclosures related to our strategic investments held at cost for 2012 with no comparable data for 2011.

**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 \$1,166.6 million and \$968.1 million as of 2012 and 2011, respectively. At December 31, 2012, EMC held approximately 97% of the combined voting power of VMware's outstanding common stock and approximately 80% of the economic interest in VMware.

EMC CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

|  | For the Year Ended   |                      |
|--|----------------------|----------------------|
|  | December 31,<br>2012 | December 31,<br>2011 |
| Net income attributable to EMC Corporation   | \$2,732,613          | \$2,461,337          |
| Transfers (to) from the non-controlling interest in VMware, Inc.:  |                      |                      |
| Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuances                                 | 28,566               | 188,434              |
| Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity                            | (564,332)            | (604,967)            |
| Net transfers (to) from non-controlling interest   | (435,766)            | (416,533)            |
| Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc. | \$2,296,847          | \$2,044,804          |
| C. Acquisitions  |                      |                      |

#### Acquisition of Nicira

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

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

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

The purchase price has been allocated to the assets acquired and the liabilities assumed based on estimated fair values as of the acquisition date. The following table summarizes the allocation of the Nicira purchase price, adjusted in the fourth quarter of 2012 for a reassessment of unrecognized tax benefit (table in thousands):

|  |             |   |
|--|-------------|---|
| Intangible assets:   |             |   |
| Purchased technology (weighted-average useful life of 7.0 years)       | \$266,000   |   |
| Trademarks and tradenames (weighted-average useful life of 10.0 years) | 20,100      |   |
| In-process research and development                                    | 48,500      |   |
| Total intangible assets  | 334,600     |   |
| Goodwill   | 905,140     |   |
| Deferred tax liabilities, net  | (78,247)    | ) |
| Income tax payable   | (61,006)    | ) |
| Other acquired liabilities, net of acquired assets                     | (863)       | ) |
| Total purchase price   | \$1,099,624 |   |

In-process Research and Development

In connection with the Nicira acquisition, we acquired one in-process research and development (“IPR&D”) project which was completed by the end of 2012 and will be amortized over its estimated useful life of 8.0 years.

66

---

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Other 2012 Acquisitions

During the year ended December 31, 2012, EMC acquired eleven companies. We acquired all of the outstanding capital stock of Pivotal Labs, a provider of services and technology to build Big Data applications; Likewise Software, a provider of technology for managing cross-platform access to data files and software for managing unstructured data; XtremIO, a provider of Flash enterprise storage systems; Watch4Net, a provider of enterprise and carrier-class performance management software; Tiburon Technologies, a provider of support and modernization services for legacy database management systems; and iWave Software, a provider of storage and cloud automation software solutions. These acquisitions complement and expand our Information Storage segment. We also acquired all of the outstanding capital stock of Syncplicity, a provider of cloud-based synch and share file management and Trinity Technologies, a provider of enterprise content management consulting and development services which complement and expand our Information Intelligence Group segment. We acquired Silicium Security, a provider of enterprise malware detection solutions, More VRP Resources, a provider of database performance and monitoring software and Silver Tail Systems, a provider of web fraud detection and security software which complement and expand our RSA Information Security segment. Additionally, during the twelve months ended December 31, 2012, VMware acquired five companies, excluding the acquisition of Nicira, which were not material in the aggregate. In connection with our acquisitions, we had adjustments to the fair value of previously held interests in XtremIO which resulted in a gain of \$31.6 million which was recognized in other income (expense), net in the second quarter of 2012.

The aggregate consideration for these sixteen acquisitions, excluding Nicira, was \$1,059.7 million which consisted of \$1,052.8 million of cash consideration, net of cash acquired and \$6.9 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 aggregate allocation to goodwill, intangibles and net liabilities was approximately \$818.9 million, \$311.4 million and \$70.6 million, respectively. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired companies were not material, individually or in the aggregate, to our consolidated results of operations for years ended December 31, 2012, 2011 and 2010.

The fair value of our stock options for all of the aforementioned acquisitions, excluding Nicira, in 2012 was estimated assuming no expected dividends and the following weighted-average assumptions:

|                          |      |   |
|--------------------------|------|---|
| Expected term (in years) | 1.9  |   |
| Expected volatility      | 31.6 | % |
| Risk-free interest rate  | 0.3  | % |

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

|   |           |
|---|-----------|
| Developed technology (weighted-average useful life of 4.8 years)    | \$254,557 |
| Customer relationships (weighted-average useful life of 6.1 years)  | 54,713    |
| Tradename and trademark (weighted-average useful life of 3.4 years) | 2,170     |
| Total intangible assets   | \$311,440 |

The total weighted-average amortization period for the intangible assets is 5.0 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized.

## 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 complemented and expanded our RSA

Information Security segment. Additionally, during the year ended December 31, 2011, VMware acquired six companies. The aggregate consideration for these 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

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

\$6.9 million, respectively. The results of these acquisitions have been included in the consolidated financial statements from the respective dates of purchase.

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       |
| 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 |

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.





## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 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 were completed in 2012 and are being amortized over their projected remaining useful lives.

## Other 2010 Acquisitions

During the year ended December 31, 2010, we acquired three companies, excluding Isilon. 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. We acquired all of the outstanding capital stock of Greenplum, Inc., a provider of disruptive data warehousing technology and Bus-tech, Inc., a provider of information infrastructure solutions. These acquisitions 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 \$895.5 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     |
| Total intangible assets   | \$249,139 |

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.

## 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. for \$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 purchases of strategic and other related investments in the investing activities section of the consolidated statements of cash flows.

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 \$225.0 million purchase price was for the fair value of the ground lease and the right to develop additional square footage on the parcel. The long-term portion of \$146.8 million was recorded to intangible assets, net with the remainder recorded to other current assets on the consolidated balance sheet.

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.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

|   | December 31, 2012     |                          |                |
|---|-----------------------|--------------------------|----------------|
|   | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Purchased technology                        | \$2,233,293           | \$(1,207,373)            | \$1,025,920    |
| Patents                                     | 225,146               | (86,954)                 | 138,192        |
| Software licenses                           | 96,218                | (87,999)                 | 8,219          |
| Trademarks and tradenames                   | 172,821               | (101,399)                | 71,422         |
| Customer relationships and customer lists   | 1,377,465             | (723,403)                | 654,062        |
| Leasehold interest                          | 144,811               | (6,843)                  | 137,968        |
| Other                                       | 25,972                | (26,415)                 | (443)          |
| Total intangible assets, excluding goodwill | \$4,275,726           | \$(2,240,386)            | \$2,035,340    |
|   | December 31, 2011     |                          |                |
|   | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
| Purchased technology                        | \$1,620,977           | \$(1,020,356)            | \$600,621      |
| Patents                                     | 225,146               | (72,078)                 | 153,068        |
| Software licenses                           | 90,093                | (83,999)                 | 6,094          |
| Trademarks and tradenames                   | 172,851               | (93,636)                 | 79,215         |
| Customer relationships and customer lists   | 1,329,775             | (597,117)                | 732,658        |
| In-process research and development         | 43,900                | —                        | 43,900         |
| Leasehold interest                          | 146,757               | (2,524)                  | 144,233        |
| Other                                       | 30,149                | (23,823)                 | 6,326          |
| Total intangible assets, excluding goodwill | \$3,659,648           | \$(1,893,533)            | \$1,766,115    |

Amortization expense on intangibles was \$364.7 million, \$341.8 million and \$285.3 million in 2012, 2011 and 2010, respectively. As of December 31, 2012, amortization expense on intangible assets for the next five years is expected to be as follows (table in thousands):

|       |             |
|-------|-------------|
| 2013  | \$391,423   |
| 2014  | 352,663     |
| 2015  | 304,869     |
| 2016  | 242,598     |
| 2017  | 188,900     |
| Total | \$1,480,453 |

## Goodwill

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

|  | Year Ended December 31, 2012 |                                |                          |                               |              |
|--|------------------------------|--------------------------------|--------------------------|-------------------------------|--------------|
|  | Information Storage          | Information Intelligence Group | RSA Information Security | VMware Virtual Infrastructure | Total        |
| Balance, beginning of the year               | \$7,033,965                  | \$1,469,216                    | \$1,849,116              | \$1,802,673                   | \$12,154,970 |
| Goodwill resulting from acquisitions         | 437,868                      | 15,097                         | 179,389                  | 1,091,673                     | 1,724,027    |
| Tax deduction from exercise of stock options | (7)                          | (93)                           | —                        | —                             | (100)        |
| Finalization of purchase price allocations   | (1,281)                      | —                              | (6,099)                  | (2,623)                       | (10,003)     |

Edgar Filing: EMC CORP - Form 10-K

|  |             |             |             |             |              |
|--|-------------|-------------|-------------|-------------|--------------|
| Goodwill derecognized in divestiture of business | (29,194 )   | —           | —           | —           | (29,194 )    |
| Balance, end of the year                         | \$7,441,351 | \$1,484,220 | \$2,022,406 | \$2,891,723 | \$13,839,700 |

70

---

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

|  | Year Ended December 31, 2011 |                                      |                                |                                     |              |
|--|------------------------------|--------------------------------------|--------------------------------|-------------------------------------|--------------|
|  | Information<br>Storage       | Information<br>Intelligence<br>Group | RSA<br>Information<br>Security | VMware<br>Virtual<br>Infrastructure | Total        |
| Balance, beginning of the year               | \$7,029,341                  | \$1,467,903                          | \$1,663,213                    | \$1,612,193                         | \$11,772,650 |
| Goodwill resulting from acquisitions         | —                            | —                                    | 187,445                        | 188,395                             | 375,840      |
| Tax deduction from exercise of stock options | (73 )                        | (852 )                               | (95 )                          | —                                   | (1,020 )     |
| Finalization of purchase price allocations   | 4,697                        | 2,165                                | (1,447 )                       | 2,085                               | 7,500        |
| Balance, end of the year                     | \$7,033,965                  | \$1,469,216                          | \$1,849,116                    | \$1,802,673                         | \$12,154,970 |

## 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. We employ both qualitative and quantitative tests of our goodwill. For several of our reporting units, we performed a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary and determined there was no impairment. For other reporting units we evaluated goodwill using a quantitative model. For all of our goodwill assessments we determined that 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 2012, 2011 or 2010.

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

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

The holders of the 2013 Notes may convert their 2013 Notes at their option on any day prior to the close of business on the scheduled trading day immediately preceding September 1, 2013 only under the following circumstances:

(1) during the five business-day period after any five consecutive trading-day period (the “measurement period”) in

which the price per 2013 Note for each day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such day; (2) during any calendar quarter, if the last reported sale price of our common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the applicable conversion price in effect on the last trading day of the immediately preceding calendar quarter; or (3) upon the occurrence of certain events specified in the 2013 Notes. Additionally, the 2013 Notes will become convertible during the last three months prior to their maturity.

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

EMC CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

in the indenture. In addition, if a “fundamental change” (as defined in the indenture) occurs prior to the maturity date, we will in some cases increase the conversion rate for a holder of 2013 Notes that elects to convert its 2013 Notes in connection with such fundamental change.

At December 31, 2012 and 2011, the contingent conversion thresholds on the 2013 Notes were exceeded. As a result, the 2013 Notes became convertible at the option of the holder. Accordingly, since the terms of the 2013 Notes require the principal to be settled in cash, we reclassified from shareholders’ equity the portion of the 2013 Notes attributable to the conversion feature which had not yet been accreted to its face value, and the 2013 Notes were classified as a current liability. Contingencies continue to exist regarding the holders’ ability to convert the 2013 Notes in future quarters. The determination of whether the 2013 Notes are convertible will be performed on a quarterly basis. Consequently, the 2013 Notes might not be convertible in future quarters. Approximately \$14.9 million of the 2013 Notes have been converted as of December 31, 2012.

The carrying amount of the 2013 Notes reported in the consolidated balance sheets as a current liability as of December 31, 2012 was \$1,652.4 million and the fair value was \$2,665.7 million. The carrying amount of the equity component of the 2013 Notes was \$325.1 million at December 31, 2012. As of December 31, 2012, the unamortized discount on the 2013 Notes consists of \$57.7 million, which will be fully amortized by December 1, 2013.

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

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

|   | For the Twelve Months Ended |           |           |
|---|-----------------------------|-----------|-----------|
|   | 2012                        | 2011      | 2010      |
| Contractual interest expense on the coupon                            | \$29,908                    | \$57,646  | \$60,375  |
| Amortization of the discount component recognized as interest expense | 60,633                      | 115,904   | 114,481   |
| Total interest expense on the convertible debt                        | \$90,541                    | \$173,550 | \$174,856 |

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

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



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

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

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

In June 2012, management changed its forecast date for the issuance of debt from December 31, 2012 to the first quarter of 2014. Consequently, hedge accounting effectively ceased as the terms of the swaps no longer matched the terms of the underlying hedged item resulting in changes in the fair value of the swaps being recorded in the consolidated income statement. The swaps were subsequently re-designated as cash flow hedges and achieved hedge accounting. The change in the forecasted timeframe for the issuance of debt resulted in certain previously-anticipated hedge interest payments no longer being expected to occur within the window covered by the hedge designation. As a result, \$39.5 million of accumulated realized losses in other comprehensive income related to these previously-anticipated interest payments were reclassified from other comprehensive income and recognized in the 2012 consolidated income statements.

In July 2012, we settled the interest rate swap contracts and did not replace them. Losses on the interest rate swap contracts at the time of settlement of \$45.5 million were deferred as they are expected to be realized over the life of the new debt issued under the related interest rate swap contracts and recognized as a component of interest expense in the consolidated income statements. At December 31, 2012, we had \$176.5 million of accumulated realized losses related to the settled swaps in accumulated other comprehensive income.

#### 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. In addition, our strategic investments held at cost are classified as Level 3. At December 31, 2012 and 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 price verifications of all of our fixed income holdings. In the event a price fails a pre-established tolerance check, it is researched so that we can assess the cause of the variance to determine what we believe is the appropriate fair market value.

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

cash flow model.

73

---

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

|  | December 31, 2012 |                     |                        | Aggregate<br>Fair Value |
|--|-------------------|---------------------|------------------------|-------------------------|
|  | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>(Losses) |                         |
| U.S. government and agency obligations | \$2,186,952       | \$10,224            | \$(967)                | ) \$2,196,209           |
| U.S. corporate debt securities         | 1,470,770         | 10,189              | (509)                  | ) 1,480,450             |
| High yield corporate debt securities   | 476,989           | 34,223              | (800)                  | ) 510,412               |
| Asset-backed securities                | 2,114             | 3                   | —                      | ) 2,117                 |
| Municipal obligations                  | 1,020,422         | 3,007               | (540)                  | ) 1,022,889             |
| Auction rate securities                | 73,451            | —                   | (3,365)                | ) 70,086                |
| Foreign debt securities                | 1,264,195         | 9,083               | (255)                  | ) 1,273,023             |
| Total fixed income securities          | 6,494,893         | 66,729              | (6,436)                | ) 6,555,186             |
| Publicly traded equity securities      | 48,526            | 38,687              | (731)                  | ) 86,482                |
| Total                                  | \$6,543,419       | \$105,416           | \$(7,167)              | ) \$6,641,668           |

We held approximately \$1,273.0 million in foreign debt securities at December 31, 2012. These securities have an average credit rating of A+, and approximately 3% of these securities are deemed sovereign debt with an average credit rating of AA+. None of the securities deemed sovereign debt are from Greece, Italy, Ireland, Portugal or Spain. Additionally, we have an immaterial amount of exposure to French agencies and financial institutions.

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

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table represents our fair value hierarchy for our financial assets and liabilities measured at fair value as of December 31, 2012 and 2011 (in thousands):

|   | December 31, 2012 |                |           | Total          |
|---|-------------------|----------------|-----------|----------------|
|   | Level 1           | Level 2        | Level 3   |                |
| Cash                                    | \$1,493,843       | \$—            | \$—       | \$1,493,843    |
| Cash equivalents                        | 2,898,183         | 362,034        | —         | 3,260,217      |
| U.S. government and agency obligations  | 1,324,919         | 871,290        | —         | 2,196,209      |
| U.S. corporate debt securities          | —                 | 1,480,450      | —         | 1,480,450      |
| High yield corporate debt securities    | —                 | 510,412        | —         | 510,412        |
| Asset-backed securities                 | —                 | 2,117          | —         | 2,117          |
| Municipal obligations                   | —                 | 1,022,889      | —         | 1,022,889      |
| Auction rate securities                 | —                 | —              | 70,086    | 70,086         |
| Foreign debt securities                 | —                 | 1,273,023      | —         | 1,273,023      |
| Publicly traded equity securities       | 86,482            | —              | —         | 86,482         |
| Total cash and investments              | \$5,803,427       | \$5,522,215    | \$70,086  | \$11,395,728   |
| Other items:                            |                   |                |           |                |
| Strategic investments held at cost      | \$—               | \$—            | \$351,855 | \$351,855      |
| Investment in joint venture             | —                 | —              | 32,745    | 32,745         |
| Convertible debt                        | —                 | (2,665,690 )   | —         | (2,665,690 )   |
| Foreign exchange derivative assets      | —                 | 30,189         | —         | 30,189         |
| Foreign exchange derivative liabilities | —                 | (34,590 )      | —         | (34,590 )      |
| Commodity derivative liabilities        | —                 | (588 )         | —         | (588 )         |
|   | December 31, 2011 |                |           |                |
|   | Level 1           | Level 2        | Level 3   | Total          |
| 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         |
| Total cash and investments              | \$5,765,317       | \$5,003,216    | \$74,596  | \$10,843,129   |
| Other items:                            |                   |                |           |                |
| Convertible debt                        | \$—               | \$(2,500,477 ) | \$—       | \$(2,500,477 ) |
| 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 contract             | —                 | (19,872 )      | —         | (19,872 )      |

Our auction rate securities are predominantly rated investment grade and are primarily collateralized by student loans. The underlying loans of all but two of our auction rate securities, with a market value of \$17.0 million, have partial guarantees by the U.S. government as part of the Federal Family Education Loan Program (“FFELP”) through the U.S. Department of Education. FFELP guarantees at least 95% of the loans which collateralize the auction rate securities. We believe the quality of the collateral underlying most of our auction rate securities will enable us to recover our principal balance.

To determine the estimated fair value of our investment in auction rate securities, we used a discounted cash flow model using a five year time horizon. As of December 31, 2012, the coupon rates used ranged from 0% to 4% and the discount rate was 1%,

75

---

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

which rate represents the rate at which similar FFELP backed securities with a five year time horizon outside of the auction rate securities market were trading at as of that date. The assumptions used in preparing the discounted cash flow model include an incremental discount rate for the lack of liquidity in the market (“liquidity discount margin”) for an estimated period of time. The discount rate we selected was based on AA-rated banks as the majority of our portfolio is invested in student loans where EMC acts as a financier to these lenders. The liquidity discount margin represents an estimate of the additional return an investor would require for the lack of liquidity of these securities over an estimated five-year holding period. The rate used for the discount margin was 1% at December 31, 2012 compared to 2% at December 31, 2011 due to the narrowing of credit spreads on AA-rated banks during 2012. The following table provides a summary of changes in fair value of our Level 3 auction rate securities for the years ended December 31, 2012 and 2011 (table in thousands):

|   | 2012     | 2011      |
|---|----------|-----------|
| Balance, beginning of the period  | \$74,596 | \$146,044 |
| Calls at par value  | (6,625   | ) (73,050 |
| Other-than-temporary impairment loss  | (2,824   | ) —       |
| (Increase) decrease in previously recognized unrealized losses included in other comprehensive income | 4,939    | 1,602     |
| Balance, end of the period  | \$70,086 | \$74,596  |

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

We account for our joint venture LenovoEMC using the fair value method of accounting. To determine the estimated fair value of our investment, we use a discounted cash flow model using a three year time horizon. As of December 31, 2012, the discount rate used was 6%, which represents the incremental borrowing rate for a market participant. The assumptions used in preparing the discounted cash flow model include an analysis of estimated Lenovo NAS revenue against a prescribed target as well as consideration of the purchase price put and call features included in the joint venture agreement. The put and call features create a floor and a cap on the fair value of the investment. As such, there is a limit to the impact on the fair value that would result from significant changes in the unobservable inputs. The following table provides a summary of changes in fair value of our LenovoEMC joint venture for the year ended December 31, 2012 (table in thousands):

|                                  | 2012     | 2011 |
|----------------------------------|----------|------|
| Balance, beginning of the period | \$—      | \$—  |
| Purchase of investment           | 32,745   | —    |
| Balance, end of period           | \$32,745 | \$—  |

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





## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Investment Losses

Unrealized losses on investments at December 31, 2012 and 2011 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (table in thousands):

| December 31, 2012                      | 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 | \$ 188,010          | \$(740)                 | \$ 11,930            | \$(227)                 | \$ 199,940  | \$(967)                 |
| U.S. corporate debt securities         | 265,773             | (509)                   | —                    | —                       | 265,773     | (509)                   |
| High yield corporate debt securities   | 21,394              | (475)                   | 598                  | (325)                   | 21,992      | (800)                   |
| Asset-backed securities                | —                   | —                       | 6                    | —                       | 6           | —                       |
| Municipal obligations                  | 257,357             | (506)                   | 12,167               | (34)                    | 269,524     | (540)                   |
| Auction rate securities                | —                   | —                       | 70,086               | (3,365)                 | 70,086      | (3,365)                 |
| Foreign debt securities                | 178,382             | (255)                   | 2,000                | —                       | 180,382     | (255)                   |
| Publicly traded equity securities      | 1,157               | (731)                   | —                    | —                       | 1,157       | (731)                   |
| Total                                  | \$912,073           | \$(3,216)               | \$96,787             | \$(3,951)               | \$1,008,860 | \$(7,167)               |
| 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)                 |
| Publicly traded equity securities      | —                   | —                       | —                    | —                       | —           | —                       |
| Total                                  | \$1,895,561         | \$(14,615)              | \$85,602             | \$(8,921)               | \$1,981,163 | \$(23,536)              |

For all of our securities for which the amortized cost basis was greater than the fair value at December 31, 2012 and 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.

In 2012, in connection with our acquisition of XtremIO, a realized gain of \$31.6 million was recorded in other income (expense), net on the consolidated income statements for EMC's gain on the XtremIO strategic investment. In 2011, a realized gain of \$56.0 million was recorded in other income (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, 2012 are as follows (table in thousands):

| December 31, 2012    |                      |
|----------------------|----------------------|
| Amortized Cost Basis | Aggregate Fair Value |

Edgar Filing: EMC CORP - Form 10-K

|                                    |             |             |
|------------------------------------|-------------|-------------|
| Due within one year                | \$1,404,872 | \$1,407,373 |
| Due after 1 year through 5 years   | 4,222,054   | 4,251,311   |
| Due after 5 years through 10 years | 466,061     | 493,258     |
| Due after 10 years                 | 401,906     | 403,244     |
| Total                              | \$6,494,893 | \$6,555,186 |

77

---

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

## G. Inventories

Inventories consist of (table in thousands):

|                 | December 31,<br>2012 | December 31,<br>2011 |
|-----------------|----------------------|----------------------|
| Work-in-process | \$605,534            | \$492,064            |
| Finished goods  | 595,486              | 517,904              |
|                 | \$1,201,020          | \$1,009,968          |

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

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 on the consolidated balance sheets. Lease receivables arise from sales-type leases of products. We typically sell, without recourse, the contractual right to the lease payment stream and assets under lease to third parties. For certain customers, we retain the lease.

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

| Year  | Contractual Amounts<br>Due Under Leases |
|---|---|
| Due within one year   | \$137,323                               |
| Due within two years  | 100,019                                 |
| Due within three years                                      | 91,253                                  |
| Thereafter  | 192                                     |
| Total   | 328,787                                 |
| Less amounts representing interest                          | (6,376 )                                |
| Present value   | 322,411                                 |
| Current portion (included in accounts and notes receivable) | 135,399                                 |
| Long-term portion (included in other assets, net)           | \$187,012                               |

Subsequent to December 31, 2012, we sold \$167.6 million of these notes to third parties without recourse.

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

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

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

|                                  | December 31,<br>2012 | December 31,<br>2011 |
|----------------------------------|----------------------|----------------------|
| Balance, beginning of the period | \$24,247             | \$44,661             |
| Recoveries                       | (15,357 )            | (31,531 )            |
| Provisions                       | 7,887                | 11,117               |
| Balance, end of the period       | \$16,777             | \$24,247             |

Gross lease receivables totaled \$328.8 million and \$335.5 million in 2012 and 2011, respectively, before the allowance. The components of these balances were individually evaluated for impairment.

EMC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

I. Property, Plant and Equipment

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

|                                   | December 31,<br>2012 | December 31,<br>2011 |
|-----------------------------------|----------------------|----------------------|
| Furniture and fixtures            | \$197,429            | \$180,800            |
| Equipment and software            | 5,345,314            | 4,680,118            |
| Buildings and improvements        | 1,872,559            | 1,748,214            |
| Land                              | 120,654              | 117,513              |
| Building construction in progress | 196,891              | 146,650              |
|                                   | 7,732,847            | 6,873,295            |
| Accumulated depreciation          | (4,588,299 )         | (4,040,146 )         |
|                                   | \$3,144,548          | \$2,833,149          |

Depreciation expense was \$780.3 million, \$727.9 million and \$595.3 million in 2012, 2011 and 2010, respectively. Building construction in progress at December 31, 2012 includes \$74.0 million for facilities not yet placed in service that we are holding for future use.

J. 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 cost accounting, equity accounting, fair value method accounting or whether it should be consolidated.

VCE Company LLC

In 2009, Cisco and EMC formed VCE Company LLC (“VCE”), with investments from VMware and Intel. VCE, through Vblock infrastructure platforms, delivers an integrated IT offering that combines network, computing, storage, management, security and virtualization technologies for converged infrastructures and cloud based computing models. As of December 31, 2012, we have contributed \$676.1 million in funding and \$13.9 million in stock-based compensation to VCE since inception and own approximately 58% of VCE’s outstanding equity. In January 2013, we funded VCE an additional \$95.0 million.

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

Our portion of VCE’s gains and losses is recognized in other income (expense), net, in the consolidated income statements. Our consolidated share of VCE’s losses, based upon our portion of the overall funding, was approximately 63.2% for the years ended December 31, 2012 and 2011 and was 58.0% for the year ended December 31, 2010. As of December 31, 2012, we have recorded net accumulated losses from VCE of \$498.2 million since inception, of which \$244.9 million, \$209.2 million and \$43.0 million were recorded in 2012, 2011 and 2010, respectively.

We recognized \$285.8 million and \$133.9 million in revenue from sales of product and services to VCE during the years ended December 31, 2012 and 2011, respectively. We did not recognize any revenue related to VCE in 2010. We perform certain administrative services, pursuant to an administrative services agreement, on behalf of VCE and

we pay certain operating expenses on behalf of VCE. Accordingly, we have a receivable from VCE related to the administrative services agreement of \$44.3 million and \$27.0 million as of December 31, 2012 and 2011, respectively, which is included in other current assets in the consolidated balance sheets.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## LenovoEMC Joint Venture

On December 29, 2012, EMC and Lenovo formed a joint venture, LenovoEMC Limited, to provide NAS systems to small- and medium-sized businesses and distributed enterprise sites. EMC has a 49% ownership percentage of the joint venture and we have elected to account for the investment using the fair value method of accounting. The fair value of our investment in the joint venture was \$32.7 million as of December 31, 2012 and is included in other assets, net on the consolidated balance sheet.

## K. Accrued Expenses

Accrued expenses consist of (table in thousands):

|                                     | December 31,<br>2012 | December 31,<br>2011 |
|-------------------------------------|----------------------|----------------------|
| Salaries and benefits               | \$1,018,289          | \$961,587            |
| Product warranties                  | 277,862              | 254,554              |
| Partner rebates                     | 187,413              | 167,813              |
| Restructuring, current (See Note Q) | 75,567               | 61,541               |
| Derivatives                         | 40,279               | 50,963               |
| Other                               | 922,649              | 858,521              |
|                                     | \$2,522,059          | \$2,354,979          |

## Product Warranties

Systems sales include a standard product warranty. At the time of the sale, we accrue for systems' warranty costs. The initial systems' warranty accrual is based upon our historical experience, expected future costs and specific identification of systems' requirements. Upon sale or expiration of the initial warranty, we may sell additional maintenance contracts to our customers. Revenue from these additional maintenance contracts is included in deferred revenue and recognized ratably over the service period. The following represents the activity in our warranty accrual for the years ended December 31, 2012, 2011 and 2010 (table in thousands):

|                                  | Year Ended December 31, |            |            |
|----------------------------------|-------------------------|------------|------------|
|                                  | 2012                    | 2011       | 2010       |
| Balance, beginning of the period | \$254,554               | \$236,131  | \$271,594  |
| Provision                        | 181,898                 | 174,850    | 120,296    |
| Amounts charged to the accrual   | (158,590 )              | (156,427 ) | (155,759 ) |
| Balance, end of the period       | \$277,862               | \$254,554  | \$236,131  |

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.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## L. Income Taxes

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

|                                  | 2012      | 2011       | 2010       |
|----------------------------------|-----------|------------|------------|
| Federal:                         |           |            |            |
| Current                          | \$792,148 | \$488,031  | \$518,309  |
| Deferred                         | (79,943)  | ) 14,333   | 4,170      |
|                                  | 712,205   | 502,364    | 522,479    |
| State:                           |           |            |            |
| Current                          | 74,064    | 70,676     | 49,488     |
| Deferred                         | (12,308)  | ) (45,272) | ) (20,419) |
|                                  | 61,756    | 25,404     | 29,069     |
| Foreign:                         |           |            |            |
| Current                          | 168,959   | 101,101    | 120,287    |
| Deferred                         | (25,322)  | ) 11,516   | (33,538)   |
|                                  | 143,637   | 112,617    | 86,749     |
| Total provision for income taxes | \$917,598 | \$640,385  | \$638,297  |

In 2012, 2011 and 2010, we were able to utilize net operating loss carryforwards and tax credit carryforwards to reduce the current portion of our tax provision by \$58.8 million, \$19.5 million and \$46.9 million, respectively.

The effective income tax rate is based upon the income for the year, the composition of the income in different countries, effect of tax law changes 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:

|   | 2012   | 2011      | 2010      |
|---|--------|-----------|-----------|
| Statutory federal tax rate  | 35.0   | % 35.0    | % 35.0    |
| State taxes, net of federal taxes   | 1.3    | % 0.7     | % 1.0     |
| Resolution of uncertain tax positions   | (0.5)  | )% (1.7)  | )% (0.6)  |
| Tax rate differential for international jurisdictions and other international related tax items | (13.6) | )% (14.4) | )% (12.2) |
| U.S. tax credits  | (0.2)  | )% (2.8)  | )% (3.3)  |
| Changes in valuation allowance  | —      | % —       | % (0.6)   |
| International reorganization of acquired companies  | 0.3    | % —       | % 3.2     |
| Permanent items   | 1.5    | % 2.5     | % 2.5     |
| Other   | 0.3    | % 0.4     | % (0.5)   |
|   | 24.1   | % 19.7    | % 24.5    |

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.

On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law. Some of the provisions were retroactive to January 1, 2012 including an extension of the U.S. federal tax credit for increasing research activities through December 31, 2013. Because the extension was enacted after December 31, 2012, our 2012 effective tax rate does not reflect our estimated 2012 federal tax credit for increasing research activities even though it will be reported on our 2012 federal income tax returns. Had the extension been enacted prior to January 1, 2013, our overall tax



provision would have been approximately \$66.5 million lower reducing our effective tax rate from 24.1% to 22.4%. We expect that our income tax provision for the first quarter of 2013 will include the estimated 2012 federal tax credit for increasing research activities as a discrete tax benefit which will reduce our effective tax rate for the quarter and to a lesser extent our annual effective tax rate for 2013.

EMC CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

|   | December 31, 2012        |                              | December 31, 2011        |                              |
|---|--------------------------|------------------------------|--------------------------|------------------------------|
|   | Deferred<br>Tax<br>Asset | Deferred<br>Tax<br>Liability | Deferred<br>Tax<br>Asset | Deferred<br>Tax<br>Liability |
| Current:                                  |                          |                              |                          |                              |
| Accounts and notes receivable             | \$67,798                 | \$—                          | \$86,400                 | \$—                          |
| Inventory                                 | 64,452                   | —                            | 91,374                   | —                            |
| Accrued expenses                          | 291,358                  | —                            | 281,071                  | —                            |
| Deferred revenue                          | 386,021                  | —                            | 274,463                  | —                            |
| Equity                                    | 98,383                   | —                            | 75,782                   | —                            |
| Credit carryforwards                      | 4,860                    | —                            | 8,363                    | —                            |
| Net operating losses                      | 28,903                   | —                            | 35,395                   | —                            |
| Total current                             | 941,775                  | —                            | 852,848                  | —                            |
| Property, plant and equipment, net        | —                        | (286,061 )                   | —                        | (246,377 )                   |
| Intangible and other assets, net          | —                        | (662,665 )                   | —                        | (609,813 )                   |
| Equity                                    | 143,784                  | —                            | 238,184                  | —                            |
| Deferred revenue                          | 71,509                   | —                            | —                        | (10,992 )                    |
| Other non-current liabilities             | —                        | (53,758 )                    | —                        | (55,938 )                    |
| Credit carryforward                       | 63,275                   | —                            | 64,569                   | —                            |
| Net operating losses                      | 98,859                   | —                            | 121,146                  | —                            |
| Other comprehensive loss                  | 119,526                  | —                            | 134,157                  | —                            |
| Total non-current                         | 496,953                  | (1,002,484 )                 | 558,056                  | (923,120 )                   |
| Gross deferred tax assets and liabilities | 1,438,728                | (1,002,484 )                 | 1,410,904                | (923,120 )                   |
| Valuation allowance                       | (4,350 )                 | —                            | (5,293 )                 | —                            |
| Total deferred tax assets and liabilities | \$1,434,378              | \$(1,002,484 )               | \$1,405,611              | \$(923,120 )                 |

At December 31, 2012 and 2011, net non-current state and foreign deferred tax assets of \$65.0 million and \$81.5 million, respectively, were included in other non-current assets on the balance sheet. We made minor classification revisions of certain amounts between deferred tax assets and liabilities in the 2011 deferred tax balances to conform with the 2012 presentation.

We have gross federal, state and foreign net operating loss carryforwards of \$247.0 million, \$349.9 million and \$58.5 million, respectively, at December 31, 2012. 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 loss carryforwards will begin to expire in 2014 if not utilized, while others have an unlimited carryforward period.

We have federal and state credit carryforwards of \$5.6 million and \$62.5 million, respectively, at December 31, 2012. 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 credit carryforwards will begin to expire in 2019 if unutilized, while others have an unlimited carryforward period.

The valuation allowance decreased from \$5.3 million at December 31, 2011 to \$4.4 million at December 31, 2012. The decrease was attributable to a certain subsidiary’s foreign tax credit carryforward. The valuation allowance at December 31, 2012 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 \$8.1 billion and \$6.4 billion at December 31, 2012 and 2011, respectively, and consisted primarily of undistributed earnings permanently invested in these entities. The change in the basis difference in 2012 was mainly attributable to income earned in the current year. At December 31, 2012, our total cash, cash equivalents, and short-term and long-term investments were \$11.4 billion. This balance includes approximately \$4.6 billion held by VMware, of which \$3.0 billion is held overseas, and \$2.7 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, our intent is to permanently reinvest these

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 2012, 2011 and 2010 was \$1.9 billion, \$1.8 billion and \$1.2 billion, respectively. Income before income taxes from domestic operations for 2012, 2011 and 2010 was \$1.9 billion, \$1.5 billion and \$1.4 billion, respectively.

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

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

|  | 2012    | 2011    | 2010    |
|--|---------|---------|---------|
| Unrecognized tax benefits, beginning of year | \$196.8 | \$230.3 | \$197.1 |
| Tax positions related to current year:       |         |         |         |
| Additions                                    | 24.7    | 42.0    | 47.6    |
| Reductions                                   | (1.1    | ) (1.8  | ) —     |
| Tax positions related to prior years:        |         |         |         |
| Additions                                    | 64.4    | 14.0    | 23.7    |
| Reductions                                   | (3.9    | ) (71.0 | ) (20.2 |
| Settlements                                  | (0.3    | ) (3.3  | ) (5.0  |
| Lapses in statutes of limitations            | (10.7   | ) (13.4 | ) (12.9 |
| Unrecognized tax benefits, end of year       | \$269.9 | \$196.8 | \$230.3 |

As of December 31, 2012, 2011 and 2010, \$255.1 million, \$187.1 million and \$217.3 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 are routinely under audit by the Internal Revenue Service (the "IRS"). We have concluded all U.S. federal income tax matters for years through 2008. The IRS commenced a federal income tax audit for the tax years 2009 and 2010 in the third quarter of 2012. The current federal income tax audit is in the early stage for information gathering and it is not expected to be completed until or after 2014. 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 2003. Based on the timing and outcome of examinations of EMC, the result of the expiration of statutes of limitations for specific jurisdictions or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our statement of financial position. We anticipate that several of these audits may be finalized within the next 12 months. While we expect the amount of unrecognized tax benefits to change in the next twelve months, we do not expect the change to have a significant impact on our results of operations or financial position.

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.

We recognize interest expense and penalties related to income tax matters in income tax expense. For 2012, 2011 and 2010, \$3.6 million, \$1.2 million and \$1.1 million, respectively, in interest expense was recognized. In addition to the

unrecognized tax benefits noted above, the gross balance of the accrued interest and penalties were \$35.0 million, \$31.6 million and \$30.5 million as of December 31, 2012, 2011 and 2010, respectively.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 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 \$88.3 million, \$73.2 million and \$34.3 million in 2012, 2011 and 2010, 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.

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, 2012, the Pension Plan held \$0.5 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):

|  | December 31,<br>2012 | December 31,<br>2011 |
|--|----------------------|----------------------|
| Benefit obligation, at beginning of year | \$482,609            | \$427,213            |
| Interest cost                            | 21,440               | 22,663               |
| Benefits paid                            | (16,598              | ) (15,493            |
| Actuarial loss                           | 51,815               | 48,226               |
| Benefit obligation, at end of year       | \$539,266            | \$482,609            |

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):

|   | December 31,<br>2012 | December 31,<br>2011 |
|---|----------------------|----------------------|
| Fair value of plan assets, at beginning of year | \$395,859            | \$379,617            |
| Actual return on plan assets                    | 51,442               | 31,735               |
| Benefits paid                                   | (16,598              | ) (15,493            |
| Fair value of plan assets, at end of year       | \$430,703            | \$395,859            |

We did not make any contributions to the Pension Plan in 2012 or 2011 and we do not expect to make a contribution to the Pension Plan in 2013. The under-funded status of the Pension Plan at December 31, 2012 and 2011 was \$108.6 million and \$86.8 million, respectively. This amount is classified as a component of other long-term liabilities on the consolidated balance sheets.

In 2012, \$12.8 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 \$26.4 million included in accumulated other comprehensive loss, which was primarily the result of a decrease in the discount rate at the end of 2012. We expect that \$14.1 million of the total balance included in accumulated other comprehensive loss at

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

December 31, 2012 will be recognized as a component of net periodic benefit costs in 2013. We do not expect to receive any refunds from the Pension Plan in 2013.

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

|                                | 2012     | 2011      | 2010      |
|--------------------------------|----------|-----------|-----------|
| Interest cost                  | \$21,440 | \$22,663  | \$22,685  |
| Expected return on plan assets | (26,000  | ) (25,008 | ) (23,304 |
| Recognized actuarial loss      | 12,847   | 11,174    | 12,616    |
| Net periodic expense (benefit) | \$8,287  | \$8,829   | \$11,997  |

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

|                               | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2010 |
|-------------------------------|----------------------|----------------------|----------------------|
| Discount rate                 | 3.7                  | % 4.6                | % 5.4                |
| Rate of compensation increase | N/A                  | N/A                  | N/A                  |

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,<br>2012 | December 31,<br>2011 | December 31,<br>2010 |
|--|----------------------|----------------------|----------------------|
| Discount rate                                    | 4.6                  | % 5.4                | % 6.0                |
| Expected long-term rate of return on plan assets | 6.75                 | % 6.75               | % 6.75               |
| 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):

|           |          |
|-----------|----------|
| 2013      | \$21,610 |
| 2014      | 22,703   |
| 2015      | 24,005   |
| 2016      | 25,546   |
| 2017      | 27,139   |
| 2018-2021 | 155,275  |

#### Fair Value of Plan Assets

Following is a description of the valuation methodologies used for assets measured at fair value at December 31, 2012:

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: EB Daily Valued Small Cap Stock Index Fund, EB Daily Valued Large Cap Growth Stock Index Fund, EB Daily Valued Large Cap Value 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 Government Bond Index Fund, EB Long Term Credit Bond Index and Collective Trust High Yield 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.



## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table sets forth, by level within the fair value hierarchy, the Pension Plan's assets at fair value as of December 31, 2012 and 2011 (tables in thousands):

|  | December 31, 2012 |           |         | Total     |
|--|-------------------|-----------|---------|-----------|
|  | Level 1           | Level 2   | Level 3 |           |
| Common collective trusts                             | \$—               | \$308,233 | \$—     | \$308,233 |
| Mutual funds   | —                 | —         | —       | —         |
| U.S. treasury securities                             | 2,275             | —         | —       | 2,275     |
| Corporate debt securities                            | —                 | 120,022   | —       | 120,022   |
| Total  | \$2,275           | \$428,255 | \$—     | 430,530   |
| Plan payables, net of accrued interest and dividends |                   |           |         | 173       |
| Total  |                   |           |         | \$430,703 |
|  | 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   |
| Total  | \$2,979           | \$391,998 | \$—     | 394,977   |
| Plan payables, net of accrued interest and dividends |                   |           |         | 882       |
| Total  |                   |           |         | \$395,859 |

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, 2012 and 2011.

## Concentration of Risks

Pension Plan investments at fair value as of December 31, 2012 and 2011 which represented 5% or more of the Pension Plan's net assets were as follows:

|  | 2012      | 2011      |
|--|-----------|-----------|
| EB Daily Valued Small Cap Stock Index Fund     | 25,842    | 23,038    |
| EB Daily Valued Stock Index Fund               | 85,834    | 82,060    |
| EB Daily Valued International Stock Index Fund | 25,850    | 21,938    |
| EB Long Term Government Bond Index             | 45,732    | 44,058    |
| EB Long Term Credit Bond Index                 | 67,902    | 60,111    |
| Corporate Debt Securities                      | 124,519   | 105,082   |
|  | \$375,679 | \$336,287 |

## 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.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, 2012 |   |
|------------------------------------|-------------------|---|
| 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            | —                 |   |
| Total                              | 100               | % |

The actual allocation of the assets in the Pension Plan at December 31, 2012 and 2011 were as follows:

|                                    | December 31, |   | December 31, |   |
|------------------------------------|--------------|---|--------------|---|
|                                    | 2012         |   | 2011         |   |
| U.S. large capitalization equities | 28           | % | 29           | % |
| U.S. small capitalization equities | 6            |   | 6            |   |
| International equities             | 8            |   | 7            |   |
| U.S. long-duration fixed income    | 55           |   | 55           |   |
| High yield fixed income            | 3            |   | 3            |   |
| Total                              | 100          | % | 100          | % |

## 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):

|                   | 2012      | 2011      | 2010      |
|-------------------|-----------|-----------|-----------|
| Rent expense      | \$311,652 | \$308,561 | \$276,030 |
| Sublease proceeds | (3,808)   | (4,700)   | (7,090)   |
| Net rent expense  | \$307,844 | \$303,861 | \$268,940 |

Our future operating lease commitments as of December 31, 2012 are as follows (table in thousands):

|                              |             |
|------------------------------|-------------|
| 2013                         | \$284,521   |
| 2014                         | 254,156     |
| 2015                         | 193,902     |
| 2016                         | 141,361     |
| 2017                         | 106,379     |
| Thereafter                   | 695,360     |
| Total minimum lease payments | \$1,675,679 |

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

We sublet certain of our office facilities. Expected future non-cancelable sublease proceeds as of December 31, 2012 are as follows (table in thousands):

|                         |         |
|-------------------------|---------|
| 2013                    | \$1,742 |
| 2014                    | 1,530   |
| 2015                    | 1,539   |
| 2016                    | 1,276   |
| 2017                    | 1,223   |
| Thereafter              | 1,936   |
| Total sublease proceeds | \$9,246 |

## Outstanding Purchase Orders

At December 31, 2012, we had outstanding purchase orders aggregating approximately \$2.4 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 in the United States. As of December 31, 2012, we had no borrowings outstanding on the line of credit. The credit line bears interest at the bank's base rate and requires us, upon utilization of the credit line, to meet certain financial covenants with respect to limitations on losses. In the event the covenants are not met, the lender may require us to provide collateral to secure the outstanding balance. At December 31, 2012, we were in compliance with the covenants.

## RSA Special Charge

In March 2011, RSA was the target of a sophisticated cyber attack which resulted in information related to RSA's SecurID products being compromised. In the first quarter of 2011, we incurred and accrued costs associated with investigating the attack, hardening our systems and working with our customers to implement remediation programs. In the second quarter of 2011, we recorded a \$66.3 million charge in cost of sales related to the expansion of the customer remediation programs. We expanded our customer remediation programs in June 2011 to respond to heightened customer concerns resulting from press coverage relating to an unsuccessful cyber attack on one of our defense sector customers, as well as broad media coverage of cyber attacks on other high profile organizations. As of June 30, 2012, we had substantially completed the remediation efforts and concluded that no additional material losses related to the remediation efforts were reasonably possible. Accordingly, we released the residual reserve against cost of sales during 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 \$151.0 million as of December 31, 2012. 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.

88

---

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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, 2012, we believe our liability on the above guarantees and indemnities at December 31, 2012 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 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.

## 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):

|  | 2012        | 2011        | 2010        |
|--|-------------|-------------|-------------|
| Numerator:   |             |             |             |
| Net income attributable to EMC Corporation                   | \$2,732,613 | \$2,461,337 | \$1,899,995 |
| Incremental dilution from VMware                             | (9,977 )    | (14,082 )   | (9,267 )    |
| Net income – dilution attributable to EMC Corporation        | \$2,722,636 | \$2,447,255 | \$1,890,728 |
| Denominator:   |             |             |             |
| Weighted average shares, basic                               | 2,093,372   | 2,055,536   | 2,055,959   |
| Weighted average common stock equivalents                    | 40,238      | 52,460      | 49,616      |
| Assumed conversion of the 2013 Notes and associated warrants | 72,029      | 121,117     | 42,356      |
| Weighted average shares, diluted                             | 2,205,639   | 2,229,113   | 2,147,931   |

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

Concurrent with the issuance of the 2011 Notes and 2013 Notes, we also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. Half of the associated

warrants were exercised during the year ended December 31, 2012. We include the impact of the remaining outstanding sold warrants in our diluted earnings per share calculation when the average stock price exceeds the exercise price.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Restricted stock awards, restricted stock units and options to acquire 4.1 million, 13.3 million and 54.5 million shares of our common stock for the years ended December 31, 2012, 2011 and 2010, respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive. The incremental dilution from VMware represents the impact of VMware's dilutive securities on EMC's consolidated diluted net income per share and is calculated by multiplying the difference between VMware's basic and diluted earnings per share by the number of VMware shares owned by EMC.

## Repurchases of Common Stock

We utilize both authorized and unissued shares (including repurchased shares) for all issuances under our equity plans. In 2008, our Board of Directors authorized the repurchase of 250.0 million shares of our common stock. For the year ended December 31, 2012, we spent \$700.0 million to repurchase 27.1 million shares of our common stock. Of the 250.0 million shares authorized for repurchase, we have repurchased 222.9 million shares at a total cost of \$4.4 billion, leaving a remaining balance of 27.1 million shares authorized for future repurchases. We plan to spend up to \$1.0 billion in 2013 on common stock repurchases. In February 2013, our Board of Directors authorized the repurchase of an additional 250.0 million shares of our common stock.

## Accumulated Other Comprehensive Income (Loss)

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

|   | December 31,<br>2012 | December 31,<br>2011 |
|---|----------------------|----------------------|
| Foreign currency translation adjustments  | \$(8,786 )           | \$(10,780 )          |
| Unrealized losses on temporarily impaired investments, net of tax benefits of \$(2,392) and \$(8,492)                           | (4,775 )             | (15,044 )            |
| Unrealized gains on investments, net of taxes of \$39,017 and \$18,343  | 68,260               | 30,608               |
| Unrealized losses on derivatives, net of tax benefits of \$(67,248) and \$(62,211)  | (108,645 )           | (100,446 )           |
| Recognition of actuarial net loss from pension and other postretirement plans, net of tax benefits of \$(87,288) and \$(81,798) | (153,172 )           | (139,108 )           |
|   | (207,118 )           | (234,770 )           |
| Less: accumulated other comprehensive income attributable to the non-controlling interest in VMware, Inc.                       | (1,155 )             | (239 )               |
|   | \$(208,273 )         | \$(235,009 )         |

## 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 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 two years after the date of grant, except for grants to non-employee Directors that are not subject to this minimum two-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”). In 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.



## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

A total of 922.4 million shares of common stock have been reserved for issuance under the above five plans. At December 31, 2012, there were an aggregate of 49.4 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 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, 2012, 2011 and 2010 (table in thousands, except per share amounts):

|                                  | For the Year Ended |                   |                   |
|----------------------------------|--------------------|-------------------|-------------------|
|                                  | December 31, 2012  | December 31, 2011 | December 31, 2010 |
| Cash Proceeds                    | \$153,698          | \$141,023         | \$120,694         |
| Common shares purchased          | 7,101              | 6,899             | 6,949             |
| Weighted-average price per share | \$21.65            | \$20.44           | \$17.37           |

## EMC Information Infrastructure Stock Options

The following table summarizes our option activity under all equity plans since January 1, 2010 (shares in thousands):

|   | Number of<br>Shares | Weighted Average<br>Exercise Price<br>(per share) |
|---|---------------------|---|
| Outstanding, January 1, 2010                      | 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   |
| Options granted relating to business acquisitions | 2,330               | 1.54  |
| Granted   | 861                 | 26.80   |
| Forfeited   | (2,227)             | ) 13.75   |
| Expired   | (183)               | ) 14.19   |
| Exercised   | (34,870)            | ) 11.65   |
| Outstanding, December 31, 2012                    | 77,449              | 14.39   |
| Exercisable, December 31, 2012                    | 60,575              | 14.34   |
| Vested and expected to vest, December 31, 2012    | 76,538              | \$14.41   |

At December 31, 2012, the weighted-average remaining contractual term was 4.0 years and the aggregate intrinsic value was \$664.0 million for the 60.6 million exercisable shares. For the 76.5 million shares vested and expected to vest at December 31, 2012, the weighted-average remaining contractual term was 4.6 years and the aggregate intrinsic value was \$835.1 million. The intrinsic value is based on our closing stock price of \$25.30 as of December 31, 2012,

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 2012, 2011 and 2010 were \$517.9 million, \$619.2 million and \$470.2 million, respectively. Cash proceeds from the exercise of

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

stock options were \$406.6 million, \$532.4 million and \$660.0 million in 2012, 2011 and 2010, respectively. Income tax benefits realized from the exercise of stock options in 2012, 2011 and 2010 were \$96.9 million, \$126.7 million and \$75.3 million, respectively.

## EMC Information Infrastructure Restricted Stock and Restricted Stock Units

Our restricted stock awards and units are valued based on our stock price on the grant date. Our restricted stock awards and units have various vesting terms from the date of grant, including pro rated vesting over three or four years, cliff vesting at the end of three or five 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, 2010 (shares in thousands):

|  | Number of<br>Shares | Weighted Average<br>Grant Date<br>Fair Value |
|--|---------------------|--|
| Restricted stock and restricted stock units at January 1, 2010   | 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                                      |
| Outstanding, December 31, 2011                                   | 45,531              | 21.10  |
| Granted  | 21,451              | 26.57  |
| Vested   | (16,035             | ) 18.92                                      |
| Forfeited  | (3,740              | ) 23.09                                      |
| Restricted stock and restricted stock units at December 31, 2012 | 47,207              | \$24.39                                      |

The total intrinsic values of restricted stock and restricted stock units that vested in 2012, 2011 and 2010 were \$421.1 million, \$371.1 million and \$203.7 million, respectively. As of December 31, 2012, restricted stock and restricted stock units representing 47.2 million shares were outstanding and unvested, with an aggregate intrinsic value of \$1,194.3 million. These shares and units are scheduled to vest through 2017. Of the total shares of restricted stock and restricted stock units outstanding, 41.2 million shares and units will vest upon fulfilling service conditions, of which vesting for 9.2 million shares and units will accelerate upon achieving performance conditions. The remaining 6.0 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. The number of shares underlying outstanding equity awards that VMware assumes in the course of business acquisitions are also added to the 2007 Plan reserve on an as-converted basis. VMware has assumed 2.1 million shares, which accordingly have been added to the 2007 Plan reserve. 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 and expire between six and seven years from the date of grant. Since 2009, VMware has not issued new stock options outside of those assumed in acquisitions. Most restricted stock grants made 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. At December 31, 2012, there were an aggregate of 16.5 million shares of common stock available for issuance pursuant to future grants under the 2007 Plan.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## VMware Stock Repurchase Programs

The following table summarizes stock repurchase authorizations in the years ended December 31, 2012, 2011 and 2010 (amounts in table in thousands):

| Month Authorized | Amount Authorized | Expiration Date |
|------------------|-------------------|-----------------|
| November 2012    | \$250,000         | End of 2014     |
| February 2012    | 600,000           | End of 2013     |
| February 2011    | 550,000           | End of 2012     |
| March 2010       | 400,000           | End of 2011     |

Purchases under the February 2011 authorization were completed in the second quarter of 2012. Purchases under the March 2010 authorization were completed in the first quarter of 2011. From time to time, stock repurchases may be made pursuant to the November 2012 and February 2012 authorizations in open market transactions or privately negotiated transactions as permitted by securities laws and other legal requirements.

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, cash requirements for operations and business combinations, 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. All shares repurchased under VMware's stock repurchase programs are retired.

The following table summarizes stock repurchase activity in the years ended December 31, 2012, 2011 and 2010 (table in thousands, except per share amounts):

|                                   | For the Year Ended December 31, |           |           |
|-----------------------------------|---------------------------------|-----------|-----------|
|                                   | 2012                            | 2011      | 2010      |
| Aggregate purchase price          | \$467,534                       | \$526,203 | \$338,527 |
| Class A common shares repurchased | 5,132                           | 5,953     | 4,909     |
| Weighted-average price per share  | \$91.10                         | \$88.37   | \$68.96   |

The amount of repurchased shares includes commissions and was classified as a reduction to additional paid-in capital. As of December 31, 2012, the authorized amount remaining for repurchase was \$467.9 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. As of December 31, 2012, 0.6 million shares of VMware Class A common stock were available for issuance pursuant to future grants under the ESPP.

The following table summarizes ESPP activity in the years ended December 31, 2012, 2011 and 2010 (table in thousands, except per share amounts):

|                                  | For the Year Ended |                   |                   |
|----------------------------------|--------------------|-------------------|-------------------|
|                                  | December 31, 2012  | December 31, 2011 | December 31, 2010 |
| Cash proceeds                    | \$69,372           | \$56,964          | \$45,162          |
| Class A common shares purchased  | 897                | 816               | 1,510             |
| Weighted-average price per share | \$77.34            | \$69.81           | \$29.90           |

As of December 31, 2012, \$37.2 million of ESPP withholdings were recorded as a liability on the consolidated balance sheet for the next purchase in January 2013.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## VMware Stock Options

The following table summarizes activity since January 1, 2010 for VMware employees in VMware stock options (shares in thousands):

|                                | Number of<br>Shares | Weighted Average<br>Exercise Price<br>(per share) |
|--------------------------------|---------------------|---|
| Outstanding, January 1, 2010   | 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   |
| 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   |
| Granted                        | 1,201               | 4.67  |
| Expired                        | (644                | ) 42.07   |
| Exercised                      | (6,598              | ) 30.44   |
| Outstanding, December 31, 2012 | 10,133              | 34.36   |
| Exercisable, December 31, 2012 | 7,382               | 35.49   |
| Vested and expected to vest    | 10,067              | \$34.23   |

The above table includes stock options granted in conjunction with unvested stock options assumed in business combinations. As a result, the weighted-average exercise price per share may vary from the VMware stock price at time of grant.

As of December 31, 2012, for the VMware stock options, the weighted-average remaining contractual term was 1.9 years and the aggregate intrinsic value was \$439.5 million for the 7.4 million exercisable shares. For the 10.1 million options vested and expected to vest at December 31, 2012, the weighted-average remaining contractual term was 2.7 years and the aggregate intrinsic value was \$609.6 million. These aggregate intrinsic values represent the total pre-tax intrinsic values based on VMware's closing stock price of \$94.14 as of December 31, 2012, 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, 2012, 2011 and 2010 were \$183.8 million, \$280.6 million and \$386.1 million, respectively. The options exercised in 2012, 2011 and 2010 had a pre-tax intrinsic value of \$443.3 million, \$647.8 million and \$678.8 million, respectively.

EMC CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

VMware Restricted Stock

The following table summarizes restricted stock activity since January 1, 2010 (units in thousands):

|                                     | Number of<br>Units | Weighted Average<br>Grant Date<br>Fair Value<br>(per unit) |
|-------------------------------------|--------------------|--|
| Restricted stock at January 1, 2010 | 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)            | ) 48.47  |
| Forfeited                           | (907)              | ) 64.70  |
| Outstanding, December 31, 2011      | 9,540              | 72.74  |
| Granted                             | 7,832              | 101.73   |
| Vested                              | (3,751)            | ) 69.01  |
| Forfeited                           | (1,451)            | ) 81.53  |
| Outstanding, December 31, 2012      | 12,170             | \$91.93  |

The total fair value of VMware restricted stock including restricted stock and restricted stock units that vested in the years ended December 31, 2012, 2011 and 2010 was \$346.9 million, \$356.1 million and \$258.0 million, respectively. As of December 31, 2012, restricted stock representing 12.2 million shares of VMware's Class A common stock were outstanding, with an aggregate intrinsic value of \$1,145.7 million based on VMware's closing price as of December 31, 2012. These awards are scheduled to vest through 2016.

## 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 2012, 2011 and 2010 (in thousands):

|  | Year Ended December 31, 2012 |                  |                                |
|--|------------------------------|------------------|--------------------------------|
|  | Stock Options                | Restricted Stock | Total Stock-Based Compensation |
| Cost of product sales                                | \$22,399                     | \$29,150         | \$51,549                       |
| Cost of services                                     | 20,968                       | 52,950           | 73,918                         |
| Research and development                             | 88,495                       | 236,232          | 324,727                        |
| Selling, general and administrative                  | 130,646                      | 339,467          | 470,113                        |
| Stock-based compensation expense before income taxes | 262,508                      | 657,799          | 920,307                        |
| Income tax benefit                                   | 66,780                       | 161,859          | 228,639                        |
| Total stock-based compensation, net of tax           | \$195,728                    | \$495,940        | \$691,668                      |
|  | 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                      |

Stock-based compensation expense includes \$51.5 million, \$43.6 million and \$34.9 million of expense associated with our employee stock purchase plans for 2012, 2011 and 2010, respectively.

The table below presents the net change in amounts capitalized or accrued in 2012 and 2011 for the following items (in thousands):

|  | Increased (decreased) during the year ended December 31, 2012 | Increased (decreased) during the year ended December 31, 2011 |
|--|---|---|
| Inventory                                    | \$203   | \$111   |
| Accrued expenses (accrued warranty expenses) | (1,534)   | (1,702)   |
| Other assets                                 | 7,577   | 4,552   |

As of December 31, 2012, the total unrecognized after-tax compensation cost for stock options, restricted stock and restricted stock units was \$1,403.2 million. This non-cash expense will be recognized through 2017 with a weighted-average remaining period of 1.5 years.





## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Fair Value of EMC Information Infrastructure Options

The fair value of each option granted during the years ended December 31, 2012, 2011 and 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|   | For the Year Ended |        |        |   |
|---|--------------------|--------|--------|---|
|   | December 31,       |        |        |   |
|   | 2012               | 2011   | 2010   |   |
| EMC Stock Options                         |                    |        |        |   |
| Dividend yield                            | None               | None   | None   |   |
| Expected volatility                       | 34.3               | % 33.3 | % 32.9 | % |
| Risk-free interest rate                   | 0.8                | % 1.6  | % 1.8  | % |
| Expected term (in years)                  | 5.2                | 4.9    | 4.8    |   |
| Weighted-average fair value at grant date | \$8.56             | \$8.00 | \$6.25 |   |

For all equity awards granted in 2012, 2011 and 2010, 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.

## 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, 2012, 2011 and 2010 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|   | For the Year Ended |         |         |   |
|---|--------------------|---------|---------|---|
|   | December 31,       |         |         |   |
|   | 2012               | 2011    | 2010    |   |
| VMware Stock Options                      |                    |         |         |   |
| Dividend yield                            | None               | None    | None    |   |
| Expected volatility                       | 35.8               | % 37.7  | % 38.0  | % |
| Risk-free interest rate                   | 0.3                | % 1.0   | % 1.5   | % |
| Expected term (in years)                  | 2.7                | 3.0     | 3.5     |   |
| Weighted-average fair value at grant date | \$80.45            | \$88.40 | \$18.05 |   |

  

|   | For the Year Ended |         |         |   |
|---|--------------------|---------|---------|---|
|   | December 31,       |         |         |   |
|   | 2012               | 2011    | 2010    |   |
| VMware Employee Stock Purchase Plan       |                    |         |         |   |
| Dividend yield                            | None               | None    | None    |   |
| Expected volatility                       | 37.8               | % 34.9  | % 33.1  | % |
| Risk-free interest rate                   | 0.1                | % 0.2   | % 0.2   | % |
| Expected term (in years)                  | 0.5                | 0.5     | 0.5     |   |
| Weighted-average fair value at grant date | \$23.36            | \$23.69 | \$15.18 |   |

The weighted-average grant date fair value of VMware stock options can fluctuate from period to period 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 2012, 2011 and 2010, 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.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## Q. Restructuring and Acquisition-Related Charges

In 2012, 2011 and 2010, we incurred restructuring and acquisition-related charges of \$110.6 million, \$97.3 million and \$84.4 million, respectively. In 2012, we incurred \$100.9 million of restructuring charges, primarily related to our current year restructuring programs and \$9.7 million of charges in connection with acquisitions for financial, advisory, legal and accounting services. In 2011, we incurred \$86.0 million of restructuring charges, of which \$63.2 million primarily related to our 2011 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.

During 2012, we implemented separate restructuring programs to create further operational efficiencies which will result in a workforce reduction of 1,163 positions. The actions impacted positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions are expected to be completed within a year of the start of each program.

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

During 2012, 2011 and 2010, we recognized \$20.8 million, \$26.1 million and \$31.6 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. These costs are expected to be utilized by the end of 2015. The remaining cash portion owed for these programs in 2013 is approximately \$11.7 million, plus an additional \$12.3 million over the period from 2014 and beyond.

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

Twelve Months Ended, December 31, 2012:

## 2012 Programs

| Category   | Balance as of<br>December 31,<br>2011 | 2012<br>Charges | Utilization | Balance as of<br>December 31,<br>2012 |
|--|---------------------------------------|-----------------|-------------|---------------------------------------|
| Workforce reductions   | \$—                                   | \$89,869        | \$(37,329 ) | \$52,540                              |
| Consolidation of excess facilities and other contractual obligations | —                                     | 18,704          | (10,717 )   | 7,987                                 |
| Total  | \$—                                   | \$108,573       | \$(48,046 ) | \$60,527                              |

## Other Programs

| Category   | Balance as of<br>December 31,<br>2011 | Adjustments<br>to the<br>Provision | Utilization | Balance as of<br>December 31,<br>2012 |
|--|---------------------------------------|------------------------------------|-------------|---------------------------------------|
| Workforce reductions   | \$49,863                              | \$(9,755 )                         | \$(29,686 ) | \$10,422                              |
| Consolidation of excess facilities and other contractual obligations | 30,112                                | 2,072                              | (11,744 )   | 20,440                                |
| Total  | \$79,975                              | \$(7,683 )                         | \$(41,430 ) | \$30,862                              |



## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Twelve Months Ended, December 31, 2011:

| Category   | Balance as of<br>December 31,<br>2010 | 2011<br>Charges | Utilization | Balance as of<br>December 31,<br>2011 |
|--|---------------------------------------|-----------------|-------------|---------------------------------------|
| Workforce reductions   | \$53,946                              | \$59,962        | \$(64,045 ) | \$49,863                              |
| Consolidation of excess facilities and other contractual obligations | 27,818                                | 26,057          | (23,763 )   | 30,112                                |
| Total  | \$81,764                              | \$86,019        | \$(87,808 ) | \$79,975                              |

Twelve Months Ended December 31, 2010:

| Category   | Balance as of<br>December 31,<br>2009 | 2010<br>Charges | Utilization  | Balance as of<br>December 31,<br>2010 |
|--|---------------------------------------|-----------------|--------------|---------------------------------------|
| 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                                |
| Total  | \$105,760                             | \$76,662        | \$(100,658 ) | \$81,764                              |

#### R. Related Party Transactions

In 2012, 2011 and 2010, 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 performance measures, including stock-based compensation expense and acquisition-related intangible asset amortization expense.

Additionally, in certain instances, infrequently occurring gains or losses are also excluded from the measures used by management in assessing segment performance. The VMware Virtual Infrastructure amounts represent the revenues and expenses of VMware as reflected within EMC's consolidated financial statements. Research and development expenses, selling, general and administrative, and other income associated with the EMC Information Infrastructure business are not allocated to the segments within the EMC Information Infrastructure business, as they are managed centrally at the corporate level. For the three segments within the EMC Information Infrastructure business, gross profit is the segment operating performance measure.



## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Our segment information for the years ended 2012, 2011 and 2010 are as follows (tables in thousands, except percentages):

|   | EMC Information Infrastructure |                                |                          |                                |  |                        | Consolidated  |
|---|--------------------------------|--------------------------------|--------------------------|--------------------------------|--|------------------------|---------------|
|   | Information Storage            | Information Intelligence Group | RSA Information Security | EMC Information Infrastructure | VMware Virtual Infrastructure within EMC | Corp Reconciling Items |               |
| 2012  |                                |                                |                          |                                |  |                        |               |
| Revenues:   |                                |                                |                          |                                |  |                        |               |
| Product revenues  | \$ 10,362,787                  | \$ 200,830                     | \$ 412,279               | \$ 10,975,896                  | \$ 2,084,627                             | \$—                    | \$ 13,060,523 |
| Services revenues   | 5,226,588                      | 439,351                        | 476,466                  | 6,142,405                      | 2,510,974                                | —                      | 8,653,379     |
| Total consolidated revenues   | 15,589,375                     | 640,181                        | 888,745                  | 17,118,301                     | 4,595,601                                | —                      | 21,713,902    |
| Cost of sales   | 6,650,070                      | 208,226                        | 284,462                  | 7,142,758                      | 542,943                                  | 389,838                | 8,075,539     |
| Gross profit  | \$ 8,939,305                   | \$ 431,955                     | \$ 604,283               | 9,975,543                      | 4,052,658                                | (389,838 )             | 13,638,363    |
| Gross profit percentage   | 57.3                           | % 67.5                         | % 68.0                   | % 58.3                         | % 88.2                                   | % —                    | 62.8 %        |
| Research and development  |                                |                                |                          | 1,445,379                      | 776,347                                  | 337,886                | 2,559,612     |
| Selling, general and administrative                                     |                                |                                |                          | 4,564,470                      | 1,799,370                                | 640,447                | 7,004,287     |
| Restructuring and acquisition-related charges                           |                                |                                |                          | —                              | —  | 110,590                | 110,590       |
| Total costs and expenses  |                                |                                |                          | 6,009,849                      | 2,575,717                                | 1,088,923              | 9,674,489     |
| Operating income  |                                |                                |                          | 3,965,694                      | 1,476,941                                | (1,478,761 )           | 3,963,874     |
| Other income (expense), net   |                                |                                |                          | (131,373 )                     | 27,580                                   | (56,466 )              | (160,259 )    |
| Income before provision for income taxes                                |                                |                                |                          | 3,834,321                      | 1,504,521                                | (1,535,227 )           | 3,803,615     |
| Income tax provision  |                                |                                |                          | 1,003,338                      | 260,365                                  | (346,105 )             | 917,598       |
| Net income  |                                |                                |                          | 2,830,983                      | 1,244,156                                | (1,189,122 )           | 2,886,017     |
| Net income attributable to the non-controlling interest in VMware, Inc. |                                |                                |                          | —                              | (254,858 )                               | 101,454                | (153,404 )    |
| Net income attributable to EMC Corporation                              |                                |                                |                          | \$ 2,830,983                   | \$ 989,298                               | \$ (1,087,668 )        | \$ 2,732,613  |



## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

|   | EMC Information Infrastructure |                                      |                                |                                      | VMware<br>Virtual<br>Infrastructure<br>within EMC | Corp<br>Reconciling<br>Items | Consolidated  |
|---|--------------------------------|--------------------------------------|--------------------------------|--------------------------------------|---|------------------------------|---------------|
|   | Information<br>Storage         | Information<br>Intelligence<br>Group | RSA<br>Information<br>Security | EMC<br>Information<br>Infrastructure |   |                              |               |
| 2011  |                                |                                      |                                |                                      |   |                              |               |
| Revenues:   |                                |                                      |                                |                                      |   |                              |               |
| Product revenues  | \$ 10,100,473                  | \$ 209,337                           | \$ 440,790                     | \$ 10,750,600                        | \$ 1,840,142                                      | \$—                          | \$ 12,590,742 |
| Services revenues   | 4,654,706                      | 452,015                              | 387,413                        | 5,494,134                            | 1,922,712   | —                            | 7,416,846     |
| Total consolidated<br>revenues  | 14,755,179                     | 661,352                              | 828,203                        | 16,244,734                           | 3,762,854   | —                            | 20,007,588    |
| Cost of sales   | 6,428,687                      | 236,613                              | 357,669                        | 7,022,969                            | 533,329   | 282,348                      | 7,838,646     |
| Gross profit  | \$ 8,326,492                   | \$ 424,739                           | \$ 470,534                     | 9,221,765                            | 3,229,525   | (282,348 )                   | 12,168,942    |
| Gross profit<br>percentage  | 56.4                           | % 64.2                               | % 56.8                         | % 56.8                               | % 85.8  | % —                          | 60.8          |
| Research and<br>development   |                                |                                      |                                | 1,239,333                            | 587,902   | 322,552                      | 2,149,787     |
| Selling, general<br>and administrative  |                                |                                      |                                | 4,392,205                            | 1,480,792   | 606,385                      | 6,479,382     |
| Restructuring and<br>acquisition-related<br>charges                                 |                                |                                      |                                | —                                    | —   | 97,334                       | 97,334        |
| Total costs and<br>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<br>(expense), net  |                                |                                      |                                | (148,924 )                           | 6,734   | (50,979 )                    | (193,169 )    |
| Income before<br>provision for<br>income taxes                                      |                                |                                      |                                | 3,441,303                            | 1,167,565   | (1,359,598)                  | 3,249,270     |
| Income tax<br>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<br>attributable to the<br>non-controlling<br>interest in<br>VMware, Inc. |                                |                                      |                                | —                                    | (208,894 )  | 61,346                       | (147,548 )    |
| Net income<br>attributable to<br>EMC Corporation                                    |                                |                                      |                                | \$ 2,580,590                         | \$ 830,037  | \$ (949,290)                 | \$ 2,461,337  |

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

|   | EMC Information Infrastructure |              |             | EMC            | VMware         | Corp        | Consolidated |
|---|--------------------------------|--------------|-------------|----------------|----------------|-------------|--------------|
|   | Information                    | Information  | RSA         | Information    | Virtual        | Reconciling | Consolidated |
|   | Storage                        | Intelligence | Information | Infrastructure | Infrastructure | Items       | Consolidated |
|   |                                | Group        | Security    |                | within EMC     |             |              |
| 2010  |                                |              |             |                |                |             |              |
| Revenues:   |                                |              |             |                |                |             |              |
| Product revenues  | \$8,838,038                    | \$255,387    | \$400,151   | \$9,493,576    | \$1,399,281    | \$—         | \$10,892,857 |
| Services revenues   | 3,904,072                      | 437,512      | 329,233     | 4,670,817      | 1,451,452      | —           | 6,122,269    |
| Total consolidated revenues   | 12,742,110                     | 692,899      | 729,384     | 14,164,393     | 2,850,733      | —           | 17,015,126   |
| Cost of sales   | 5,851,395                      | 243,226      | 221,579     | 6,316,200      | 425,257        | 242,688     | 6,984,145    |
| Gross profit  | \$6,890,715                    | \$449,673    | \$507,805   | 7,848,193      | 2,425,476      | (242,688)   | 10,030,981   |
| Gross profit percentage   | 54.1                           | % 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 provision for income taxes                                |                                |              |             | 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  |

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):

|                                | 2012         | 2011         | 2010        |
|--------------------------------|--------------|--------------|-------------|
| United States                  | \$11,510,216 | \$10,549,594 | \$9,152,363 |
| Europe, Middle East and Africa | 5,908,204    | 5,667,610    | 4,942,104   |
| Asia Pacific and Japan         | 3,016,451    | 2,639,397    | 1,965,154   |

Edgar Filing: EMC CORP - Form 10-K

|                                  |              |              |              |
|----------------------------------|--------------|--------------|--------------|
| Latin America, Mexico and Canada | 1,279,031    | 1,150,987    | 955,505      |
| Total                            | \$21,713,902 | \$20,007,588 | \$17,015,126 |

No country other than the United States accounted for 10% or more of revenues in 2012, 2011 or 2010.

Long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, in the United States were \$3,993.6 million at December 31, 2012 and \$3,622.8 million at December 31, 2011. Internationally, long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, were \$697.9 million at December 31, 2012 and \$616.5 million at December 31, 2011. No country other than the United States accounted for 10% or more of total long-lived assets, excluding financial instruments and deferred tax assets, at December 31, 2012 or 2011.

## EMC CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## T. Selected Quarterly Financial Data (unaudited)

Quarterly financial data for 2012 and 2011 is as follows (tables in thousands, except per share amounts):

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| 2012   | Q1 2012     | Q2 2012     | Q3 2012     | Q4 2012     |
| Revenues   | \$5,094,378 | \$5,311,393 | \$5,278,176 | \$6,029,955 |
| Gross profit   | 3,113,217   | 3,347,393   | 3,287,539   | 3,890,214   |
| Net income attributable to EMC Corporation                             | 586,842     | 649,514     | 626,338     | 869,919     |
| Net income per weighted average share, diluted:<br>common shareholders | \$0.27      | \$0.29      | \$0.28      | \$0.39      |
| 2011   | Q1 2011     | Q2 2011     | Q3 2011     | Q4 2011     |
| 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:<br>common shareholders | \$0.21      | \$0.24      | \$0.27      | \$0.38      |

The second quarter of 2012 includes a benefit related to the release of the residual reserve for expansion of customer remediation programs resulting from a cyber attack on RSA of \$18.1 million or \$0.01 per diluted share, after tax. In addition, the second quarter of 2012 includes an after-tax charge related to a loss on interest rate swaps of \$24.5 million or \$0.01 per diluted share as well as an after-tax realized gain related to the gain on our XtremIO strategic investment of \$31.6 million or \$0.01 per diluted share in connection with our acquisition of XtremIO. The fourth quarter of 2012 includes special tax charges related to our tax-related reorganizations of \$11.5 million or \$0.01 per diluted share.

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.

## U. Subsequent Events

In January 2013, VMware announced a business plan to streamline its operations, subject to compliance with applicable legal obligations, to rationalize its portfolio and scale back investments in some areas of its business that it does not believe are directly related to its core growth opportunities. The total charge resulting from this plan will be approximately \$70.0 million to \$80.0 million. Additionally, VMware is planning an exit of certain lines of business and consolidation of facilities, which are expected to result in a charge in the range of \$20.0 million to \$30.0 million. The plan is expected to be completed by the end of 2013. Finalization of the plan will be subject to local information and consultation processes with employee representatives if required by law. The total charge resulting from this plan is expected to be between \$90.0 million and \$110.0 million, with total cash expenditures associated with the plan expected to be in the range of \$80.0 million to \$90.0 million.

In January 2013, EMC announced a restructuring plan which consists of a reduction in force which will be substantially completed by the end of the first quarter of 2013 and fully completed by the end of 2013. The total charge resulting from this plan is expected to be approximately \$80.0 million, with total cash payments associated with the plan expected to be approximately \$75.0 million.

ITEM CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND  
9. 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 49 is incorporated herein by reference.

Report of the Independent Registered Public Accounting Firm. The Report of Independent Registered Public Accounting Firm on page 50 is incorporated herein by reference.

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

There was no 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, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

104

---

## PART III

## STOCK PRICE PERFORMANCE GRAPH

|   | 2007     | 2008    | 2009    | 2010     | 2011     | 2012     |
|---|----------|---------|---------|----------|----------|----------|
| EMC   | \$100.00 | \$56.50 | \$94.28 | \$123.58 | \$116.24 | \$136.54 |
| S&P 500 Index                               | \$100.00 | \$61.51 | \$75.94 | \$85.65  | \$85.65  | \$97.13  |
| S&P 500 Information Technology Sector Index | \$100.00 | \$56.32 | \$90.06 | \$98.28  | \$99.59  | \$112.68 |

Source: Returns were generated from Thomson ONE

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 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.

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We will file with the SEC a definitive Proxy Statement not later than 120 days after the close of the fiscal year ended December 31, 2012. 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” and “Equity Compensation Plan Information.”

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.”

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 109 of this report.

The exhibits are filed with or incorporated by reference in this report.

107

---



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 27, 2013.

EMC CORPORATION

By: /s/ Joseph M. Tucci  
Joseph M. Tucci  
Chairman 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 27, 2013.

| Signatures                                 | Title   |
|--|---|
| /s/ Joseph M. Tucci<br>Joseph M. Tucci     | Chairman and Chief Executive Officer<br>(Principal Executive Officer)                           |
| /s/ David I. Goulden<br>David I. Goulden   | President, Chief Operating Officer and Chief Financial Officer<br>(Principal Financial Officer) |
| /s/ Denis Cashman<br>Denis Cashman         | Chief Accounting Officer and Chief Operating Officer, Finance<br>(Principal Accounting Officer) |
| /s/ Michael W. Brown<br>Michael W. Brown   | Director  |
| /s/ Randolph L. Cowen<br>Randolph L. Cowen | Director  |
| /s/ Gail Deegan<br>Gail Deegan             | Director  |
| /s/ James S. DiStasio<br>James S. DiStasio | Director  |
| /s/ John R. Egan<br>John R. Egan           | Director  |
| /s/ Edmund F. Kelly<br>Edmund F. Kelly     | Director  |
| /s/ Judith A. Miscik<br>Judith A. Miscik   | Director  |
| /s/ Windle B. Priem<br>Windle B. Priem     | Director  |
| /s/ Paul Sagan<br>Paul Sagan               | Director  |

/s/ David N. Strohm  
David N. Strohm

Director

108

---

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.<sup>(18)</sup>
- 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>
- 10.21\* Amendment No. 5 to Employment Arrangement with Joseph M. Tucci dated September 5, 2012.<sup>(16)</sup>
- 10.22\* Letter Agreement with William F. Scannell dated July 16, 2012.<sup>(17)</sup>
- 10.23 Silver Tail Systems, Inc. Amended and Restated 2008 Stock Plan. (filed herewith)
- 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

Edgar Filing: EMC CORP - Form 10-K

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)

109

---

- \* 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).
- (16) Incorporated by reference to EMC Corporation’s Current Report on Form 8-K filed September 6, 2012 (No. 1-9853).
- (17) Incorporated by reference to EMC Corporation’s Quarterly Report on Form 10-Q filed August 2, 2012 (No. 1-9853).
- (18) Incorporated by reference to EMC Corporation’s Annual Report on Form 10-K filed February 24, 2012 (No. 1-9853).

EMC CORPORATION AND SUBSIDIARIES  
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS  
(in thousands)

| Description  | Allowance for Bad Debts        |   | Charged to Other Accounts | Bad Debts Write-Offs | Balance at End of Period |
|--|--------------------------------|---|---------------------------|----------------------|--------------------------|
|  | Balance at Beginning of Period | Charged to Selling, General and Administrative Expenses |                           |                      |                          |
| Year ended December 31, 2012 allowance for doubtful accounts | \$64,654                       | \$ 39,312   | \$—                       | \$(31,651)           | ) \$72,315               |
| 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                 |

Note: The allowance for doubtful accounts includes both current and non-current portions.

| Description  | Allowance for Sales Returns    |   | Charged to Other Accounts | Sales Returns | Balance at End of Period |
|--|--------------------------------|---|---------------------------|---------------|--------------------------|
|  | Balance at Beginning of Period | Accounted for as a Reduction in Revenue |                           |               |                          |
| Year ended December 31, 2012 allowance for sales returns | \$132,883                      | \$16,748                                | \$—                       | \$(63,832)    | ) \$85,799               |
| 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                |

| Description   | Tax Valuation Allowance        |   | Charged (credited) to Other Accounts* | Tax Valuation Allowance Credited to Income Tax Provision | Balance at End of Period |
|---|--------------------------------|---|---------------------------------------|--|--------------------------|
|   | Balance at Beginning of Period | Tax Valuation Allowance Charged to Income Tax Provision |                                       |  |                          |
| Year ended December 31, 2012 income tax valuation allowance | \$5,293                        | \$—   | \$—                                   | \$(943)  | ) \$4,350                |
| 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                  |

\* Amount represents valuation allowances recognized in connection with business combinations and equity.